# Home Point Capital

## Fourth Quarter 2021 Financial Results Call

## February 24, 2022

## CORPORATE PARTICIPANTS

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**William Newman,** *President, Chief Executive Officer & Director*

**Mark Elbaum,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Douglas Harter,** *Credit Suisse*

**Kevin Barker,** *Piper Sandler & Co.*

**Brock Vandervliet,** *UBS*

**Richard Shane,** *JPMorgan Chase & Co.*

**James Faucette,** *Morgan Stanley*

**Steven DeLaney,** *JMP Securities*

**Mihir Bhatia,** *Bank of America Merrill Lynch*

## PRESENTATION

**Operator**

Good morning, and welcome to Home Point Capital's Fourth Quarter 2021 Financial Results Call.

Please be advised that today's conference call is being recorded.

Please go through the IR website to obtain our earnings materials.

I will now turn the call over to Ginger Wilcox, Head of Investor Relations at Home Point Capital. Thank you. You may begin.

**Ginger Wilcox**

Thank you, Operator.

Welcome to our fourth 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 reports on Form 10-K which was filed on March 12, 2021, for factors which could cause actual results to differ materially from these statements. We may be discussing certain non-GAAP measures 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.

**William Newman**

Thanks, Ginger, and good morning, everyone.

During my prepared remarks, I'm going to briefly review our results for the fourth quarter and year ended December 31, 2021. I'll also talk about the key focus areas for our business 2022 as we navigate through what we believe will be the most challenging part of the mortgage cycle. After that, Mark will provide more details on our results as well as insights into what we are seeing so far in the first quarter. We'll then open up the call to take your questions.

In the fourth quarter, we generated funded origination volume of $21 billion compared to $24 billion in the fourth quarter of 2020 and $21 billion in the third quarter of 2021. For the Full Year 2021, we generated record origination volume of $96 billion, which is a 55% increase over 2020. Our origination volume was propelled by the strong expansion we made to our partner base throughout the year.

In the fourth quarter, we added 560 new broker partners. And in total for 2021, our third-party partner relationships increased by nearly 50%. We ended the fourth quarter with more than 8,000 broker partners and 676 correspondent partners. Our new broker partners represent a significant opportunity and provide us with a springboard for market share growth in 2022.

Looking at our servicing portfolio, we ended the fourth quarter with nearly 426,000 customers, which is up 22% year over year and down 1% from the third quarter. As Mark will discuss shortly, during the fourth quarter, we completed a Ginnie Mae MSR sale with approximately $175 million in proceeds.

Even with MSR sales, our total balances grew 45% to $128 billion during 2021. As discussed last quarter, we are evolving our servicing strategy by more actively managing and strategically monetizing the value of our MSR assets. The liquidity generator will be used to strengthen our balance sheet by reducing outstanding debt and for investment in our partner experience.

From a financial perspective, in 2021 we recorded total net revenue of $962 million and net income of $166 million. Notably, even with the challenges presented in 2021 we generated a 21% return on equity, comfortably above our 15% minimum target. In the fourth quarter, we generated total net revenue of $181 million and net income of $19 million, or $0.14 per diluted share.

As we have discussed previously, there has been significant pressure on margins, particularly in the wholesale channel. Additionally, interest rates are rising, which has put pressure on mortgage origination volume. To offset some of that margin pressure, we continue to accelerate our efforts to deploy new technology that will lower costs and improve the efficiency of our operations.

In the fourth quarter, we made meaningful progress in expense management with a $23 million reduction in our direct origination costs versus the prior quarter.

Looking at 2022, the mortgage industry is entering a challenging part of the mortgage cycle, with higher rates leading to a shrinking refinance market while industry capacity remains at an all-time high. We are focused on navigating through this downturn while continuing to enable future growth. As such, these are Home Point's priorities.

Liquidity. We have thoroughly evaluated our balance sheet and are monetizing nonstrategic assets at attractive levels. As previously noted, these proceeds will be primarily used to reduce leverage, improve our financial ratios and create headroom for future growth.

