



**Home Point Capital**

**Third Quarter 2021 Financial Results Call**

**November 4, 2021**

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Donald Fandetti**, *Wells Fargo & Co.*

**Brock Vandervliet**, *UBS Group*

**Douglas Harter**, *Credit Suisse Group*

**Blake Netter**, *Morgan Stanley*

**Kevin Barker**, *Piper Sandler Companies*

**Richard Shane**, *J.P. Morgan*

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

## PRESENTATION

### Operator

Greetings and welcome to Home Point Capital Third Quarter 2021 Financial Results Call.

At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Gary Stein, Head of Investor Relations and Senior Managing Director. Thank you. You may begin.

### Gary Stein

Thank you, Operator.

Welcome to our Third 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 on 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 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, Gary, and good morning, everyone.

During our prepared remarks I'm going to briefly review our third quarter results and then I'll discuss how we are adapting and evolving in the challenging operating environment. After that, Mark will provide more details on our results for the third quarter and share some initial insights into our fourth quarter performance. We'll then open up the call to take your questions.

Starting with our third quarter results, from an operational perspective we had another solid quarter in terms of funded origination volume, which totaled nearly \$21 billion. I'd also like to highlight that for the last 12 months, ended September 30, our total funded volume reached \$100 billion, which is a significant milestone for Home Point as just a six-year-old company.

We ended the third quarter of 2021 with more than 7,400 broker partners and 650 correspondent partners. In total, our third-party partner relationships have increased by almost 50% year-over-year and by 10% since last quarter. As I've noted previously, the significant shift in competitive dynamics in the wholesale channel which began earlier this year has created a strategic opportunity for Home Point to accelerate our engagement with brokers and attract them to our platform. We have added more than 2,500 broker partners since the end of the third quarter of 2020 and over 700 brokers since the end of the second quarter of 2021.

Looking at our mortgage servicing portfolio, we ended the third quarter with nearly 429,000 customers, which is up 40% year-over-year. Our total balances in the portfolio grew by 70% from the end of the third quarter of 2020 to reach \$126 billion. From a financial perspective, we bounced back from a challenging second quarter. We generated total revenue in the third quarter of \$275 million and net income of \$71 million, or \$0.51 per share.

As we have discussed previously, a unique set of circumstances in the wholesale channel has created a historic pricing dislocation, resulting in significant pressure on our margins. Since we cannot predict when this dynamic may change, we have been taking aggressive action to scale and optimize our business. Some of the key areas we have been targeting include more rapidly growing our broker network, accelerating productivity and efficiency initiatives across our business, continuing to enhance our partner and customer experience, and diversifying our capital markets execution alternatives. I'm pleased to note we have made meaningful progress in all of these areas during the third quarter.

Starting with our broker partners, one of the cornerstones of our business model is our use of end market, highly experienced market sales leaders to acquire and build relationships with brokers across the

country. Through this approach, we are able to optimize the relationships with our broker partners while ensuring the end customer has the best possible mortgage experience. While our differentiated model has enabled us to perform well in a variety of interest rate environments, we believe we are well positioned to gain market share as rates rise and purchase transactions outpace the growth of mortgage refinancing's. Purchase transactions typically require far more customer interaction than refinancing, and they are particularly well suited to our customer-friendly broker partner model.

From an execution standpoint, during the third quarter we continued to grow our broker partner network, and based on our current pace, we are on track to exceed our enhanced target of partnering with more than 8,000 brokerages by the end of this year. In addition, during the quarter we made significant progress in our implementation of Homepoint Amplify. We introduced this new and innovative service model for the wholesale channel at the end of the second quarter, and we expect to complete the roll out by the end of this year. Amplify combines locally focused support with Home Point's national platform to help mortgage brokers maximize efficiency and deliver a faster, more personalized customer experience.

