# Home Point Capital, Inc.

## Second Quarter 2021 Financial Results Conference Call

## August 10, 2021

## CORPORATE PARTICIPANTS

**Gary Stein,** *Senior Managing Director and Head of Investor Relations*

**Willie Newman,** *President and Chief Executive Officer*

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

## CONFERENCE CALL PARTICIPANTS

**Brock Vandervliet,** *UBS*

**Doug Harter,** *Credit Suisse*

**Henry Coffey,** *Wedbush*

**Kevin Barker,** *Piper Sandler*

**Don Fandetti,** *Wells Fargo*

**Rick Shane,** *JPMorgan*

**James Faucette,** *Morgan Stanley*

**Mihir Bhatia,** *Bank of America*

## PRESENTATION

**Operator**

Good morning, and welcome to the Home Point Capital Second Quarter 2021 Earnings Conference Call.

During today's presentation, all callers will be placed in a 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 would now like to turn this conference over to Gary Stein, Head of Investor Relations at Home Point Capital. Thank you, sir. You may begin.

**Gary Stein**

Thank you, Operator. Welcome to our Second Quarter 2021 Earnings Call.



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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 Homepoint 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 Homepoint's most recent SEC filings, including the Company's Annual Report 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 Homepoint'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'm going to discuss our second quarter performance and the factors that impacted this performance. I'll then discuss how we are adapting and evolving in a challenging operating environment. After that, Mark will provide more details on our results for the second quarter, as well as some initial insight into our July performance. We'll then open up the call to take your questions.

We entered the second quarter faced with an historic pricing dislocation in our primary origination channel, wholesale. Revenue had compressed to levels not seen in at least the past eight years. The pricing dislocation persisted throughout the second quarter, with a resultant significant drop in our origination revenues versus the second quarter.

Our already compressed origination revenue was further impacted by certain capital markets movements; most notably, pricing and product actions undertaken by the government-sponsored enterprises, or GSEs. These actions were undertaken without notice and disproportionately impacted non-bank third-party lenders, such as Homepoint. As a result, our total revenues were $84 million for the second quarter and we incurred a net loss of $73 million, including MSR valuation adjustments net of hedge.

So, what are we doing to take on these challenges? I'll first address the competitive environment. As discussed in our last call, while we felt that the pricing dislocation in wholesale was temporary in nature, we have taken several actions, including accelerating process and technology initiatives, to reduce our originations cost per loan. This is working. Although we had slightly lower sequential origination volume in the second quarter at $25 billion, we were able to reduce our direct cost per loan by 9% during the quarter, with even greater progress in our wholesale channel. Our focus on cost reduction initiatives will continue through 2021 and into 2022, and we have lowered our long-term direct cost per loan target in wholesale to $900, versus $1,000 previously.

One of the anticipated benefits of the competitive dislocation in wholesale was the opportunity to increase the velocity of new broker partners with Homepoint, and this was validated in the second quarter, with 715 new brokerages added to our network. We exited the first half of 2021 on a pace to exceed our enhanced target of 8,000 brokerages by year end.



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We also continue to focus on differentiating our broker partner offerings; most notably, with the introduction of Homepoint Amplify at the end of June. Amplify is a new service model for the wholesale channel that combines localized support with our national platform to help mortgage brokers maximize efficiency and deliver a faster, more personalized customer experience, especially in a purchase-focused mortgage market.

Under the Amplify model, we are forming support teams aligned with Homepoint's six regions across the country. Each region will have designated teams of loan coordinators, underwriters, closers, and loan funders paired with our in-market account executives. By organizing our operations and sales regionally, we are able to provide our broker partners with the personalized service typically only provided by a small, local lender, coupled with the tools and efficiencies of one of the leading wholesale lenders. This is a paradigm shift in service delivery and is only possible because of the investments we have made in process improvement and componentized low code technology.

The transition to the Amplify service model is in process and the initial feedback from our broker partners is extremely positive. As we implement Amplify, we are carefully tracking key metrics relating to partner experience, efficiency and quality. We are really pleased with the results so far, and we plan to complete the rollout of the Amplify model during the remainder of 2021.

