Home Point Capital Inc.

Fourth Quarter and Full Year 2020 Financial Results Conference Call

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CONFERENCE CALL PARTICIPANTS

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Brock Vandervliet, *UBS*

Mihir Bhatia, *Bank of America*

Steve DeLaney, *JMP Securities*

Henry Coffey, *Wedbush*

Rick Shane, *JPMorgan*

James Faucette, *Morgan Stanley*

Ryan Nash, *Goldman Sachs*

PRESENTATION

Operator

Greetings and welcome to the Home Point Capital Fourth Quarter and Full Year 2020 Financial Results Conference Call.

I would now like to turn this conference over to your host, Mr. Gary Stein, Head of Investor Relations. Please go ahead, sir. You may begin.

Gary Stein

Thank you Operator. Welcome to our Fourth Quarter 2020 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 registration statement on Form S-1, which was declared effective on January 28, 2021, for risk factors related to these statements.

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

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

Willie Newman

Thanks, Gary, and good morning, everyone.

I'd like to thank all of you for joining us for our first public investor call since we completed our IPO last month. During our prepared remarks, I'm going to touch on a few highlights regarding our performance, and then I'll discuss the key elements of our differentiated business model. I'll then turn the call over to Mark to provide more details on our fourth quarter and full year 2020 results. After that, we'll open up the call to take your questions.

First, I'd like to thank our outstanding team of nearly 4,000 Home Point associates for their extremely hard work and dedication, particularly during the last 12 months in a uniquely challenging environment. Without our extraordinary associates, we would not be where we are today as a Company, and I know I speak to the entire Leadership team when I say how incredibly proud and grateful I am for your tireless commitment to Home Point's mission of creating financially healthy, happy homeowners. I'd also like to thank our nearly 6,000 partners and 360,000 customers who put their trust in us everyday and have enabled Home Point to become one of the countries leading residential mortgage originators and servicers.

Turning briefly to our results for the fourth quarter and full year of 2020.

We generated record origination volume of $62 billion for the year, which is nearly three times our volume in 2019. In the fourth quarter alone, we generated $24 billion originations. In our primary growth engine, Wholesale, Home Point's market share doubled in 2020 to 7%, and for the fourth quarter of 2020, our Wholesale channel share reached 8.2%, according to Inside Mortgage Finance. Also in the fourth quarter, we ranked as the seventh largest nonbank originator, which is significantly forward (phon) from our rank of number 14 in the fourth quarter of 2019. Looking at our Mortgage Servicing portfolio, we ended the year serving nearly 360,000 customers, which grew by more than 50% compared to 2019. I'll talk more about the strategic importance of our Servicing platform in a few minutes.

From a financial perspective, our performance in 2020 was outstanding. We generated revenue of more than $1.4 billion for the year, including $455 million in the fourth quarter. Due to the strength of our business model, scale and operating leverage, we produced net income of more than $600 million in 2020, which translates into a net margin of 44%. The positive momentum we generated in 2020 has enabled us to enter 2021 in a position of strength and we have already achieved several important milestones so far this year.

Most importantly, we completed our Initial Public Offering at the beginning of February. Our IPO marks an important milestone in the evolution of our Company, and we believe our presence in the public markets will serve us well as we execute our long-term growth strategy.

In January, we also completed our first senior unsecured notes offering, raising $550 million to further strengthen our balance sheet. In addition, we recently announced plans to pay a regular quarterly cash dividend beginning with the second quarter of 2021 and we expect the initial dividend will be paid during the third quarter of 2021. We believe our dividend policy is a testament to the earnings power of our business model.

Since this is our first opportunity to speak with the public investor community following our recent IPO, I'd like to take a few minutes to provide you with a quick overview of Home Point and our differentiated business model, which is outlined on Slides 4 and 5 of our earnings presentation.