Rigorous cost management. We have continued to reduce our direct cost to originate. In addition to our recently announced relationship with ServiceMac, we expect to transition our servicing platform to a lower variable expense construct. This also provides flexibility for active MSR Management. Additionally, we are in the process of executing a zero-based cost review of our corporate functions.

Finally, we will continue to invest in the most significant growth opportunities and be well positioned to grow our wholesale market share. We strongly believe that efficiencies driven by the broker wholesale lender partnership will accelerate market share growth in the channel.

With regard to liquidity, we have agreements in place to sell MSRs and other nonstrategic assets, which are expected to generate proceeds in excess of $700 million. These sales are anticipated to close in the first and second quarters of 2022.

On the expense side, we have been aggressively managing costs in originations since early 2021. In a sense, the competitor-driven dislocation in wholesale benefited us, in that it forced us to look closely at cost before the overall market started to contract. This gave us a head start. And we intend on leveraging that momentum as others are just starting the cost management process.

Specific to servicing, as noted, we have entered into an agreement with ServiceMac to manage their servicing operations. Servicing is very much a scale business. And as we transition to active MSR management, it became evident that the most effective way to get the advantages of scale was to partner with a like-minded operator.

For Home Point, the result is lower and variable costs, with the benefits of a growing platform investing in capabilities. Additionally, ServiceMac will take on our servicing associates, which will both enable the transition and provide for continuity with our customers and partners.

While we believe the environment requires what may be considered defensive actions, we fully intend on continuing to play offense where we believe the greatest opportunities lie. For us, that means wholesale. As we've seen in previous cycles, including 2018 and 2019, a purchase-centric origination market creates enormous opportunity for mortgage brokers and the wholesale channel because of the inherent cost advantages created by the alignment between brokers and wholesale lenders such as Home Point.

This, in turn, drives more loan officers to brokerages, which fuels market share growth in the Wholesale segment. According to select 2020 HUMTA data, the rates and fees offered to consumers through the top 10 wholesale lenders as compared to the top 10 retail lenders resulted in a $2,600 average benefit to consumers.

More recent securitization data is supportive of this advantage for consumers ongoing. This is a compelling benefit that will become even more valuable as interest rates rise and affordability increasingly becomes an issue. The last time interest rates rose materially starting in 2018, the number of loan officers joining brokerages increased by 28% in the following year. We expect an even greater rate of growth in 2022.

At Home Point, we have strategically built our business for this type of cycle with our focus on the wholesale channel. Mortgage brokers have strong relationships with local real estate professionals, and a partnership with wholesale lenders like Home Point can provide a better experience for the consumer.

As rates go up, consumer desire for the lowest possible interest rates, closing costs and fees will be even stronger, which brokers are best positioned to deliver. In addition, the transition of our servicing operation to ServiceMac will enable the redeployment of technology and process resources to support growth of the wholesale channel, including expanding product offerings and enhancing the partner experience.

We are especially focused on growing wallet share from the over 8,000 partners we are already engaged with. Even considering widely expected contraction in the overall mortgage market, we continue to navigate through the competitive environment as one of the top mortgage lenders in the country.

Our position as a leader in wholesale lending puts us in great position to both drive and leverage growth in the channel. In summary, we will continue to build on the strengths of our flexible business model to protect and ultimately grow our book value.

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

**Mark Elbaum**

Thanks, Willie, and good morning, everyone.

Starting with Slide 5 of the earnings presentation. As Willie noted, 2021 was a record-setting year for Home Point with loan volumes totaling $96 billion.

There's no doubt that in the previous two years we've been the beneficiary of favorable market conditions. And with the financial and process-related strides we've made, we have built a solid foundation from which we can continue to execute on our long-term strategy.

Even as interest rates began ticking upward and margins compressed in the fourth quarter, we continued to deliver strong performance across key origination and servicing metrics. In addition, we have included our return on equity results. For the full year of 2021, we showed a return on equity of 21%.

