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Home Point Capital, Inc.

First Quarter 2021 Financial Results Conference Call

May 6, 2021

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Kevin Barker, *Piper Sandler*

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PRESENTATION

Operator

Good morning and welcome to Home Point Capital's First Quarter 2021 Earnings Call.

During today's presentation, all callers will be placed in listen-only mode, and following Management's prepared remarks the call will be opened for questions. Please be advised that today's conference call is being recorded.

I will now turn the call over to Gary Stein, Head of Investor Relations at Home Point Capital. You may begin.

Gary Stein

Thank you Operator. Welcome to our First Quarter 2021 Earnings Call. Joining me this morning are Willie Newman, President and Chief Executive Officer, and Mark Elbaum, Chief Financial Officer.

During our prepared remarks, we will be referring to a slide presentation, which is available in the Events section of the Home Point Investor Relations website.

Before we begin, I'd like to remind you this call may include forward-looking statements which do not guarantee future events or performance. Please refer to Home Point's most recent SEC filings, including the Company's Annual Report on Form 10-K, which was filed on March 12, 2021 for risk factors related to these statements.

We may be discussing certain non-GAAP measure on this call, which Management believes are relevant in assessing the financial performance of the business. These non-GAAP measures are reconciled to the nearest GAAP figures in Home Point's earnings release, which is available on the Company's website.

I'd now like to turn the call over to Willie Newman, President and Chief Executive Officer.

Willie Newman

Thanks Gary, and good morning everyone. During our prepared remarks I am going to touch on some highlights regarding our first quarter performance. I'll then discuss a few elements of our differentiated business model that are driving our long-term growth. After that, Mark will provide more details on our results for the first quarter of 2021, as well as our financial outlook. We'll then open up the call to take your questions.

First, as I did last quarter, I'd like to thank our outstanding team of more than 4,100 Home Point associates for their extremely hard work and relentless dedication. I would also like to thank our more than 6,600 third party partners, and our more than 400,000 customers.

As we go through our results this morning, I speak for the entire leadership team in noting that Home Point would not be where it is today without the tremendous support and commitment we receive every day from all of you.

We entered 2021 with significant positive momentum and this was reflected in our results for the first quarter. We generated record funded origination volume of $29 billion for the quarter, which is up more than 3.5 times compared to the first quarter of 2020, and up 23% from last quarter. For the last 12 months ended March 31, our total funded volume was $83 billion.

From a financial perspective, our strong funded volume helped drive total revenues into first quarter of $422 million, which was a more than sixfold increase compared to our revenues of $68 million in the year ago quarter. For the last 12 months ended March 31, our total revenues exceeded $1.7 billion. Our net income was $149 million for the first quarter of 2021, and it was $767 million over the last four quarters.

From an operational perspective, we ended the first quarter of 2021 with more than 6,000 broker partners and 620 correspondent partners. In total, our third-party partner relationships, which are a cornerstone of our differentiated business model and a key driver of our long-term growth, have increased by 63% year-over-year and by 11% since last quarter.

Looking at our Mortgage Servicing portfolio, we ended the first quarter serving more than 409,000 customers, up over 60% year-over-year. At the same time, the total balance of our Servicing portfolio nearly doubled from the first quarter of 2020 to reach $110 billion. This strong growth in our Servicing book as well as increases in valuation were also positive contributors to our quarterly results.

As Mark and I will discuss this morning, the combination of rising interest rates and, most notably, a unique set of competitor dynamics in the wholesale channel has created a challenging near-term operating environment and put pressure on our margins. However, we believe this presents us with an opportunity to scale and optimize our business for the long term by more rapidly growing our broker network, accelerating productivity and efficiency initiatives across our business, and building sustainable long-term value for our stakeholders. I'd like to spend a few minutes talking about some of these points in more detail.

Having launched Home Point just six years ago, we are a relatively new entrant into the residential mortgage origination market with incumbents that have been operating for decades. Against this backdrop, we have grown at a tremendous rate. According to *Inside Mortgage Finance*, in the fourth quarter of 2020 we were the third largest wholesale lender by origination volume and the seventh largest nonbank lender in the United States. We have been able to continue this rapid success due to our differentiated business model, which has been designed to capitalize on the large and growing wholesale market in a way that leverages scale and optimizes returns with lower fixed costs.