To put everything in perspective, ever since we launched Home Point, our goal has been to build an industry-leading platform that is both sustainable and opportunistic. I've been in the mortgage business for more than 30 years, and during that time I've built three businesses. In addition, our highly talented Leadership team each have several decades of directly relevant experience. Collectively, we are leveraging everything we have learned in our careers across multiple cycles to build an industry leader that is focused on where the industry is going rather than where it has been historically.

At the core of Home Point's business is our Origination platform, which has been designed to capitalize on the large and growing Wholesale channel in a way that leverages scale and optimizes returns with lower fixed cost. We believe we have established a solid leadership position as a wholesale lender, as evidenced by the fact we were able to double our market share in 2020 during a year when the market also doubled in size.

One of the cornerstones of our business model is our use of in-market, highly experienced sales executives to acquire and build relationships with broker partners across the country. Through this approach, we are able to optimize the efficiency and productivity of our broker partners, while ensuring the end customer has the best possible experience.

In addition to our leading presence in the Wholesale channel, we participate in the Correspondent and Direct channels, which share common characteristics of being low fixed cost and highly scalable. The Correspondent channel provides us with a flexible alternative to acquire customers at low cost and high velocity. Our presence in the Direct channels exclusively focus on addressing the preferences of our servicing customers, while mitigating potential conflicts of interest that could arise between participants in the Direct and Wholesale channels.

Our connected approach, which includes our in-house servicing platform, enables us to operate a business model that is balanced and capital efficient, and leaves us well positioned to deliver consistent growth and strong returns through a variety of interest rate environments.

From a process and technology perspective, 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. By using this approach, we can leverage the latest technological innovations and avoid the burdens of being siloed with legacy systems and millions of lines of code.

In-house servicing, which we currently provide to more than 360,000 customers, is also a key component of our origination growth strategy, providing a critical link between us, our customers and our broker partners. Our objective is to deliver the best possible experience for our customers throughout the home ownership lifecycle. We view servicing as a gateway to establishing robust two-way dialog that supports lasting customer relationships and our customer for life approach.

Another critical component that drives Home Point's success everyday is the culture we cultivate, which serves as the foundation for the sustainability and growth of our business. We operate with a simple philosophy in mind - We care. And this is rooted in everything we do. First and foremost, this is a people business, and we care about all of our stakeholders, including our customer, our associates, our partners, our shareholders, and the people in the communities in which we serve.

We also continue to attract tremendous talent to our Leadership team. And I'm pleased to announce that John Forlines' joined us this month as our Chief Risk officer. John spent more than three decades at Fanny Mae, serving most recently as Chief Risk Officer, and we are thrilled that he is now serving in a similar capacity for Home Point.

Tying it all together, Home Point is built on a platform centered around growth, opportunity, and sustainability. We source all our customers through a large and growing network of partners in the wholesale and correspondent channels. This provides us with the best opportunities to leverage scale while operating at a low fixed cost profile. Our in-house Servicing platform enables us to control the customer experience during the lifecycles alone. We support that relationship through our Direct channel, which is focused solely on retention, and our Wholesale channel, where we partner with brokers in order to keep customers within the Home Point ecosystem for life.

As I noted, our results for the fourth quarter and full year of 2020 demonstrates the strength of our differentiated model. Our Origination volume and market share have been increasing. We have been expanding our broker relationships and our Servicing portfolio has been growing and provides a natural hedge in the current rising rate environment.

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

Mark Elbaum

Thank you, Willie, and good morning, everybody.

I'd like to spend a few minutes reviewing our financial results for the fourth quarter and full year of 2020.

Starting with Slide 7 of the earnings presentation. Twenty twenty was an outstanding year for Home Point, which resulted in record performance across a number of operating and financial metrics. I won't go through each of these metrics in detail, but you can see we delivered significant growth in our Origination and Servicing businesses, which drove our strong financial performance and profitability.

Turning to Slide 8, we've provided a summary of our quarterly and annual financial results. Total revenue for the fourth quarter of $455 million, more than quadrupled from $97 million in the fourth quarter of 2019, driven by increased origination volumes and a higher gain on sale margin, and declined 11% from $510 million in the third quarter of 2020, primarily due to a lower gain on sale margin.