Turning to Slide 6. We have provided a summary of our quarterly and annual financial results. Total net revenue in the fourth quarter of $181 million compared to $275 million in the third quarter of 2021 and $454 million in the fourth quarter of 2020.

Our total expenses of $152 million in the fourth quarter of 2021 improved 32% versus the fourth quarter of 2020 and were 13% lower compared to the third quarter of 2021 due to our continued efficiency initiatives. The sequential quarter improvement in expenses was due to reductions of 13% in the Origination segment direct expenses, 15% in corporate expenses and 9% in Servicing segment direct expenses.

We generated net income of $19 million in the fourth quarter of 2021 compared to net income of $184 million year over year and compared to net income of $71 million in the third quarter of 2021.

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 $21 billion of volume in the fourth quarter of 2021 and, as mentioned previously, $96 billion for the full year. Consistent with our overall strategy, the wholesale channel primarily drove our origination volume this quarter.

Slide 8 includes a snapshot of our Origination segment results. Origination segment revenue of $103 million in the fourth quarter of 2021 compared to $456 million year over year and $184 million in the third quarter of 2021. Gain on sale margin attributable to channels before giving effect to the impact of capital markets activity was 59 basis points in the fourth quarter of 2021 versus 177 basis points in the fourth quarter of 2020 and 73 basis points in the third quarter of 2021.

The Origination segment contribution margin was $2 million in the fourth quarter of 2021 compared to $304 million in the fourth quarter of 2020 and $67 million in the third quarter of 2021. At the end of the fourth quarter of 2021, our total third-party partner relationships grew by 45% year over year to nearly 8,700, which represents an increase of over 2,700 net new relationships over the last 12 months and 584 net new relationships in the last quarter.

On Slide 9, we have provided a snapshot of our Servicing segment's financial results. The number of customers in our servicing portfolio was nearly 426,000 at the end of the fourth quarter of 2021, a small reduction from the third quarter due to the sale of a Ginnie Mae servicing portfolio I will discuss in a moment.

The servicing portfolio UPB surpassed $128 billion at the end of the fourth quarter of 2021, rising 45% year over year and up 2% compared to the third quarter of 2021. Similar to last quarter, we saw a slowdown in prepayments during the fourth quarter, which is reflected in the decline in the change in MSR fair value from amortization.

Loan servicing fees of nearly $84 million in the fourth quarter of 2021 increased 54% from the fourth quarter of 2020 driven by the growth in our servicing portfolio, and decreased 9% from the third quarter of 2021 due to the Ginnie Mae MSR sale.

Before including the impact of the mark-to-market fair value of our MSR asset net of hedging, the Servicing segment generated what we refer to as an adjusted contribution margin of positive $31 million, which was an improvement from negative $34 million in the year ago quarter and from $9 million in the third quarter of 2020.

Servicing segment contribution margin for the fourth quarter of 2021 was $74 million compared to a negative $17 million in the fourth quarter of 2020 and positive $86 million in the third quarter of 2021. Our 2021 fourth quarter contribution margin benefited from a $43 million increase in the mark-to-market fair value net of hedge of our MSR asset due primarily to an increase in interest rates during the quarter.

As Willie mentioned, the sale of MSR and nonstrategic assets, along with the recently announced servicing relationship with ServiceMac are examples of our ongoing strategy to monetize nonstrategic assets and manage costs.

During the fourth quarter, we completed a Ginnie Mae MSR sale with an aggregate UPB of approximately $13.1 billion, which represented approximately 77% of our Ginnie Mae MSR portfolio as of September 30, 2021. The total purchase price for the servicing rights was approximately $175 million. With the MSR sales, we have excess capacity in our servicing operations, which would ultimately have had a notable impact on our cost per loan. By partnering with ServiceMac and taking advantage of their scale, we expect to transition our servicing platform to a lower variable cost and provide additional flexibility to manage the MSR asset. This strategic move also enables us to redeploy resources to support growth in Home Point's origination channel, including expanding product offerings and enhancing the broker partner experience.