One of the key drivers of our growth in the wholesale channel is our use of in-market, highly experienced sales executives to acquire and build relationships with broker partners across the country. As I mentioned, we ended the first quarter with more than 6,000 broker partners, which highlights the significant success we have had in attracting brokers to our platform.

The changing competitive dynamics in the wholesale channel, starting in early March, has created a strategic opportunity for Home Point. This is evidenced by the accelerated pace at which we are engaging with brokers and adding them to the Home Point platform. We expect this pace to continue and are increasing our year-end target to 8,000 broker partners.

Once brokers are added to the platform, our in-market sales executives work closely with them to encourage usage and ensure they have a seamless mortgage transaction experience. As these brokers begin to use our platform, we are confident they will execute on an increasing number of their transactions with us, enabling us to grow our wallet share per broker over time. We expect that this in turn will drive continued growth in market share.

Another key element behind Home Point's rapid growth has been our differentiated approach towards process and technology. We have built a flexible infrastructure that is highly componentized, integrating best-in-class third-party and proprietary solutions to maximize our flexibility and efficiency. This approach has enabled us to leverage the latest technological innovations while avoiding the burdens associated with building and supporting in-house proprietary systems.

In response to the change in competitive dynamics in the wholesale channel, we have accelerated our efforts in both process improvement and technology implementation with a dual objective of increasing both efficiency and the partner experience. I am very pleased with the progress we have made so far to pull forward into the first half of 2021 a number of initiatives we had originally planned to execute later in '21 and 2022. This highlights Home Point's nimbleness and our ability to pivot in response to changing market conditions.

We believe the accelerated implementation of these initiatives will lead to greater competitiveness in any environment.

One last element I'd like to touch on is our in-house servicing, which provides a critical link between us, our customers and our broker partners.

In addition, in-house servicing provides balance to our business model by enabling us to create value in a variety of interest rate environments. These benefits were evident in our first quarter results which saw overall growth in our Servicing book as well as a meaningful increase in the value of our mortgage servicing rights as interest rates rose throughout the quarter.

Taking a step back, we delivered a solid set of results during the first quarter, which was driven by the continued strong growth in funded volumes and new broker relationships, as well as the natural hedge which is provided by our high quality in-house servicing platform. Although the current environment remains challenging, we believe this is temporary and we are intently focused on managing those elements within our control as we navigate through this period.

However, as we look beyond short-term quarter-to-quarter volatility, we are confident we will emerge from this period of turbulence as a stronger and more efficient leader in the residential mortgage origination space, delivering both long-term growth and profitability.

With that, I'd like to turn the call over to Mark.

Mark Elbaum

Thanks Willie, and good morning everyone.

I'd like to spend a few minutes discussing our financial results for the first quarter 2021, as well as our financial outlook and capital allocation strategy.

Starting with Slide 4 of the earnings presentation, we delivered a solid performance across the Home Point platform in the first quarter of 2021 based on a number of operating and financial metrics, such as funded volume, broker partners and servicing growth, as well as total revenue and net income.

Before I dive deeper into our quarterly results, as you may have noticed in our earnings release, we have added several new disclosures this quarter. We are pleased to include this additional information based on feedback we received from a number of analysts and investors. We appreciate all of your input and we welcome any other suggestions you may have to broaden our disclosures.

On Slide 5, we have provided a list of the key disclosures we added this quarter, including gain on sale margins by channel, which many of you requested.

I also want to highlight that we have added an Excel-based financial supplement to our website which includes the last six quarters of our financial results and key performance indicators. We hope you will find this incremental information helpful as you analyze our business.

Turning to Slide 6, we have provided a summary of our financial results for the first quarter of 2021. Total revenue in the first quarter of $422 million grew more than sixfold from $68 million in the first quarter of 2020, driven by increased origination volumes, a higher gain on sale margin and a fair market value increase in our MSR asset due to the significantly higher interest rates in the quarter.