In our correspondent channel, we also saw increased price competition in the second quarter. In response, we dialed back our origination activity in the channel. This accounted for most of the decline in our overall volume versus the second quarter. Finally, we continued to have strong results in our direct channel, with refinance retention rates exceeding 40%.

Looking at our mortgage servicing portfolio, we ended the second quarter serving more than 449,000 customers, which is up 62% year-over-year. At the same time, the total balance of our servicing portfolio nearly doubled from the second quarter of 2020, to reach $124 billion. The portfolio continues to perform extremely well, with already low delinquencies continuing to decline. Commensurate with the structure of the portfolio and a slowing origination environment, we are also seeing lower prepayment rates. This all points to improved returns in the second half of 2021.

We are also streamlining our strategy in servicing so it is even more aligned with our overall business model. Recognizing that we are of smaller scale, we plan to reduce our concentration in Ginnie Mae servicing through strategic sales. This will give us the ability to further reduce costs and at the same time enhance our focus on the customer experience, which will drive retention and lifetime value.

In addition to the challenges we faced from competitive pricing dislocation in the second quarter, we also faced challenges in the capital markets from GSE pricing and product actions. We have taken several proactive steps to mitigate this type of risk going forward by diversifying our execution. Most notably, we accelerated our transition to MBS deliveries versus cash sales. We also committed to sell nearly $1 billion in agency products, focused on non-owner occupied loans, into non-agency execution, and have built the capacity to expand this form of execution. Finally, we adjusted our valuation methodology on products with certain features that have been impacted by agency and market instability, which we believe will reduce variability going forward. In summary, while we are heartened by the recent changes at FHFA and do not expect additional adverse impacts from the GSEs, we are expanding our execution alternatives to both reduce this risk and enhance our revenues going forward.

Although our financial results for the second quarter were impacted by both competitive pressures and GSE-driven capital markets actions, we continue to stay focused on execution. We delivered strong funded volume and broker partner growth during the quarter. We continue to drive down our costs and commit to the continuation of this trend, while at the same time enhancing both the partner and customer experience. We are seeing reduced prepayments in our servicing portfolio and expect improved



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performance from this business during the second half of 2021. While we do believe the competitive dislocation in wholesale will abate at some point, we are driving Homepoint towards a baseline return on equity of at least 15%. This focus is supported by our July results, which Mark will touch on. The challenges of the second quarter have only increased our leadership's focus and resolve to be a leader in the residential mortgage space.

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 second quarter of 2021, as well as our liquidity and financial outlook.

Starting with Slide 6 of the earnings presentation, as Willie noted, notwithstanding the challenging environment we faced during the second quarter, we continued to deliver strong performance across some of our key origination and servicing metrics, such as funded volume, partner growth, and the number of servicing customers.

Turning to Slide 7, we have provided a summary of our financial results for the second quarter of 2021

Total revenue in the second quarter of $84 million compared to $345 million in the second quarter of 2020, and $422 million in the first quarter of 2021. Our revenues for the second quarter were adversely impacted by competitive pressure, as well as the GSE pricing and product actions Willie mentioned.

We had a net loss of $73 million in the second quarter of 2021, which compared with net income of $169 million in the second quarter of 2020, and $149 million in the first quarter of 2021. The net loss in the quarter was primarily due to lower loan revenues, as well as a $29 million reduction in the mark-to-market fair value, net of hedge, of our mortgage servicing rights portfolio.

Our total expenses of $198 million for the second quarter of 2021 were up from $118 million in the year-ago quarter, which reflects the capacity we added to accommodate the tremendous growth we have generated over the last year. However, I'd like to highlight that our expenses were down 13% compared to the first quarter, which was primarily driven by a 17% reduction in compensation and benefits as a result of our firmwide cost savings and efficiency initiatives.