Turning to Slide 10. We have included a summary balance sheet which highlights our capitalization and liquidity profile. At the end of the fourth quarter of 2021, we had $555 million of available liquidity while our total assets stood at $7 billion and our book value was $777 million. Our total warehouse capacity remains at $7.5 billion as of December 31.

Home Point Capital's Board of Directors has declared a cash dividend of $0.04 per share for the fourth quarter of 2021, payable to shareholders of record as of March 10. It has also authorized a stock repurchase program where the Company may repurchase up to a total of $8 million of its issued and outstanding common stock. The stock repurchase program expires on December 31, 2022.

Before I finish my prepared remarks, I would like to briefly discuss our financial outlook. As we look at the first quarter of 2022, we are focusing on improving margins. This may result in a greater degree of variance on production. We are also taking steps to protect our book value through effective cost management which will benefit us in all rate environments.

In the first quarter of 2022, we expect to fund between $12 billion and $15 billion, with margins in the 60 to 70 basis point range. With regards to our balance sheet, as Willie noted, we have agreements in place to sell nonstrategic assets. These asset sales give us a path towards a corporate debt to TCE leverage ratio target of one times.

As to origination volume, we expect to benefit from expanded product offerings as well as benefit from the expansion in the new partner base we established last year.

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

Operator.

**Operator**

Our first question comes from the line of Doug Harter with Credit Suisse. Please proceed with your question.

**Douglas Harter**

Thanks. Hoping to talk more about the nonstrategic asset sales. I guess you said $700 million. Is the $75 million of the stake of Longbridge included in that total?

**William Newman**

Hi, Doug. Good morning, it's Willie.

Yes, it is. So the Longbridge stake and primarily the rest of it at this point are MSR assets.

**Douglas Harter**

Just on Longbridge, can you just tell us where that was marked at year end, just to give us a frame of reference of the $75 million sale price?

**William Newman**

I'll turn it to Mark.

**Mark Elbaum**

Sure. So it was marked at… Got it here, about $62 million is where it was marked at month end or quarter end. (Multiple speakers), if you go to our balance sheet, you'll see assets held for sale broken out separately because we have a Longbridge sale, and that would be the Longbridge stake. It's $62.7 million actually.

**Douglas Harter**

Got it. And then I guess the remaining MSR sales, just one, can you talk about which debt you would look to to repay? And then, two, just as you're thinking about those sales, how you think about balancing the trade-off of the cash flows from those servicing on the long term versus kind of the immediate liquidity it gives you?

**William Newman**

Sure. So I'll take the second part first, which is if you look at what we're selling and then you look at the balance afterwards, obviously we've had a run-up in values as well. So we'll still have $1 billion-ish MSR asset after these sales. And so we feel like we'll have sufficient kind of balance from a revenue/cash flow standpoint from the servicing.

Mark, you can talk about the debt.

**Mark Elbaum**

Sure. As for the use of the proceeds, we'll be using it to pay down the debt related to our MSR facility.

And the reason we think that's a good idea is because that gives us liquidity that we can redraw as we, to Willie's point, add more MSR through new production. We'll have the ability to use that facility and continue to use that to fund our MSR growth. And should we choose to strategically sell MSR, then we would then pay that down. So it becomes kind of a working capital line in that respect.

**Operator**

Thank you. Our next question comes from the line of Kevin Barker with Piper Sandler. Please proceed with your question.

**Kevin Barker**

Good morning.

Could you outline the anticipated cadence of MSR sales? Is that all going to happen here in the near term? Or is that going to happen over a few quarters to get to that $1 billion balance number?

**William Newman**

Hi, Kevin. Good morning, it's Willie.

That will happen in this quarter and the next quarter, the $700 million that we've outlined.

**Kevin Barker**

Okay. And then those have all been mark-to-market that to fair value at this point, right, so real no big gain or loss on that. Is that right?