In comparison to the fourth quarter of 2020, total revenue in the first quarter of 2021 declined by 7%, primarily due to a lower gain on sale margin which was partially offset by higher origination volumes and the fair market value increase in the MSR asset.

Net income of $149 million in the first quarter of 2021 was up from a net loss of $11 million in the first quarter of 2020. Quarter-over-quarter net income was down 19% from $185 million in the fourth quarter of 2020. The quarter-over-quarter decline was driven by the gain on sale dynamics I just mentioned.

Our total expenses of $227 million for the first quarter of 2021 were up from $84 million in the year-ago quarter, which reflects the capacity we added to accommodate the tremendous growth we have generated over the last year. I'd also like to highlight that our total expenses in the first quarter of this year were essentially flat versus last quarter despite the fact that our funded volumes increased 23% during that same timeframe. We believe this is a great example of how we can manage our expense base by driving efficiency and productivity across the platform at scale.

On Slide 7 we have included a quarterly breakdown of our funded origination volume by channel for the last five quarters. In aggregate, we generated $29 billion of volume in the first quarter of 2021 and $83 billion for the last 12 months. Consistent with our overall strategy, the wholesale channel was the primary driver of our record origination volumes this quarter. As part of the new disclosures we have added this quarter, in the appendix of the slide deck you will also find fallout-adjusted lock volume by channel.

Slide 8 includes a snapshot of our Origination segment results. Origination segment revenue of $347 million in the first quarter of 2021 tripled from $115 million year-over-year, driven by strong volume growth and declined 24% from $456 million in the fourth quarter of 2020. The 128 basis point total gain on sale margin in the first quarter of 2021 increased 32% from the year-ago quarter and decreased 36% from 200 basis points in the fourth quarter of 2020. Given the rate and competitive environment Willie discussed, in the first quarter of 2021 we generally saw margins decline across all channels.

Consistent with the segment's revenue trends, the contribution margin of $188 million for the first quarter of 2021 tripled compared to the first quarter of 2020 and declined 38% from the fourth quarter of 2020. At the end of the first quarter of 2021 our third party partner relationships grew by 63% year-over-year to 6,643, which represents an increase of nearly 2,600 net new relationships over the last 12 months, and more than 650 net new relationships in the last quarter.

On Slide 9 we have provided a snapshot of our Servicing segment's financial results. Before I go through the results, you may have noticed we modified the presentation of our Servicing segment financials compared to last quarter. We believe this revised view makes it easier to identify the key operational components in the segment, namely loan servicing fees and direct expenses before the impact of noncash items such as the MSR amortization and change in the MSR fair value mark-to-market.

The number of customers in our Servicing portfolio exceeded 409,000 at the end of the first quarter of 2021, which was up 60% from the year-ago quarter and 14% from the fourth quarter of 2020. The Servicing portfolio UPB reached $110 billion at the end of the first quarter of 2021, which increased 90% year-over-year and 20% compared to the fourth quarter of 2020.

Regarding the portfolio, I would note that so far in the second quarter we are seeing a slowdown in prepayments.

Loan servicing fees of $70 million in the first quarter of 2021 grew 61% from the year-ago period and 26% from the fourth quarter of 2020.

Before including the impact of noncash changes in the fair value of our MSR asset, the Servicing segment generated what we refer to as primary margin of $52 million, which was up approximately 45% versus the year-ago quarter, and up 37% versus the prior quarter.

Servicing segment contribution margin for the first quarter was $65 million, which was up significantly from negative $56 million in the year-ago period and negative $17 million in the prior quarter.

Our first quarter contribution margin benefited from a $102 million net increase in mark-to-market fair value of our MSR asset due to the significant increase in interest rates during the quarter. As a reference point, the 10-year treasury rate increased from 91 basis points at the beginning of the quarter to a peak of 174 basis points on March 31.

Turning to Slide 10, we have included a summary balance sheet which highlights our capitalization and the liquidity profile.

At the end of the first quarter of 2021 we had $443 million of liquidity, including $219 million of cash and cash equivalents. Our total assets reached $8.7 billion at the end of the quarter, up more than 2.5 times from a year ago and up 18% from the prior quarter.