On Slide 8, we have included a quarterly breakdown of our funded origination volume by channel for the last five quarters. In aggregate, we generated more than $25 billion in volume in the second quarter of 2021, and $97 billion for the last 12 months. Consistent with our overall strategy, the wholesale channel was the primary driver of our origination volume this quarter, while we scaled back our activity in the correspondent channel, based on a compressed margin environment. As a reminder, as part of the new disclosures we added last quarter, in the appendix of the slide deck you will also find fallout adjusted lock volume by channel.

Slide 9 includes a snapshot of our Origination segment results. Origination segment revenues of $117 million in the second quarter of 2021 compared to $377 million year-over-year and $347 million in the first quarter of 2021. Gain on sale margin attributable to the channels, before giving effect to the impact of capital markets activity, was 74 basis points in the second quarter, versus 244 basis points in the second quarter of 2020, and 125 basis points in the prior quarter. Gain on sale margin for the second quarter includes approximately $33 million of adjustments, largely related to agency pricing actions and other



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capital marks activity during the quarter, which directly impacted loan commitments that had been locked but not yet closed.

Consistent with the segment's revenue and margin trends, the contribution margin of negative $21 million in the second quarter of 2021 compared with $304 million in the second quarter of 2020, and $189 million in the first quarter of 2021.

At the end of the second quarter of 2021, our third-party partner relationships grew by 50% year-over-year to 7,380, which represents an increase of nearly 2,500 net new relationships over the last 12 months and more than 730 net new relationships in the last quarter.

On Slide 10, we have provided a snapshot of our Servicing segment's financial results.

Before I go through these results, as a reminder, we modified the presentation of our Servicing segment financials last quarter. 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 non-cash items, such as the MSR amortization and changes in the MSR fair value mark-to-market.

The number of customers in our Servicing portfolio exceeded 449,000 at the end of the second quarter of 2021, which was up 62% from the year-ago quarter and 10% from the first quarter of 2021.

Servicing portfolio UPB reached $124 billion at the end of the second quarter of 2021, which was up 86% year-over-year and up 17% compared to the first quarter of 2021. As Willie noted, we saw a slowdown in prepayments, which is reflected in the decline in the change in MSR fair value from amortization from the first quarter to the second quarter of 2021.

Loan servicing fees of $86 million in the second quarter of 2021 grew 95% from the year-ago period and 22% from the first quarter of 2021.

Before including the impact of non-cash changes in the fair value of our MSR asset, the Servicing segment generated what we refer to as a "primary margin" of $67 million, which was up more than 125% versus the year-ago quarter and up 29% versus the prior quarter.

The Servicing segment contribution margin for the second quarter was negative $40 million, which compared to negative $42 million in the year-ago period and positive $65 million in the prior quarter. Our second quarter contribution margin was impacted by a $29 million reduction, or approximately $0.16 per share on an after-tax basis, in the mark-to-market fair value, net of hedge, of our MSR asset, due in part to a decrease in interest rates during the quarter. Our hedging strategy continues to work well and has been an effective tool for managing interest rate volatility.

Turning to Slide 11, we have included a summary balance sheet which highlights our capitalization and the liquidity profile.

At the end of the second quarter of 2021, we had $482 million of liquidity, while our total assets stood at $8.4 billion and our book value was $709 million.

During the second quarter, we doubled our MSR financing capacity from $500 million to $1 billion, and we also increased our total warehouse capacity by $700 million, from $6.4 billion to $7.1 billion, as of June 30 this year.

In connect with Home Point Capital's ongoing efficiency and capital management initiatives, as Willie mentioned, we are assessing potential selective sales from the Company's MSR portfolio, including



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Ginnie Mae MSRs. We believe any such sales would enable us to become a more efficient agency-focused servicer, and also provide us with incremental liquidity that we could use to reduce our debt.

Before I finish my prepared remarks, I would like to briefly discuss our financial outlook.

As we look at the third quarter, we anticipate fallout adjusted lock volumes will be within a range of $18 million to $22 million. For the month of July, gain on sale margins in the wholesale channel was similar to Q2 at approximately 74 basis points. Importantly, we were profitable on an operating basis in the month of July, and we are already starting to benefit from the diversification of our capital markets execution that Willie mentioned. In addition, we have recently seen an improvement in wholesale margins.