**William Newman**

Yes, I mean...

**Mark Elbaum**

That would be right.

**William Newman**

Yes, go ahead, Mark.

**Mark Elbaum**

No, that would be right. It's basically going to be at fair value.

**Kevin Barker**

Rates have been up quite a bit in the first quarter. How much is your MSR marked up quarter to date, just given the move in rates so far?

**William Newman**

Mark, do you want to get that?

**Mark Elbaum**

Sure. That's not typically something we disclose, and furthermore, whatever answer I give you today will be wrong tomorrow given what's happening with rates right now. So stay tuned, we'll be keeping an eye on that as well.

**William Newman**

I do think the important things to help everyone understand is that obviously valuations have gone up substantially. We've been able to monetize a meaningful percentage of that valuation run up. So we feel really good about the position that we're in, both with regard to monetizing the asset, and then the asset that will continue to hold.

**Kevin Barker**

Yes, because we've seen markups somewhere between 10 and 15 basis points for some of the others that have reported so far. I'm just wondering if yes, if that's also going to be supportive of book value going into the first quarter just given everything that's going on, okay. And then you announced a buyback of $8 million, but your debt is also trading at a fairly steep discount to par. Can you outline why you feel like it makes sense to buy the equity versus the debt right now? Because you are de-levering, right? And so you're targeting lower, better capital ratios. Why not just buy the corporate debt to net today with yields in the double digits?

**William Newman**

We feel like having that debt out there at the rate that we have that is worth us maintaining. As Mark said, we'll pay down the debt that is more operating in nature.

As far as the equity goes, right now, as you know, we're selling in the neighborhood of 65% to 70% of book value, and we feel like that's a tremendous value. Any time someone wants to sell me $1 for $0.65 or $0.70, we're going to look at buying it.

**Operator**

Thank you. Our next question comes from the line of Brock Vandervliet with UBS. Please proceed with your question.

**Brock Vandervliet**

Hi, good morning. Thanks for the question.

Appreciate the disclosure on gain on sale by channel on Slide 14. Can you talk about gain on sale dynamics and where you see that in the pipeline by channel?

**William Newman**

Yes, Brock, it's Willie. I'll start.

We've changed our perspective a little bit on how we're managing gain on sale, or kind of more specifically margins. And because the environment is so challenging, we're really looking at how we can move margin up, which I know sounds a little bit counterintuitive. But we're willing to let volume fluctuate a bit more than historically we have in order to push margins up. So we're trying to establish really a cadence where we move margin up over time.

Mark, if you want to talk a little more specifically about that.

**Mark Elbaum**

Sure. Brock, we talked about margin, our margin forecast for the first quarter being in the 60 to 70 basis point range, and that would be related to the 58 basis points that we showed on Page 14. So it is creeping up a little bit from there.

And then between seasonality, higher rates, as well as our willingness to get more margin, we're expecting our volumes to be in the $12 billion to $15 billion range, and that would be down from about $20.5 billion this quarter. So anyway, that's hopefully helpful in terms of where we're seeing margins.

**Brock Vandervliet**

Yes. And just as a follow-up, I hadn't heard that guide. That's interesting. How are you able to drive that higher? Because I would think there would be loans in pipeline that are underwater relative to current mortgage rates, and that might further pressure gain on sale. How are you seeing the increase there for Q1?

**William Newman**

Yes, hi, Brock. It's Willie again.

I'd say a combination of improving our analytics on how we price, specifically around our partners on the wholesale side, and then just a greater degree of discipline around the pricing itself. So as I said, we're willing to let volume fluctuate a bit more than we have historically in order to accomplish that. But we think in the long run that's a better position to be in.

**Operator**

Thank you. Our next question comes from the line of Rick Shane with JPMorgan. Please proceed with your question.

**Richard Shane**

Thanks, everybody, for taking my questions this morning.