From a process and technology perspective, at Home Point we have built a flexible infrastructure that is highly componentized, integrating both best in class third-party and proprietary solutions to maximize our flexibility and efficiency while optimizing partner and customer satisfaction. In response to the change in competitive dynamics in the wholesale channel, we have been accelerating our efforts in both process improvement and technology implementation, and we have made great progress in pulling forward a number of longer-term initiatives. As a result, during the third quarter we were able to drive down our direct loan cost by approximately 10% as we continue to move closer to our long-term direct cost per loan target in wholesale of \$900 per loan by the end of 2022.

Turning to servicing, as discussed last quarter, we are focusing on an agency-centric platform strategy. This will give us the ability to lower cost and, at the same time, enhance the customer experience, driving greater lifetime value. As Mark will discuss shortly, during the third quarter, we sold an \$11 billion Ginnie Mae servicing portfolio, which is a segment where we have been a subscale servicer. This sale, which had strong execution, has enabled us to further streamline our servicing operations. The execution level also demonstrates the value we are creating through originations. As we noted last quarter, we continue to build a high-quality servicing portfolio with very low delinquencies. These factors combined with slowing prepayment rates are driving improved returns.

Finally, I wanted to call out the successful and ongoing efforts to diversify capital markets execution alternatives. During the third quarter, we took several notable steps towards enhancing on execution, including accelerating our transition to MBS delivery versus cash sales and trading nearly \$1 billion in agency products into non-agency execution. Our third quarter results demonstrate that these actions have helped to both enhance revenues and reduce execution risk. In addition, just last week a private, non-owner-occupied securitization composed entirely of Home Point originated loans successfully closed.

As we continue to navigate through the current market and competitive environment, we remain intently focused on executing our business plan and managing those elements within our control. We are building on the strengths of our flexible business model to continue to drive Home Point towards the baseline return on equity of at least 15%.

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 third quarter of 2021 as well as our financial outlook. Starting with Slide 5 of the earnings presentation, as Willie noted, notwithstanding the challenging environment we encountered during the third quarter, we continued to deliver strong performance across some of our key origination and servicing metrics.

Turning to Slide 6, we have provided a summary of our financial results for the third quarter of 2021. Total revenue in the third quarter of \$275 million compared with \$511 million in the third quarter of 2020 and \$84 million in the second quarter of 2021.

Our total expenses of \$175 million for the third quarter of 2021 were up slightly versus the year ago quarter, but our expenses were down \$23 million, or 11%, compared to the second quarter of this year as a result of our firm-wide cost savings and efficiency initiatives. The sequential quarter decrease in total expenses was driven by a 16% decline in origination segment direct expenses and a 7% decline in the servicing segment direct expenses, while corporate expenses were held flat.

We generated net income of \$71 million in the third quarter of 2021, which compared to net income of \$264 million in the third quarter of 2020 and a net loss of \$73 million in the second 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 nearly \$21 billion of volume in the third quarter of 2021 and \$100 billion for the last 12 months ended September 30. Consistent with our overall strategy, the wholesale channel was the primary driver of our origination volume this quarter, while we scaled back our correspondent activity based on the capital-intensive nature of this channel as well as the compressed correspondent margin environment which persisted throughout the quarter.

Slide 8 includes a snapshot of our origination segment results. Origination segment revenue of \$184 million in the third quarter of 2021 compared to \$532 million year-over-year and \$117 million in the second quarter of 2021.

Gain on sale margin, attributable to the channels, before giving effect to the impact of capital markets activity was 73 basis points in the third quarter versus 233 basis points in the third quarter of 2020 and flat versus 74 basis points in the prior quarter. Gain on sale margin for the third quarter includes a positive contribution of approximately \$23 million related to capital markets activity during the quarter, which is reflective of the concerted effort Willie described that we have been making to diversify and enhance our execution alternatives.

The origination segment contribution margin of \$67 million in the third quarter of 2021 compared to \$424 million in the third quarter of 2020 and negative \$21 million in the second quarter of 2021.