We have continued to focus on expanding our MSR financing and warehouse lines to support our continued growth. At the end of the first quarter, our total warehouse capacity was $6.4 billion, up from $4.2 billion at the end of 2020.

Before I finish my prepared remarks, I would like to briefly discuss our financial outlook as well as our capital allocation policy.

As Willie noted, we expect to continue to drive growth in our market share, and as we look at the second quarter we anticipate funded volumes will be within a range of $25 billion to $30 billion. While we expect continued strong volumes in the second quarter, the operating environment over the last few months has been challenging. As a result, gain on sale margins, particularly in the wholesale channel, have been under significant pressure. While we started to see some signs of that at the end of the first quarter, wholesale margins continue to trend lower as we enter the second quarter. In fact, for the month of April we estimate total origination revenues in the wholesale channel were approximately 78 basis points, which is essentially an operational breakeven level for us. Although we view the current market dynamics as temporary, we cannot predict when wholesale revenues will begin to improve, so we are planning to continue to operate in an environment where wholesale revenues are at the low end of historic norms of approximately 115 basis points of the foreseeable future.

Against this backdrop, we believe we can drive long-term profitability through the continued growth we expect from adding new broker partners and expanding current relationships, efficiency gains from the productivity and technology initiatives that are already underway, ongoing expansion of our high-quality servicing platform, and rigorous expense management across the business.

Looking at our results for the first quarter of 2021, our cost to originate was approximately 54 basis points, and with efficiency and productivity gains, we expect to be comfortably below 50 basis points by the fourth quarter of this year. We plan to achieve this by driving our direct cost to originate a wholesale loan down from our current run rate of $1,700 to $1,000 by the fourth quarter.

Turning briefly to capital allocation, we have consistently said our top priority for capital is to support the continued growth of our business. Beyond that, we would look to use capital opportunistically to support compelling growth initiatives such as incubating new businesses or strategic acquisitions.

Lastly, we would seek to return any excess capital to our shareholders through dividends. Within the scope of our capital allocation framework, we have previous indicated we expected to declare a regular quarterly dividend, and the Board intends to declare this dividend beginning in the second quarter of this year, which would be payable in the third quarter.

Our current liquidity is strong and we are continually evaluating opportunities to optimize our capital structure. To that end, we are making progress on our previously announced plans to establish an asset management platform to help scale our Servicing operation and support continued origination growth in a more capital-light manner. We started acquiring MSRs for our asset management platform in the first quarter and we are in active discussions with several third-parties regarding partnership and funding alternatives.

That concludes our prepared remarks for this morning, and we are now ready to turn the call back to the Operator to take your questions. Operator?

Operator

Thank you.

Our first question Don Fandetti with Wells Fargo. Please go ahead.

Don Fandetti

Yes, can you talk a little bit more about the competition in the wholesale channel. It sounds like your breakeven, the revenue margin in April, is that your expectation that that will continue through the rest of the quarter? How is it changing competitively more recently?

Willie Newman

Good morning Don. Kind of stepping back, we're really in the middle of a competitor-driven dislocation between retail and wholesale rates and margins. We do believe it's temporary and I'll provide some context on that.

If you look at the April levels that Mark discussed as far as total revenue for us in the wholesale channel, and you add the broker compensation which for us was an average of 168 basis points, the total revenue which is comparable to a retail or a direct revenue number was just under 250 basis points. If you look over the last eight years, the low for distributed retail was 375 basis points, which was in 2019, and then 337 basis points in direct which was in 2018. If you translate that to interest rates at the customer level, retail and direct lenders' rates are 1/8 to 3/8 percent higher than rates provided by wholesale lenders through brokers, and to me, if that disparity persists I don't know why a customer wouldn't go to a broker 100% of the time. I mean, the disparity is so significant relative to historic norms.

I think further, I'm not sure how companies that are in distributed or direct retail and in wholesale can persistently charge retail customers rates that are that much higher versus customers that come through wholesale. I think they have a real issue.

I think that outlines the nature of the dislocation.

As Mark said, our working assumption is that wholesale revenues will recover, but only to the lows of the last eight years. So, we look at 115 basis points as our marker for that. That was in 2018. Specifically, it was 113 but…

If you look at the revenue that—broker compensation and you add that back, that's still under 300 basis points, so still materially better for borrowers in wholesale than retail or direct.