First thing, my understanding is the guidance that you just provided is in terms of fundings for the first quarter. Fundings is kind of a partially forward-, partially backward-looking metric given the locks. What is the outlook for locks during the first quarter, given that that's really what the gain on sale is calculated off of?

**Mark Elbaum**

Sure. Good question. And yes, the answer is I would give the same guidance: $12 billion to $15 billion, both for fundings as well as for locks.

**Richard Shane**

Great. That's helpful. Thank you. And then the other question I have is, if we look at the MSR mark, it's that you're carrying the MSR currently, I apologize, I want to say at 119. If we look at where the portfolio was sold in the fourth quarter, sold at 134, and it was carried at 111.

When we think about the sales that are coming over the next couple of quarters, is it fair to expect them to be closer to that 134? I know in response to Kevin's question you'd said you didn't expect any additional gains. But it does seem like there's a little bit of a gap there that could be profitable.

**William Newman**

I would say that the fair value is migrated closer to where the execution was. We really did get extraordinary execution on those Ginnie Mae sales. So I wouldn't expect certainly that level of spread ongoing.

As you know, overall, values have migrated up. So as Mark said, we expect closer to fair value on the execution. But we still feel like, especially with the run-up, we're getting strong execution. And we have a lot of interest in our product.

**Operator**

Thank you. Our next question comes from the line of James Faucette with Morgan Stanley. Please proceed with your question.

**James Faucette**

Great. Thank you.

I wanted to ask, as the interest rate environment is changing and you're looking at kind of the composition of that market, can you give us a sense of what's happening with the contribution from things like cash-out refis? And then, what have you been seeing in terms of purchase volumes in just the beginning of the year as interest rates have moved up?

**William Newman**

Hi, James.

Yes, obviously the composition has changed substantially. From a refinance standpoint, we see about 65% of our refinances to be cash-out at this point, which is obviously an extremely different mix than what it was just last quarter. From a purchase standpoint, now we're migrating over 50% of our flow is purchased.

And I'd say that the activity is a little bit muted in part, as you know, because of the supply challenges overall in the market. We do believe that there will be some increase from seasonality, but it remains to be seen how much of that will be based on the supply challenges that we're seeing.

**James Faucette**

Thanks. And then you mentioned quite a bit taking advantage of this time to invest in capabilities and growing the broker channel. I guess I just have a couple of questions here, like how you're balancing investment, what you're focused on? Are you undertaking new technology initiatives, firstly?

And secondly, what are you expecting in terms of churn of brokers as we go through this cycle? Obviously, you've been successful in adding those. But are you going to have the increase to spend around making sure that you secure new brokers if there's a higher rising level of churn?

**William Newman**

Right. That’s a really good question.

From a technology process standpoint, it's really the same path that we've been on previously, which is, specifically on the technology side, continue to implement our low code componentized technology, kind of, I'll say, across the origination process.

You're probably better say across the operations processes for the organization. So that, I'd say, is more status quo. And one of the things we are able to do because of the ServiceMac relationship is to do resources that we formerly had focused on our servicing operation and focus those on the origination side, specifically in wholesale. So that should give us an additional boost, even both from a capacity standpoint and optimally speed to market.

As it relates to the broker market overall, I think you saw from our remarks that we really look at this cycle very similar to and we believe even more significant than 2018, ’19 when you saw rates up. You saw the benefits of wholesale and alignment between wholesale lenders and broker partners kind of peter out. And as a result, there was a significant inflow of loan officers into the broker space. So I'd say the churn element for us, we have significant opportunity with the 8,000 partners we've already signed up.

We believe the number of I'll say partner opportunities will grow more materially than it has previously, and it's been on a nearly 20% growth path over the last couple of years. So we're more focused at this point on expanding relationships with those that we have in the fold and then expanding the market overall.

**Operator**

Thank you. Our next question comes from the line of Steve DeLaney with JMP Securities. Please proceed with your question.

**Steven DeLaney**

Hi, good morning, Willie and Mark.