At the end of the third quarter of 2021, our total third-party partner relationships grew by nearly 50% year-over-year to over 8,100, which represents an increase of almost 2,600 net new relationships over the last 12 months and 724 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 429,000 at the end of the third quarter of 2021, which increased 40% from the year ago quarter and decreased 5% from the second quarter of 2021. The sequential quarter decline was due to the sale of a Ginnie Mae servicing portfolio I will discuss in a moment.

The servicing portfolio UPB reached \$126 billion at the end of the third quarter of 2021, which was up 70% year-over-year and up 1% compared to the second quarter of 2021. Similar to last quarter, we saw a slowdown in prepayments during the third quarter, which is reflective in the decline in the change of MSR

fair value from amortization from the second quarter. Loan servicing fees of \$92 million in the second quarter of 2021 nearly doubled from the year ago period, driven by the growth in our servicing portfolio, and grew 7% from the second quarter of 2021.

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, a positive \$9 million which was up from negative \$20 million in the year ago quarter and negative \$10 million in the prior quarter. Servicing segment contribution margin for the third quarter was positive \$86 million, which compared to a negative \$32 million in the year ago quarter and negative \$40 million in the prior quarter. Our third quarter contribution margin benefited from a \$78 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.

During the third quarter, we completed the sale of an MSR portfolio of single-family mortgage loans serviced for Ginnie Mae with an aggregate UPB of approximately \$11 billion, which represented approximately 41% of our Ginnie Mae MSR portfolio as of June 30. The total purchase price for the servicing rights was approximately \$122 million, and we recorded a gain of \$7.4 million in connection with the sale, which is included in the other income line within our servicing segment. We're very pleased with the results of this sale, which is consistent with our strategy to become a more efficient and scaled agency-focused servicer by driving down our overall servicing costs and also reducing our delinquencies, which were less than 1% at the end of the third quarter. In addition, the sale provided us with incremental liquidity that we used to reduce our outstanding debt.

Based on the strong execution of our third quarter Ginnie Mae MSR sale, we are in the market with an additional Ginnie Mae MSR portfolio. We expect this sale to close in the fourth quarter, subject to customary closing conditions.

Turning to Slide 10 we have included a summary balance sheet which highlights our capitalization and liquidity profile. At the end of the third quarter of 2021, we had \$550 million of liquidity, while our total assets stood at \$9 billion and our book value was \$761 million. During the third quarter we increased our total warehouse capacity by \$400 million from \$7.1 billion to \$7.5 billion as of September 30.

Before I finish my prepared remarks, I would like to briefly discuss our financial outlook. As we look at the fourth quarter, we anticipate funded volumes will again be within our range of \$18 billion to \$22 billion for the quarter. The competitive pressures we experienced in the second and third quarters have continued to persist so far in the fourth quarter, and these pressures have been exacerbated by higher interest rates and a seasonal decline in purchase activity. Consequently, we expect our operating results in the fourth quarter to remain under pressure. This supports our continuing focus on efficiency across the business and also highlights the benefit from the value creation associated with our high quality MSR asset, which we believe will continue to enhance Home Point's book value going forward.

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**

Thank you. We will now be conducting a question-and-answer session.

Our first question comes from the line of Don Fandetti with Wells Fargo. Please proceed with your question.

**Donald Fandetti**

Mark, can you talk a little bit about the October gain on sale margin trends? My second question is just sort of a broader, if the market remains where we are on margins, you know, you're essentially kind of break even on a profitability perspective. Do you look at alternatives, whether it's sell the company or something more strategic?

**Mark Elbaum**

Thanks, Don. Let's start with the October numbers. As I mentioned in my prepared remarks, we're still seeing wholesale margins in that low 70s area. In the fourth quarter we're seeing additional pressures beyond the competitive pressure, so I would expect to see at least what we're seeing so far is a downward trend on that.

Having said that, the focus of the company continues to be to work on our customer experience and adding brokers to the platform and reducing expenses. That's what we're going to be focusing on and continuing to focus on. Couple that with we demonstrated that the servicing asset that we're creating is also of a high quality. We put all of that together, we still expect to be profitable in the fourth quarter, but we'll be focused on reducing expenses as well as creating a high value servicing asset.