So, our focus is really on addressing the elements we can control, so as Mark talked about, increasing the pace of additions, broker additions and activations, accelerating our process and efficiency initiatives and very rigorous expense management. Ultimately, the actions that we're taking will give us the ability to achieve a baseline return on equity level or better at 2018 vintage revenue levels.

As far as how long it lasts, I think because it's competitor driven there's really no basis for us to try to determine how long it will last, but we do believe it will start to recover this quarter.

Operator

Our next question is from the line of Kevin Barker with Piper Sandler. Please go ahead.

Kevin Barker

Yes, so you just mentioned that you expect to recover this quarter. It seems fairly quick, just given the market dislocation. Is there any early indications that you are seeing out there where you would see the recovery? Is there any additional flow as far as productivity per broker or something along those lines?

Willie Newman

Hey Kevin, good morning. I think the recovery will start this quarter. I didn't mean to say that it will get to the levels that I had mentioned in this quarter.

Right now, I'd say there's very small signs that we're starting to see recovery; there's certain elements of kind of the margin dynamics and pricing dynamics, but it's certainly not—it's not to the level where we would expect a rapid recovery in this quarter.

Operator

Our next question comes from the line of Brock Vandervliet with UBS. Please go ahead.

Brock Vandervliet

Thank you. How do you—in this environment, how do you think of the prioritization of profitability versus market share? Some of your competitors appear to be extremely focused on market share and just trying to get a sense from you kind of where you fall out on that.

Willie Newman

Good morning, Brock. We're trying as much as possible to achieve a balance. I think for us the market share is more driven by our ability to reach out and sign up and activate new broker relationships, so as opposed to continuing to dig down in price in order to continue to grow the business in the channel, we're looking to really expand out, and as you know, our coverage is not as significant at this point as the two leaders, so we have a lot of room to run there, and as you saw also, we increased our target. We're seeing a really significant increase in interest in brokerages signing up with Home Point.

We're also seeing new entrants into the broker segment. About 35% of our new signups in March were actually new entrants into the broker segment, new companies.

Brock Vandervliet

If you could just elaborate on that. How does that go? Is the increase driven by you or inflow from brokers, number one? I guess, number two, how long does the transition take from signing someone up to meaningful wallet share that really moves the needle for you?

Willie Newman

Sure. I think the flow is a combination of brokers looking at what happened in March and saying that they need another scale alternative. That is kind of what's driving I guess the interest. Obviously for us, both our in-market account executives and then the support they receive through our internal teams is what's going to continue to drive that flow in.

I'd say from an activation standpoint—and this is something obviously we're acutely focused on—I'd say about a 90-day timeframe. We would anticipate providing more information on activations, especially considering the nature of the growth—in the signups in the next quarter, but really, you can think about it from a 90-day timeframe as far as signup to activation, and then optimally to get a reasonable amount of market share and go from there—or wallet share, rather.

Operator

Our next question is from the line of Doug Harter with Credit Suisse. Please go ahead.

Doug Harter

Thanks. Can you just talk about the dynamic between your lock volume and your funded volume. Locks seem to be significantly below funded, but yet your outlook and your guidance you gave for funded volumes for next quarter assured stability. Can you just talk about that dynamic?

Willie Newman

Sure, Doug. I'm going to pass that one on to Mark.

Mark Elbaum

Sure. Thanks, Willie. Hey, Doug.

A couple of things you might have observed. We've locked roughly $23 billion in fallout adjusted locks versus $29 billion of funded, so I suspect that what's you're looking at. There were several dynamics in the first quarter that I think are worthy of note.

Number one, starting in the fourth quarter of 2020, we built up a fair amount of capacity and capability and managed through certain service level issues that enabled us to pull through a greater portion of the loans that we locked. That fallout adjusted lock number is on Day 1 what we expect to pull through. It's a best estimate on the first day that we lock a loan of what we think that pull through percentage will be.

At the time that we locked those loans, we had a certain track record in terms of pull-through that we've since improved as a result of, like I said, building up capacity and creating some operational improvements.