One of the things that hadn't been touched on yet that I think shows some progress is your corporate expenses. It looks like they fell $6 million to $35 million in the fourth quarter. Is there further room for efficiency and process in that line, that expense line?

**William Newman**

Mark, why don't you take that one?

**Mark Elbaum**

Sure. As Willie mentioned, we are conducting a zero-based budgeting exercise, which is going to be, frankly, across the entire Company, but certainly that will impact corporate. And it's I think just good corporate hygiene, especially as we are looking at volumes and margins dropping. So just reassess everything. And this is a journey we started back in the second quarter and will continue.

We're doing that analysis to make sure we have the right balance of what we need versus what's nice to have, and we'll be looking at opportunities there. So I'm not prepared to tell you exactly what our targets are, or where we're going with that, but I am certainly optimistic that we are going to do a thorough review of that and get that to the right level.

**Steven DeLaney**

Okay. And my follow-up, Doug mentioned Longbridge. We noticed that last night as well, and looking at Ellington. It sounds like with you're being selective to selling down the Ginnie servicing to selling your interest in remaining interest in Longbridge, but you're really looking at the business and trying to be really focused on your core wholesale business and maximize that. Are there any other kind of tangential equity investments or affiliates attached to Home Point that might also be divested of going forward?

**William Newman**

Yes. This is Willie.

We do intend to look at potential opportunities within the balance sheet.

**Steven DeLaney**

Okay. So there's some other noncore, I guess, is the way I would describe it, things that you may have not interested in identifying or being specific about, but we could see this type of activity going forward is what I'm hearing you say.

**William Newman**

Yes, that's right. So I think it's kind of interesting doing this call today based on what's happened over in Ukraine. But I think I've been in the business for a long time. I've been through a lot of cycles. And to me, where we're focused, which is, one, as I said, liquidity and getting as liquid as we can get in a volatile environment. I think there's no better place to be than being liquid; two is being laser-focused on the cost side. And again, having been through a lot of cycles, I think a lot of folks try to use hope as a strategy to hold on to their costs. And as Mark indicated, we're being very focused and very deliberate about what is necessary for us to continue to carry and what's important. But at the same time, number three is investing in where we see the greatest opportunities. And as you identified, Steven, as historical trends have shown and current trends are starting to indicate, the Wholesale segment is really where it's at, and especially for us the way we're positioned. So that's where we're going to be focused.

**Operator**

Thank you. Our next question comes from the line of Mihir Bhatia with Bank of America. Please proceed with your question.

**Mihir Bhatia**

Good morning, and thank you for taking my question.

I wanted to ask maybe to start just on the ServiceMac announcement from a few weeks ago. But I guess maybe just help us understand is there a way to quantify what the cost savings will look like and how that will change your—I guess, does it changed your strategy in any way? I'm thinking particularly on the direct side now that you have to go through ServiceMac.

**William Newman**

Mark, why don't you talk about the cost piece? And then I'll come back to the strategic part.

**Mark Elbaum**

Sure. As we're looking at our MSR asset as more of a strategic asset and doing sales, had we kept the platform in-house, that would have created a number of operational challenges, not the least of which is that we would have excess capacity on that platform and our per-unit cost would have risen.

But the ServiceMac relationship enables us to continue to have the same level of service to our customers, keep our employees, they're going to move over to ServiceMac, and then convert that cost to a variable cost at a lower level.

It enables us to keep more consistency on a per-unit basis rather than what would have happened, which is our cost might have stayed flattish in the aggregate on a notional basis, but our per unit would have gone up quite a bit. So that's the benefit of it.

You'll start to see now our servicing portfolio costs, our cost of service, rise up and rise down depending on how much servicing we choose to hold. So we've converted a fixed cost to a variable cost at a lower level.