**William Newman**

Yes, hi, Don. It's Willie.

As it relates to the latter part of the question, we do believe that we're in a cycle where things do start to consolidate. Obviously, as a public company we have to be receptive to anything that comes to us. We certainly will listen, but we're also looking at opportunities, at ways in which we can grow. We do think scale is important, as you know, and we do believe we're at a point in the cycle where things will start to consolidate.

**Donald Fandetti**

Perfect.

**Operator**

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

**Brock Vandervliet**

Thanks, good morning, guys.

If you could just maybe expand upon the gain on sale guidance in terms of what you said in your prepared marks also, in terms of how it's trending, wholesale versus correspondent and how that may change your perspective on the channels that you originate in.

**William Newman**

Yes. Hi, good morning, Brock. It's Willie. I'll start.

As it relates to the channels, as Mark mentioned, I think overall the market is under pressure. We're hearing specifically on the distributor retail side of margins coming down pretty materially. Obviously,

that's anecdotal, as well as on a direct side. We've seen a little bit of margin pressure on our direct but not that significant, and I think as you know, we do calibrate our revenue with our wholesale, kind of the pricing that goes up from a wholesale standpoint as well. We have seen correspondent margins level off and we are starting to change our mix slightly as it relates to correspondent, because we do see the opportunity there. It's an interesting dynamic, because it feels like in every channel there's a different set of use cases going on.

**Brock Vandervliet**

Got it, okay. Could you help us kind of benchmark the \$900 cost per loan? For example, you're getting traction in origination cost reduction, servicing cost reduction. Where was that number, say, you know, last quarter? Where is it now? How do we look at the trend through the end of '22? Is that kind of a steady reduction to the end point, or is there step function along the way?

**Mark Elbaum**

Yes, hi, Brock. This is Mark.

I would expect more of a step function, and the reason for that, we saw a nice improvement in the third quarter relative to the second quarter, largely as a result of us right sizing the Organization to the new volume levels that we're looking at, this \$18 billion to \$22 billion versus where we were before, which was in excess of \$25 billion. We took an action in June to get us there.

During the second and third and continuing into the fourth quarter, we're going to continue to invest in technology improvements that's going to enable us to create a better customer experience, as well as automate some of the functions that will then reduce headcount going forward and reduce cost going forward. But that's going to be more of a step function, because above all else, we want to make sure that we're creating a good customer experience for our brokers and our consumer customers.

As we test and learn and recognize that our technology fixes and improvements are taking, we'll be seeing more step functions. Looking into the fourth quarter I would expect to see a continued improvement. I would expect it to be of a lesser magnitude than we saw going from Q2 to Q3, but I would expect to see some steady improvement with some step function improvements going out into 2022 to eventually get us to that \$900 per loan.

**Brock Vandervliet**

Okay, and have you disclosed the current cost per loan?

**Mark Elbaum**

You know, we have not. We don't have those disclosures in our materials.

**Brock Vandervliet**

Okay. Okay, good enough. Thanks for the questions.

**Operator**

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



**Douglas Harter**

Thanks. Can you talk about kind of how you're viewing your balance sheet today, kind of the leverage levels following the first piece of the MSR sale, and in that context, how you thought about the new dividend level.

**Mark Elbaum**

Yes, so on the leverage question, the main leverage that we're looking at is our non-funded leverage. You might have noticed on the balance sheet you saw an increase in our leverage associated with our loans held for sale, and that's because we increased the amount of our loans held for sale, which is consistent with some of the capital markets activities that we are engaged in. Holding loans for MBS requires you to hold more loans, accumulating loans from non-agency types of sales. Things like that will cause you to have to hold more loans on your balance sheet. But those are highly liquid, and those loans will be sold, and that will be paid down.