Although we view the current market dynamics as temporary, we expect to operate profitability in an environment where wholesale revenues are below historical norms through continued growth from adding new brokers and expanding current relationships, efficiency gains from the productivity and technology initiatives that are already underway, ongoing growth in our high-quality agency-focused servicing platform, and rigorous expense management across the business.

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**

At this time, we'll be conducting a question-and-answer session. One moment while we poll for questions.

Our first question comes from the line of Brock Vandervliet with UBS. You may proceed with your questions.

**Brock Vandervliet**

Hi, good morning. Thanks for the question. I just wanted to square up the guidance with your comments about the $30 million or $33 million impact on gain on sale from agency repricing. Does that come back in Q3, and does it pour mainly into wholesale, and also correspondent, and could you talk about those repricing actions and what those were? Thanks.

**Willie Newman**

Sure. Hey, Brock, good morning. It's Willie. To answer your first question, I would consider it more of a one-time impact. In essence, the agencies issued new pricing without protecting our pipeline, which is very atypical for what we've seen historically, and as a result, there was kind of an instant markdown in the pipeline. This occurred several times during the quarter in different elements. So, that really constitutes the vast majority of the $33 million. I guess the way I would characterize it is it doesn't come back, but it also doesn't impact our third quarter. In other words, we don't expect any additional mark like that.

Kind of just stepping back more broadly, overall, from a capital markets standpoint, the delta between the second quarter and the third quarter that we see is $45 million, and so it's really the $33 million that you had mentioned, and then, as Mark and I talked about, the enhanced execution, as we diversified our methods of execution both through the agency MBS versus cash sales, and through non-agency execution on agency product, we're seeing enhanced revenue there. So, that's kind of the macro delta between the second quarter and third quarter that we expect.

**Brock Vandervliet**



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Okay, and just to follow up on all that, should we kind of look at the second quarter as the flush, where the greatest pressure is now in the rear-view mirror, or are you—how should we think about the go-forward? It's encouraging that you're profitable in July, but just wanted to characterize that better.

**Willie Newman**

I'll start and maybe, Mark, you could add to this. I would say, from a capital markets standpoint, yes; in other words, we do not expect a replication of the second quarter third quarter and forward. We're really encouraged by FHFA and, obviously, the action that they took early on with regard to the 50-basis-point refinancing.

I think, from a competitive standpoint, there's still certainly pressure on margins. As Mark mentioned, we have seen some relief in the last couple of weeks, but by no means are we here to say that we're going to expect those to start migrating back to historic norms. So, we are really positioning the organization so that we can be profitable, maintain profitability, and target that minimum 15% return even in this type of margin environment.

**Mark Elbaum**

The only thing I would add to what Willie just said, he had talked about the competitive environment, which we're starting to see abate, he had talked about also the agency environment, which has been far more accommodative and productive. Also, from an expense perspective, the second quarter was a quarter where we pivoted and made some important moves, and we're anticipating to see expense improvements even more so in the third quarter, as we move from the second to the third quarter, as a result of actions we took in the second quarter. That would be the third element.

**Operator**

Our next question comes from the line of Doug Harter with Credit Suisse. You may proceed with your questions.

**Doug Harter**

Thanks. I was hoping you could (inaudible) what the size of the Ginnie Mae portfolio is and which debt you would prioritize to pay down with any proceeds?

**Willie Newman**

I think you broke up a little bit, Doug. I think you asked about the Ginnie Mae portfolio; is that right?

**Doug Harter**

Yes, the size of the Ginnie Mae portfolio, and then which debt you would prioritize with it.

**Willie Newman**

Sure. Yes, I'll touch on the portfolio itself. The Ginnie Mae segment is about 20% of our Servicing portfolio currently. Kind of think about our strategy in the Originations side, to be extremely efficient and focus on the partner experience, very consistent on the Servicing side, where we stepped back and said where is the best opportunity for us to be extremely efficient and focus on that customer experience, understanding that there are larger servicers out there who may ascribe more value to certain of our



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assets, and so that's kind of ultimately how we got to the point where we said Ginnie Mae is a good opportunity for us to optimize what we're doing operationally, to focus on the experience, and at the same time create some liquidity.