Total annual revenue for 2020 of nearly $1.4 billion increased significantly from $200 million in 2019, primarily as a result of record origination volume during the year.

Net income of $185 million in the fourth quarter of 2020 was up from $16 million in the fourth quarter of 2019 and down from $264 million in the third quarter of 2020, driven by a decline in gain on loans and increased expenses from higher loan origination volumes. Net income for 2020 of $607 million was up significantly compared to a $29 million net loss in 2019, and highlights the substantial operating leverage of our business model that Willie discussed.

On Slide 9, we have included a quarterly breakdown of our Origination volume by channel for the last five quarters. In aggregate, we generated $24 billion of volume in the fourth quarter of 2020 and $62 billion for the full year. Consistent with our overall strategy, the Wholesale channel was the primary driver of our record origination volume, which enabled us to double our wholesale market share during 2020 to 7%, and for the fourth quarter of 2020 our Wholesale channel share climbed to 8.2%.

Slide 10 includes a snapshot of our Origination segments results. Origination segment revenue of $456 million in the fourth quarter of 2020 increased nearly sixfold versus $77 million year-over-year and declined 14% from $532 million in the third quarter of 2020. The primary driver of these changes was the gain on sale margin, which was 176 basis points in the fourth quarter of 2020, up from 77 basis points in the year-ago period, and down from 278 basis points in the third quarter of 2020.

Total Origination segment revenue of 2020 of nearly $1.5 billion increased from $235 million in the prior year driven by volume growth across all channels and an increase in the gain on sale margin, from 90 basis points in 2019 to 223 basis points in 2020.

The contribution margin of $302 million in the fourth quarter of 2020 compared to $29 million in the fourth quarter of 2019 and $425 million in the third quarter of 2020. The contribution margin of $1.1 billion in 2020 increased more than tenfold from $90 million in the prior year.

During 2020, we significantly broadened our third party relationships by 74%, adding 2,354 new relationships during the year, bringing that total to nearly 6,000 at year-end.

On Slide 11, we have provided a snapshot of our Servicing segment results. The number of customers in our Servicing portfolio reached nearly 360,000 at the end of 2020, up 52% from the end of 2019 and up 17% from the third quarter of 2020. The Servicing portfolio or UPB, up $91 billion at the end of 2020, increased 74% versus the prior year, and grew 24% compared to the third quarter of 2020.

Loan servicing fees of $56 million in the fourth quarter of 2020 grew 37% from the year-ago period and 15% from the third quarter of 2020. For the year-ended 2020, loan servicing fees of $192 million increased 32% from the prior year.

The Servicing segment contribution margins for the fourth quarter and full year of 2020 were negative $34 million and negative $66 million, respectively, driven by a change in the fair value of MSRs, which more than offset the loan servicing fees we earned. The decline in the fair value of MSRs of $55 million in the fourth quarter and $285 million for 2020 were due to higher prepayments, partially offset by gains from hedging.

Turning to Slide 12, we've included a summary balance sheet which highlights our capitalization and liquidity profile. At the end of 2020, we had $281 million of liquidity, including $165 million of cash and cash equivalents. Our total assets reached $7.4 billion at year-end, up 2.5 times from 2019, and our book value increased more than 125% year-over-year to $928 million.

In order to support our rapid growth, we have been focused on expanding our MSR financing and warehouse lines. At the end of 2020, our total warehouse capacity was $4.2 billion, up from $1.7 billion at the end of 2019. And, as Willie mentioned, in January, we completed our inaugural senior unsecured note offering of $550 million. We used a portion of the proceeds to reduce amounts outstanding on our MSR line, and therefore increased our available liquidity.

That concludes our prepared remarks for this morning, and we're 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. You may proceed with your question.

Doug Harter

Thanks. Willie, I was hoping you could talk a little bit about the current dynamic in the wholesale market. One of your competitors made a big announcement a week or two ago and just wondering what you're hearing from brokers and what your outlook is for that, and how it might change your market share outlook?