**William Newman**

Yes. As it relates to strategically specifically around direct, I mean, obviously direct is now a different dynamic based on the interest rate environment. But that said, one of the many benefits of working with ServiceMac is the continuity with regard to our associates in the servicing function. And with that, the ability to maintain the workflow between the two organizations as it relates to customers who are interested in a new origination with Home Point is there. So we'll be building those workflows in conjunction with ServiceMac in a way that our customers will continue to have the great experience they had when it was one entity.

**Mihir Bhatia**

Got it. Thank you. And then just the other question I had was just around margins. And maybe looking just at the fourth quarter, they came down a fair amount. Is there any way for us or even for you like maybe to disaggregate how much of that was just driven by interest rate movements versus maybe like competitive intensity?

I guess the real question I'm trying to get at there is trying to understand how much is competition? Like what is the competitive intensity like? Did it increase in the fourth quarter; that's what drove margins lower? Just trying to understand the dynamics there.

**William Newman**

Yes, it's a really good question.

I'd say the short answer is it's really hard to discern. But generally, it was really more of the origination environment with seasonality taking hold in November and December, there was just last one to go around. And as I mentioned in my earlier remarks, the industry really hasn't shed much capacity at this point. So that ultimately is what puts pressure on margins. You have all originations and you have a lot of capacity out there. So I think, as Mark indicated, that's why we're being very proactive from both a capacity management standpoint, technology and process standpoint, but certainly overall from a cost perspective.

**Operator**

Thank you. Our next question comes from the line of Kevin Barker with Piper Sandler. Please proceed with your question.

**Kevin Barker**

Thank you. Just to follow-up on some of the servicing questions that were already asked. Your servicing operating expense as a percentage of the overall UPB has been cut in half in the last six quarters. Do you expect the servicing operating expense to remain relatively flat from the fourth quarter levels when measured against the total UPB outstanding, or would that be embedded in the MSR mark, given your cost of service could change and change your value of the MSR?

**William Newman**

Mark, do you want to take that?

**Mark Elbaum**

Sure. Yes. Good observation. We certainly made a lot of progress in lowering our internal cost to serve as a result of building scale as well as some of the moves we made with respect to moving off Ginnie Mae. So that's what created that.

We also have a very high-quality servicing book, and that's part of why the relationship with ServiceMac was so attractive, frankly, to both sides. What I would expect going forward is on a per-unit basis, on a per-unit basis, the cost to remain similar to where it is now, but it will become more variable in nature.

In other words, right now, this quarter, for example, we had circa $16 million of expenses attributable to the Servicing segment. As the portfolio decreases once we fully transition to ServiceMac, that will ratio-metrically go down or up on a per-unit basis depending on the amount of servicing we're carrying.

(Multiple speakers)

Go ahead, Willie.

**William Newman**

Sorry, it won't impact the MSR valuation.

**Mark Elbaum**

I was going to follow up with that very same thing. It won't effect MSR valuation. Yes.

**Kevin Barker**

Okay. Thank you for taking my questions.

**Operator**

Thank you. Our next question comes from the line of (Inaudible) with Goldman Sachs. Please proceed with your question.

**Male Speaker**

Hi, guys, thanks for taking my questions. Most of them were answered. I just wanted to follow up on the balance sheet real quickly. If you give me a second, I know the 10-K hasn't come out yet, and so if you can help me on the term debt and other borrowings. It went up about $116 million. Was that just the MSR lines? Or was it something else?

**Mark Elbaum**

No, that would have just been the MSR lines, and as the next couple of quarters progress, that will get paid down quite a bit.

**Male Speaker**

Awesome. And just a follow-up on the MSRs, what's the proportion of the MSRs originated this quarter were held versus sold?

**Mark Elbaum**

All of the MSRs that were created this quarter are held. The most of the MSR that was sold would have been let's call it portfolio MSR.

**Male Speaker**

Understood. I appreciate you guys taking my questions. Thank you so much. Best of luck.

**Operator**

Thank you. Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now turn the call over to Ginger Wilcox for closing remarks.

**Ginger Wilcox**

Thank you, Operator, and 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 look forward to speaking with you again next quarter.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.