Mark, I'll let you touch a little bit on the liquidity side.

**Mark Elbaum**

Sure, happy to. I think the second part of your question was what debt we would prioritize. It would be the MSR debt facility, is the debt we would prioritize with that, and what that would enable us to do is de-lever. So, from an operational perspective, as Willie walked through, we think it enhances our Servicing platform opportunity, where we would have more scale in the part of the platform where we have more scale. Then, in terms of the proceeds, it would enable us to de-lever the MSR debt facility.

**Operator**

Our next question comes from the line of Henry Coffey with Wedbush. You may proceed with your questions.

**Henry Coffey**

Good morning. I have a couple of questions. First, outside of the general agency circle, you did mention that you have $1 billion of sort of qualified assets that you're going to be securitizing. Are there other opportunities, such as pricing mismatches in jumbo, that you could take advantage of? Is there more room to build on this other product? Are you doing it alone, are you doing it in concert with another mortgage bank? What is both the opportunity site and the pricing opportunity in this area, in these areas?

**Willie Newman**

Sure. Thanks, Henry. Good morning. Yes, we mentioned about $1 billion outstanding with, actually, six counterparties, and so it's been a combination of what I call traditional whole-loan sales to those that are securitizing, and we are starting to look at stronger partnerships to, I'll say, co-securitize or leverage certain of the buyer shelves. I think the fact that we have six counterparties at this point underscores what we believe to be the depth of the market and the expanded opportunity. At this point, we're more focused on optimizing the execution of our agency product and non-agency delivery, non-agency executions versus adding product, but certainly we've established the infrastructure and the capacity to be able to expand out over time. At this point, we're going to make sure that we're getting the best execution possible on the product that we're producing, and then look at additional product going forward.

**Henry Coffey**

What about on the jumbos? This is sort of qualified agency product. What about on the jumbo side, which would be sort of prime, super prime?

**Willie Newman**

Sure. So, again, we look at that at some point in the future, that we would add—that would add to our stable of products. Right now, we're focused more on executing efficiently on the agency product, non-agency delivery.

**Henry Coffey**



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With the sale of the Ginnie Mae, do you also surrender the EBO opportunity?

**Willie Newman**

We do. However, for us, EBO's been a very small part. If you look at our portfolio, it's extremely high-performing. Again, we looked at kind of the total revenue associated with the portfolio, compared to the cost structure associated with it, and we decided it made more sense to look at the alternatives and really focus on the agency side.

**Henry Coffey**

Then, is there a reason why you couldn't use some of the proceeds from an MSR sale to pay down your corporate debt, or is the premium too high, or to buy back the debt, assuming that it's not trading at floor?

**Willie Newman**

Right. I'll let Mark touch on that.

**Mark Elbaum**

We could evaluate that, but the—I guess we could evaluate that. It would be, in terms of our ability to continue to advance the growth of the business, probably better for us to pay down the MSR debt, because we have the ability to redraw, then, as we grow, whereas the corporate debt, once paid down, we wouldn't have that ability to redraw on it. That's my initial thought on why we would want to probably prioritize the MSR debt first.

**Operator**

Our next question comes from the line of Kevin Barker with Piper Sandler. You may proceed with your questions.

**Kevin Barker**

Thanks. In regards to your cost-saving initiatives, can you give us an idea of where you expect total expenses as a percent of Originations going into the back half of this year? Then, do you have a run rate on expenses as of the end of the quarter, and how to think about that?

**Willie Newman**

Good morning, Kevin. Mark, I'll let you start with that one and I'll follow up.

**Mark Elbaum**

Sure. As I'm looking at our Q3 expenses relative to Q2, our expense run rate is going to look more like $170 million. We're expecting about a circa $25 million to $30 million reduction in expenses quarter-over-quarter. Most of that is going to be in the Originations segment. You probably noticed we had already taken a lot of our corporate expenses out, so I think that run rate is going to be pretty close to what you see there. Servicing will continue to be relatively stable and grow a little bit as the portfolio grows, but the Originations segment is where we have the most opportunity, and that's largely a result of a lot of the moves that we made in the second quarter around comp and around efficiencies. So, that's where I would expect to see that.