If you look at the non-funded debt or the non-warehouse debt as a percentage of our tangible net worth, that number went from 1.7 times in the second quarter to 1.4 times in the third quarter. We see that continuing to improve, with an ultimate target of getting that down to one times over time. That's what we're targeting.

As far as the dividend, I'll let Willie cover that.

**William Newman**

Sure. As you know, at the time of the IPO, we indicated we would pay a quarterly dividend. We had felt last quarter that we had made a commitment to a specific amount. In reviewing a dividend for this quarter, the Board determined that recalibrating to a yield consistent with our IPO disclosure and commensurate with our market capitalization was reasonable. As Mark highlighted, we're in a very strong liquidity position and the MSR sale really goes to demonstrate the value that has been created through our origination. That's how we got to the level we got to, Doug, in the dividend.

**Douglas Harter**

I appreciate that. Thank you.

**Operator**

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

**Blake Netter**

Hi, this is Blake Netter on James' line.

One question that's a quick follow-up on the topic of expenses, can you give us any color on your fixed versus variable cost mix and how you're focused on reducing fixed costs in particular? Secondly, industry forecaster kind of predicting a contraction in refi volumes over the next year. Are there any initiatives that you're working on to kind of lean into the purchase market? Thanks.

**Mark Elbaum**

Thanks, Blake. Yes, on the expense question, we have a fair amount of variable expense built in, given that our volumes are expected to be relatively flat. However, most of the savings that I'm expecting to see, at least in the near term, are going to come from fixed cost improvements, and that's going to have to come from efficiency and, ultimately, reduced headcount to fund that volume.

As I had mentioned earlier, that efficiency is going to come as a result of technology improvements that's going to make it easier for us to fund loans and easier experience for our customers as well. I would expect to see some of that happening over time, and it will be a reduction in mostly headcount. There will be some variable cost reduction as we're able to make our salespeople more efficient. But having said that, most of it will come out of fixed cost reductions is what I would expect.

**William Newman**

Yes, hi, Blake. It's Willie.

As it relates to the shift to more of a purchase market, first and foremost, we feel that we're very well positioned because of our concentration in the broker segment. With brokers being end market and really tied into the communities, being able to support brokers as they go out and source more purchase transactions is really our primary focus.

The second part relates to new product. As you know, we have the best-in-class outside market sales executives, and the ability to add additional product to both their arsenal and the relationships with our broker partners not only will impact the relationship positively overall but we think especially relevant for a purchase market. We'll be entering the jumbo market starting in the fourth quarter and then we're looking at some non-agency products as well. There's really a significant opportunity for us, and we do think that both those products and especially the jumbo products are purchase centric.

**Blake Netter**

Great, thank you.

**Operator**

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

**Kevin Barker**

Good morning. I just wanted to follow up on the leverage question. Could you detail a little bit more about what you're doing from a capital markets perspective and what assets you're holding on the balance sheet a little bit longer than you typically would versus agency loans? Is that driving most of the \$23 million in additional gain on sale that you generated during the third quarter?

**Mark Elbaum**

Hi, Kevin. We are actually holding agency loans on the balance sheet. If you recall, prior to the second quarter, we were mostly a cash window seller, which means that you hold loans for a matter of days and then you sell to the cash window. It enables you to be very capital light. You can hold a pretty small amount of loans at any given time. But you don't necessarily get the best execution, right.

Going to the MBS window, we're able to improve our execution, but it requires us to hold loans for more like weeks. You're accumulating more loans, but they're still agency loans. It's still the same types of loans that we were carrying before.

In addition to that, Willie was mentioning some of our diversification away from agency sales. That tends to also require you to accumulate loans over time so that you can have an efficient securitization or other form of non-agency type of sale. While the types of loans we're holding are the same loans that we've always been originating, we're holding them longer to benefit from different types of execution.

The last thing I would say is we've always had some type of capital markets gains embedded in that number. I know you didn't see that last quarter because we had some offsetting issues. This quarter was greater because of our ability to take advantage of some of those alternative executions.