The other thing that happened in the first quarter was a profound increase in interest rates, and an increase in interest rates creates greater pull-through because less likely that a borrower is going to want to fallout because their alternative away is going to likely be a higher rate than they otherwise would have had, so you end up with a higher pull-through.

So, we saw a pretty significant dynamic in terms of pull-through here in the first quarter relative to lock volume.

As we look forward, we now know more about what our operational capacity and capabilities are and so we will be making adjustments to that fallout-adjusted lock pull-through expectation and I would expect that going forward you will see a closer relationship between those two numbers, barring any significant change in interest rates.

Doug Harter

That better actual pull-through experience, where does that show up in terms of gain on sale?

Mark Elbaum

There's the other—if you look at the disclosures that we provided, you'll see the channel level gain on sale and then you'll see this Other category. That Other category would be capital market activities which includes a number of things, one of them would be changes to the pull-through ratio. What we attribute to the channels is what we expect on Day 1 when we lock a loan, and then subsequent changes to the value of those loans because of pull-through or other things would be in the Other category.

Operator

Our next question is from the line of Rick Shane with JPMorgan. You may go ahead with your question.

Rick Shane

Good morning everybody and thanks for taking my question. I want to follow-up on the last question. When we think about pull-through and locks, I'm curious how much of the gain on sale pressure that you're describing for the second quarter is a function of increasing the hedge ratio on the lock volume.

Willie Newman

Do you want to take that also, Mark?

Mark Elbaum

Sure. I don't think that's—well, I think it's a couple of dynamics. Number one is the dynamics that Willie described in terms of this dislocation, and I think clearly we have higher pull-through and higher capacity, so there's more room in the funnel in terms of the supply/demand economic relationship. But I think that's part of the pressure and that was, frankly, expected. I think the reason for the increased pressure is this competitive dynamic. So, I would some of that, would be the expected component, which is why we would go from let's say 158 basis points to what we would describe as a more normalized level of 115. The reason we're below that now I think is unrelated and I think it has to do with this unique competitive environment we're in.

Rick Shane

Got it. Thank you. And thank you for sort of bucketing both of those two factors. It's very helpful. Thank you, guys.

Operator

Our next question is from Ryan Nash with Goldman Sachs. Please go ahead.

Ryan Nash

Hey, good morning, guys.

Willie Newman

Good morning.

Ryan Nash

Willie, maybe just given the competitive dynamics, to follow-up on that, you gave some interesting stats on the relative margins across different channels. I guess, but given tons of liquidity in the market, companies are looking to put capital to work, I guess why isn't the risk that retail comes down as opposed to wholesale coming up?

Second, are you seeing any competitive pressures accelerating in the direct channel? Thanks.

Willie Newman

Yes, sure. That's a great question, Ryan. Good morning.

I think one of two things can happen here. Obviously they're not mutually exclusive. There could be a combination. You're right, one is that retail margins could come down to let's say match or come around where that combined revenue level is. I guess what I'd point to is that historically retail margins have not gotten to anywhere near I'll call it—let's say 300 basis points is a demarcation line; they haven't gotten anywhere near that, so I think it would be significant stress. Especially on distributed retail, it would be significant stress for those companies to try to get down to the levels that we think are normalized in wholesale, let alone what we are experiencing today.

For us on the direct side, again, it's a little bit different dynamic because we're—I don't really feel like we should charge our borrowers who are coming back to us more than we charge—than we de facto charge through our brokers, and so our margins to a certain extent are suppressed in direct by the fact that we're not going to go to our customers and say, "Hey, you should have a higher rate because we're having a challenge in this other channel."

I can't speak to what others are doing, but frankly, I don't feel comfortable charging our own customers meaningfully more than we charge de facto through brokers.

So, I'd say the pressure there is that—I mean there's also a little bit of pressure because if you look at the nature of our servicing book it's newer and therefore we have less in the money than kind of what I'll call a normalized book, so there's a little bit of pressure there. But moreso, it's us ensuring that we're taking care of our customers as well as we take care of the customers that come through our broker partners.

Ryan Nash

Got it. Thanks for the color.