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Our funding forecast, it'll be similar to our fallout adjusted lock forecast, which is in the $18 billion to $22 billion range, so $170 million on, let's call it $20 billion, if you want to split the difference, would be roughly our expected run rate going forward, at least into the third quarter.

As we move on beyond that, we're not done looking for efficiency opportunities, and so, as Willie had mentioned, we're looking at a cost per loan target to continue to decrease in the Originations segment, and so we should see additional efficiency as we move into 2022.

**Kevin Barker**

Okay. Then, in regards to the corporate segment, would you continue to see expenses drop there, or would that stabilize around the—I think, excluding the Origination and Servicing, it's somewhere around $41 million?

**Mark Elbaum**

Yes, I would expect us to stay in that 41-ish area in corporate expenses. There's a fair amount of expense that we've already been able to take out. What's left there is pretty essential, as it relates to our status as a public company and the kind of things we need. I think that's pretty stable at that level.

**Operator**

Our next question comes form the line of Don Fandetti with Wells Fargo. You may proceed with your questions.

**Don Fandetti**

Mark, two questions. One, can you quantify the improvement you're seeing in April; and then, secondly, do you think that the gain on sale margin improvement is just the normal sort of capacity leveling out or do you think the larger players, and, essentially, the pricing war in wholesale, are making a conscious decision to ease up here?

**Mark Elbaum**

Sure. I assume you meant the improvement in July, because I didn't see a lot of improvement in April.

**Don Fandetti**

I'm sorry, August. I thought that you had said that there had been some improvement beyond the …

**Mark Elbaum**

Oh, in margin, in August, yes. Yes, we were at about 74 basis points in the wholesale channel and I'm seeing that start to creep up. I don't really want to commit to a number yet, because it moves up and down, but we are encouraged, number one, by the flow that we're seeing and, number two, by the increase in margins, which are, let's just say, north of 74, but even at 74, we were profitable in July, and that's what I was referencing, and that is a function of the expenses that we're seeing, as well as, to Willie's point, some capital markets improvements, and, thirdly, we hadn't mentioned this, but Servicing before mark-to-market showed about $10 million loss in the second quarter. We had mentioned that we expected that to stabilize as we move into the second half of the year, and, in fact, be breakeven, and, in fact, it was profitable in July. Those are the things that are encouraging us and making us feel that we are in a position to be profitable and drive towards 15% ROE, even if margins stay where they are right now.



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**Willie Newman**

Don, as far as the margins, we do see a little bit of movement from those that had caused this dislocation. I'm certainly not declaring victory at this point as far as that movement, but we have seen a little bit of flex and it's certainly a positive sign, but, to Mark's point, we're going to focus on executing as they are, or as they were, maybe, and then, to the extent that they get better, that'll just be upside opportunity for us from a return perspective.

**Don Fandetti**

Okay, thank you.

**Operator**

Our next question comes from the line of Rick Shane with JPMorgan. You may proceed with your questions.

**Rick Shane**

Hey, guys, thanks for taking my questions this morning. If we look at Slide, I believe it's 15, which details the gain on sale by channel, the two sort of big numbers on there are the $150 million of margin attributable to channels and the gain on sale margin of $117 million net of the $33 million marks. How do we reconcile that to the $75 million of gain on sale that's shown through the P&L, and it looks like there was an adjustment on this page to what we saw last quarter in terms of gain on sale margin. Can you walk through how to reconcile all this?

**Willie Newman**

You going to take that one, Mark?

**Mark Elbaum**

Yes, sure. The $117 million—we're going to have to get into the weeds a little bit, but the $117 million gain on sale margin is the total revenue attributed to the channel. That would include the gain on loans, which is the $75 million you were referencing, plus loan fees, plus net interest. So, it's the entirety of what's available as far as revenue to the Originations segment, and that is a change. We had previously decomposed that to foot to the gain on sale. We thought this was a more useful presentation, because when we have conversations, such as the one we're having right now, we tend to talk about total revenue to the channel, so if we're decompose it at the channel level, we thought it made more sense to decompose the total revenue that would then foot to the total segment revenue, which is the $117 million.