**Kevin Barker**

Would there be some capital markets additional revenue or interest income as related to the \$23 million or something similar going forward when you think about other gain on sale revenue?

**Mark Elbaum**

I would expect to see that. Keep in mind, that there's a lot that goes into that \$23 million. The way to think of it is at the time we lock the loan, that's our attributed to the channels, and everything that happens after that is what goes through the capital markets line. That can include hedge effectiveness, changes in pull through rate and other things.

I can't say that it will always be positive, but I can say that our capital markets execution gains, which I do expect to continue, will go through that line, and I expect those to be positive and a positive contributor.

**Kevin Barker**

Okay, thank you very much.

**Operator**

Our next question comes from the line of Rick Shane with J.P. Morgan. Please proceed with your question.

**Richard Shane**

Hi, guys. Thanks for taking my questions this morning.

I just want to be clear, was the guidance that we got for the fourth quarter on funded volume, or on pull through adjusted locks?

**Mark Elbaum**

It was on funded volume.

**Richard Shane**

Okay, so I guess the question I have is last quarter you provided that metric on a pull through basis. Can we get that number for this quarter? Because I think, I tend to think of funded as a little bit of a lagging indicator versus pull through as a leading indicator and I'm curious where we are for the fourth quarter.

**Mark Elbaum**

I'm taking a look here. Yes, I think we're going to be in a similar place. I think I gave the guidance in terms of funded volume, but I don't think it's going to be that much different.

**Richard Shane**

Okay.

**Mark Elbaum**

You saw, if you look at our third quarter, I think our fallout adjusted locks was a little bit over \$21 billion, funded volumes was a little bit under \$21 billion. It might be that kind of thing. It won't be exact, but it will be hopefully pretty close.

**Richard Shane**

Got it. When we think about the hedge on the pipeline, and this is really the heart of the question. With the wholesale channel because you have an intermediary who is working on behalf of the borrower, when rates fall you have the dynamic of the broker going out and re-shopping the loan. Your fallout is versus other channels likely higher, and in environments where rates rise, you have sort of the expected or perhaps even lower fallout. I'm curious how you think about hedging the wholesale channel given those dynamics in terms of broker behavior.

**William Newman**

Yes, hi, Rick. It's Willie.

We do a ton of analysis related to the fallout behavior, and there's all kinds of variables that go into that, not the least of which is the status of the loan itself. I think that the ability to switch—once the loan is in process, the ability to switch the loan, I'll say to make the loan more fungible, is much lower, especially versus historically. We don't have very wide swings in fallout based on rate moves or capital markets moves, but what we do is we monitor it very closely.

We back test all of our assumptions. We'll make adjustments if and as necessary to those. But we haven't seen a wide variation in fallout throughout. I'd say since mid-last year when the fallout was much more a function of, you know, some of the process challenges and just the overall volatility of the market. Our fallout is within a 5% to 10% range, like in any cycle.

**Richard Shane**

Got it. Actually, Willie, that brings me to my next question, which is that as the supply/demand imbalance in the industry reaches a new equilibrium—not easy to say at 6:00 in the morning; I apologize—and reverts to a more normal level, are you seeing the time between locks and fundings revert to the normal timeframe, and did that actually make pipeline hedging easier?

**William Newman**

I'd say, yes and yes. Some of that is due to our own process improvement. We are very focused on continuing to reduce that cycle time for the reasons you mentioned, in addition to the customer and our partner experience; but the shorter you can make the cycle time, the less exposed you are to potential fallout, and we are starting to see that happen. I wouldn't say it's a meaningful part of the delta. I'd say more of it is due to our own improvements, but we're intently focused on that for the multiple reasons that I mentioned.

**Richard Shane**

Got it, okay. Then I apologize for one last question. Having done this long enough to have lived through a couple of cycles in this industry, I'm curious how you think about your migration into jumbo and to some non-conforming loans changing your capital markets execution risk.