Operator

Our next question is from Mihir Bhatia with Bank of America. Please go ahead.

Nate

Hi. This is actually Nate on the line for Mihir. Thanks for taking my question. I wanted to ask what you're seeing in the correspondent channel. Originations were up for wholesale and direct, and I'm just curious what the current dynamics are for correspondent in 1Q and maybe quarter to date as well?

Willie Newman

Sure. Good morning. Even last year we saw correspondent margins kind of normalize much more quickly and we're seeing a little bit more pressure on those margins as well. We've moderated our activity, as we've talked about previously. We look at correspondent as primarily an aggregation vehicle for our Servicing platform and portfolio, so we've moderated our activity some to ensure we're optimizing the return against the level of production. You should expect to continue to see that in the second quarter.

Nate

Got it. Thanks for the question.

Willie Newman

Sure.

Operator

We do have a follow-up question from the line of Kevin Barker with Piper Sandler. Please go ahead.

Kevin Barker

Thank you. Thanks for the comments regarding operating expenses per broker through year-end, but can you just give us an idea of how to balance your comments around breakeven? Because it seems like there's near-term revenue pressure that's occurring, but you're developing operating efficiency as we move through the year, so eventually you're going to see an inflection point. At what point do you feel like we could start to see that as we move through 2021, specifically around the broker channel?

Willie Newman

Thanks, Kevin. Mark, you want to take that?

Mark Elbaum

Sure. Sure, thanks, Kevin.

The way we think of it, number one, is that—and this is just kind of the math that I think about—if we're at let's say 78 basis points and our average cost per loan right now is let's say 54, that's roughly a 25 basis point margin. I'm going to assume for this purpose that Servicing breaks even. I think over time as amortization slows and we're already seeing that, Servicing will become profitable to us, but let's just put that aside. We have to cover about $17 million a month of overhead, the $51 million divided by 3. That leads you to fund circa $7 billion, $8 billion a month and we're well on that run rate.

The efficiency gains that we're expecting to create will improve those margins and we're confident we'll get comfortably below 50. That's number one.

Number two, we don't think we're going to be in a 78 basis point environment for a long period of time. We don't know how long we'll be in that period but we don't think it will be protracted, however, we also aren't planning on our margins to grow much beyond the 115 basis points. To the extent they do, of course we'll benefit from that.

You couple all of that with the fact that we are in fact adding brokers to the platform and activating them. That should ensure that we're able to get that additional volume.

Hopefully that addresses the question, but as far as I think about long-term profitability, if we continue to improve our cost and add brokers to the platform, then we should have no problem showing good returns to the future.

Kevin Barker

Okay, and then in regards to your—sorry, go ahead.

Willie Newman

I would say that there really isn't kind of per se an inflection point because obviously a lot of it is dependent on what the revenue side is, but the cost decrease is fairly steady. Actually this month, one of the things that we've done is we've actually reduced our basis point compensation to our salesforce. They've really been—I mean, people typically look at salespeople as not leaders, but we don't. So, our salesforce has actually been a leader in helping us become more cost competitive, so there are certain points in time that there will be inflections down from a cost standpoint, but overall it's a fairly steady decline during the year.

But as Mark said, we expect the volumes to be in a range where we're going to be able to get a benefit from that.

Kevin Barker

And just to clarify, your breakeven level that you're talking about on gain on sale margin is specifically to wholesale channel, not as a company as a whole, right?

Mark Elbaum

It would be—well, let me clarify that.

The 55 basis points, 54 basis points would be the company as a whole. I tend to focus on gain on sale margins in the wholesale channel because that's frankly 70%, 80% of our business, but my comments were with respect to the company as a whole.

Kevin Barker

Okay. Thank you for taking my questions.

Operator

Speakers, we have no further questions at this time. You may continue with your presentation or closing remarks.

Gary Stein

Great. Thanks Operator. Thanks everyone for joining us this morning for our quarterly earnings call. Please feel free to contact me if you have any questions and we'll look forward to speaking with you again soon.

Operator

That does conclude the conference call for today. We thank you all for your participation and kindly ask that you please disconnect your lines. Have a great day.