**Rick Shane**

Got it, but if I totaled those three on the P&L—and, again, I'm now having to sort of go back in response to what you're saying—if I total the gain on sale at $75 million, the loan fee income $39.5 million, and then NII of negative $9.5 million, that's $105 million. So, again, how do I sort of tie that out to—I'm assuming that that's roughly comparable to the $117 million, but what's the differential there then?

**Mark Elbaum**



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Got it. If you go back to Page 9 of the earnings presentation, you'll see the Originations segment by itself. The biggest delta is the net interest income, which was $2.7 million attributed to the Originations segment. We've got interest expense related to the corporate debt and other things, that would be part of our corporate overhead section. So, that would be that difference. We don't attribute the net interest from the corporate debt to the Originations segment. So, if you look at Page 9, I think that'll foot it for you.

**Rick Shane**

Okay, great, that's helpful. Second question, what was the actual end of period share count? I didn't see that anywhere in the disclosures, and it helps us in terms of settling out models.

**Mark Elbaum**

Gary, do you happen to have that number handy, and if not, we can get back to you.

**Rick Shane**

Okay, and then the last question …

**Gary Stein**

Yes, it's …

**Rick Shane**

Oh, sorry, Gary.

**Gary Stein**

It's on Slide 13, the share count.

**Rick Shane**

No worries. The last question is related to the dividend policy. Obviously, in light of the quarter that we just saw and sort of guidance for the third quarter, how should we interpret the decision right now to start returning capital to shareholders in the form of a dividend in light of the uncertainty that you're facing?

**Willie Newman**

Sure. We had said in our IPO that we would declare a quarterly dividend starting this quarter and the Board felt it was important to fulfill that commitment. Obviously, as Mark talked about with regard to our liquidity position, it's strong and we can support the payment of the dividend. Having said that, we will reassess the dividend decision each quarter. Obviously, the mortgage market does move pretty significantly sometimes quarter-over-quarter, and it will, of course, take a variety of factors into consideration, including financial condition, operations, our available liquidity and cash needs, and then, of course, capital expenditures. So, we'll evaluate that at the end of the next quarter.

**Operator**

Our next question comes from the line of James Fountain [sic] with Morgan Stanley. You may proceed with your questions.



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**James Faucette**

Hi. It's James Faucette, which is kind of like a fountain, I guess. The question—I appreciate all the detail that you gave, have given so far on different elements. I'm wondering, on the cost side—you seem like you're doing a pretty good job already reducing your costs and cost per loan, etc.—how much opportunity or how low do you think you can drive those? You kind of always give a framework for that, those programs.

**Willie Newman**

Yes, good morning, Faucette/Fountain. We feel like our long-term target—I think we put it in the script, but our long-term target on wholesale, which is actually the primary driver of Origination costs, we've moved down, we had $1,000, we moved it down to $900, and that's really based on the progress that we've made to date, both from a process improvement standpoint and in implementing our low code technology. In essence, every enhancement that we've made has turned out better, from an efficiency standpoint, than what we had estimated, so we felt comfortable setting a longer term target of $900 versus $1,000, and that specifically is direct cost per loan.

To give you an idea of what lock is in, Mark, maybe you could talk about where we're at today, just to give a point of reference.

**Mark Elbaum**

Sure. We ended the quarter at around $1,500 per loan. We think we're going to be—in the third quarter, we're going to chip away at that and then, to Willie's point, we'll continue to migrate towards $900 into 2022. That kind of gives you a sense of, you know, call it $600 a loan, of room between now and 2022.

**James Faucette**

When you say 2022, do you think you can be at that kind of $900 level for the entirety of the year, or is that where you would get to during 2022?