**William Newman**

Well, I think the good news on that is that because we started diversifying our execution on the agency product, we have both the plumbing in place to be able to move the loans as quickly as the counterparty will allow us to and to be able to extend out the hedging associated with those loans. I feel like we already have the components in place to be able to mitigate that risk.

But the other thing that we're really doing with both the jumbo and the non-agency as we roll them out is they will be in separate process paths; so in other words, we won't be comingling the processes associated with those loans with the agency loans or the government loans that we do now. Because we do, we look at the defect risk associated with those loans is higher, obviously. The design is really to ensure that we can mitigate the risks that you talked about.

**Richard Shane**

Okay, great. Thank you, guys.

**Operator**

Our last question comes from the line of Mihir Bhatia (phon) with Bank of America. Please proceed with your question.

**Mihir Bhatia**

Hi, good morning. Thank you for taking my questions.

I want to really just start with—I wanted to clarify comments on margin expectations for the fourth quarter. I think you said that you're still seeing wholesale in the low 70s. You're seeing some pressure in some of the other channels, too. Did I hear you also say that there's a bit of a downward trend in the core channel margins?

**Mark Elbaum**

I did. There is a downward trend.

**Mihir Bhatia**

Okay.

**Mark Elbaum**

At least that's what we are seeing thus far.

**Mihir Bhatia**

Okay.

**Mark Elbaum**

Any competitive pressure is exacerbated by, you know, we've got higher rates now. You're entering the purchase season, which—or you're exiting the purchase season, so there's a little bit of not as much purchase business to go around. That puts additional pressure on margins.

**Mihir Bhatia**

Got it. Then I wanted to ask about the MSR sale and selling the Ginnie portfolio. Ginnie, you have the idea here that you don't want to be a Ginnie servicer for the most part, so the idea is to just sell the rest of your Ginnie servicing.

**William Newman**

Yes, it's Willie.

That's right. We really looked at how to optimize our operation, and looking at the Ginnie segment of the portfolio, we determined that we were simply subscale and there are obviously several very large-scale servicers out there that frankly perceive greater value in that servicing than we could ascribe to it. As a result, we went out and executed on a transaction. As Mark mentioned, we have a second transaction in market. We were really pleased with the execution we got, and we think not only does it validate the strategy, I guess the promise behind the strategy, it really demonstrates the value that we're creating through originations that sometimes isn't fully recognized until you monetize the asset.

**Mihir Bhatia**

Well, that's fair and then because you're pleased with the execution, is it fair to assume that no change on the origination side for your appetite for Ginnie. I ask because it's 20% of I think Q2 it was 20%-plus and last year it was probably 30% plus of origination. I just want to make sure no change in your answer.

**William Newman**

No, I appreciate you asking that, because I do want to clarify and ensure everyone knows that we continue to originate in the Ginnie, in the FHA, VA, USDA markets, and we will continue to do so. It's an important part of what we do from an origination and a partner standpoint. Again, we're very pleased with the values that we're creating through that, so we will stay in that origination market, absolutely.

**Mihir Bhatia**

Okay, great. Then just my one last question is, look, I think we understand the dividend probably needed to be cut just given the market cap and the way and the stock. But what I do want to clarify a little bit on that, is that also a reflection of your view that this challenging operating environment will stay for a little while, or should we not read too much into that dividend (inaudible)?

**William Newman**

Yes, I think we have a number of constituents, and we look at all of them, and we try to balance out what we think makes sense. It is a reflection more of what we think is appropriate, based on what we have committed to at the time of the IPO. But it is also somewhat reflective of what's happening in the market, absolutely.

**Mihir Bhatia**

Okay, those are my questions. Thank you.

**Operator**

That concludes your question-and-answer session. I'd like to hand the call back to Gary Stein for closing remarks.

**Gary Stein**

Great, thanks Operator.

Thanks, everyone, for joining us this morning for the quarterly earnings call. Please feel free to give me a call if you have any follow-up questions, and we look forward to speaking with you again next quarter.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.