**Mark Elbaum**

I would say it's more during 2022. We want to balance productivity improvements and reducing cost per loan on efficiency with customer experience, to make sure that we're providing a superior customer experience. While we're encouraged by everything we've seen so far, and to Willie's point, we've still got more room to run on this topic. We're not going to do it in such a way that'll disrupt the customer experience. So, I want to be a little more thoughtful about that and I would say you should expect it to happen during the course of 2022.

**Willie Newman**

Yes, I think the key, from our perspective, is the consistency, consistently moving costs down. To Mark's point, if we kind of ratchet it down too rapidly, we could jeopardize the partner experience, which is obviously going to be the primary driver of growth, especially with our Amplify program.

**Operator**

Our next question comes from the line of Mihir Bhatia with Bank of America. You may proceed with your questions.



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**Mihir Bhatia**

Hi, good morning, and thanks for taking my questions. I wanted to first go back to the $33 million of, I guess, adjustments that happened this quarter related to GSE pricing. Can you maybe provide a little more detail on that? Is that the adverse market for you? Is there something else in there? What exactly is that, that drove it this quarter?

**Willie Newman**

I'll start with that and, Mark, you can follow up as needed. It really was a series of pricing actions that were taken directly against us as a lender. It didn't have anything to do with the adverse market, the refinance adverse market fee. It had to do with pricing adjustments that were made to us and other non-bank third-party lenders, as a segment. It was really pricing actions that were taken. It was certainly different from past cycles, when actions were taken, like the adverse, the refinance adverse fee, is that we were given no notice. In other words, the pipeline had to be marked down, based on the actions that were taken, versus traditionally pipeline protection was given; in other words, advance notice was given by the agencies. So, that's what was different, and, again, it was really a direct charge, not anything that was what I'd call customer-oriented.

**Mihir Bhatia**

Okay. In terms of your—maybe, can you just give us an update on—there's been some talk about the non-occupancy loans and investor loans, if you will, the GSE is reducing exposure. What percent of your year-to-date production has been that, and are you seeing any impact from the caps the GSE has instituted?

**Willie Newman**

Mark, I don't know if we have the exact production number year to date.

**Mark Elbaum**

I don't have that handy, but that's something we can circle back, but let's about what we're doing about it, because you're right, there are limitations and we've addressed those, and, Willie, maybe we should just talk about that.

**Willie Newman**

Sure. Yes, as I mentioned, we've really expanded the execution on those loans outside of the agency. Certainly, initially, the limitations, again, were really given without sufficient notice to really effectively manage the pipeline down. We had anticipated expanding into non-agency execution, whether it was agency loans or non-agency loans, during 2021, and so we really accelerated that, and as a result, we were able to maintain a percentage of production that, I believe, Mark, has been higher than what the agency limits are. At the same time, we've actually gotten enhanced execution versus the agency pricing execution. So, we feel like this is an opportunity for us to continue to grow above and beyond being dependent on the agencies, and, as we talked about with Henry, really having the infrastructure in place to be able to expand out, whether it's with agency product or non-agency product, over time.

**Operator**

Our next question comes from the line of Kevin Barker with Piper Sandler. You may proceed with your questions.



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**Kevin Barker**

Thanks. I just wanted to get some clarification on your comment you're profitable—you said you were profitable on an operating basis in July. Is that all-in with the Corporate segment and the Servicing segment, or is that purely on the Originations segment?

**Mark Elbaum**

That would be all-in. The caveat around operating basis is it's exclusive of the MSR mark-to-market, so it would be including everything but the MSR mark-to-market.

**Kevin Barker**

Okay. Then, the improvement in broker margins you saw in the last couple weeks, is there any way you can size that up, or is that just incremental at this point?

**Willie Newman**

It's incremental at this point.

**Kevin Barker**

Okay. Thanks for taking my follow-up questions.

**Operator**

Ladies and gentlemen, we have reached the end of today's question-and-answer session. I would like to turn this call back over to Mr. Gary Stein for closing remarks.

**Gary Stein**

Great, thanks, Operator. Thanks, everyone, for joining us this morning. Please feel free to circle back if you have any follow-up questions.

**Operator**

Thank you for joining us today. This concludes today's conference. You may disconnect your lines at this time.



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