Willie Newman

Good morning. So, I'm not going to comment on what others are doing. We're focused on our strategy and since the beginning we've really set ourselves up to be both differentiated from our competitors and aligned with the entire broker community, and specifically our broker partners. And that really starts with our in-market account executives, which differentiates us from our primary competitors. They really are best-in-class. They have local knowledge and they build strong relationships with our broker partners. We align our operations teams with our broker partners so there's a relationship developed from that perspective as well. And of course, we retain all of our servicing. We have our own platform and we partner with our broker partners in order to create customers for life.

What we've seen in the last week is that we've had significant inbound inquiries from a new relationship standpoint and we're excited about that. We think that it definitely is a testament to the strategy that we've developed and how we've differentiated ourselves from our primary competitors.

Doug Harter

I guess just on that, if you could walk through what's the onboarding process for a new relationship? What's the typical timeframe to get someone on board and delivering loans?

Willie Newman

Sure. The actual approval process is fairly quick. Within a week we can approve a broker partner and optimally within 30 days they'll start submitting loans to us. That has a range associated with it. But certainly one of the areas in which we've evolved over the last 12 months is we've ramped up our approvals—the velocity of our approvals is getting engaged with the potential partners and getting them active.

So, within 30 days, we would expect the first transaction to come across.

Operator

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

Don Fandetti

Hi, good morning everyone. Can you talk a little bit about Q1 guidance for gain on sale and originations?

Willie Newman

Good morning Don. We are not giving guidance on first quarter. I will tell you that in January and February, we had record funding volumes each month, the broker approvals continued at a strong pace consistent with where we ended up in 2020. Obviously, we continue to grow servicing customers and UPB, which provides us a natural hedge in a rising rate environment. Certainly, with rising rates, and with some of the actions in the competitive stack, there is pressure on margins, but in January and February they were above normalized levels.

Don Fandetti

Okay. Is that going to be your policy going forward where you're not providing guidance for the next quarter?

Willie Newman

At this time it is, yes.

Don Fandetti

And why is that?

Willie Newman

We'll continue to evaluate.

Don Fandetti

Okay. My last question relates to—I know there was some talk at some point on a fund to work with your Correspondent originations, a third party fund. Where are you guys on that?

Willie Newman

Sure. We are active. At this point we are acquiring third party servicing. The primary source of that is our Correspondent partners. We are acquiring this through Fannie Mae and Freddie Mac's servicing exchanges. At this point we're really kind of getting the plumbing, making sure the plumbing works and getting us a limited level of velocity into the fund—or into the vehicle, rather, and getting active in the market. But certainly, month over month we're seeing expanded interest; albeit on a limited roll-out basis.

Operator

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

Kevin Barker

Good morning. Could you talk about the operating expense line? We saw that increase significantly and obviously origination volume plays a big part in that. But is there any one-off items that you would like to point out within operating expenses, and then talk about maybe the trajectory of operating expenses, just given your locked volume continues to accelerate in the first couple of months of 2021?

Willie Newman

Sure, Kevin. I'll pass it over to Mark.

Mark Elbaum

Okay. Thanks, Willie. Thanks, Kevin, for your question. Yes, for fourth quarter we did see an increase in expenses and there's a few things behind that. Number one, we were having pretty impressive financial results in both the second and especially the third quarter and the Company made a decision to invest some of those results into growing and evolving the Company into what we view to be a very exciting next phase for ourselves. So that includes investments in, I'd describe it as two broad categories - enabling continued growth and then building capabilities.

Under enabling continued growth it's a matter of building that additional capacity that's going to be necessary to fund out the additional volume that's coming our way as a result of the market share gains we've made. That includes things like investing in underwriting capacity through our Futures program, process improvements, technology to enable the Futures program to be effective and just building up that capacity. So, there was a step function of sorts in the fourth quarter as we were building that up.

Under the capabilities category, there was a number of corporate types of needs. As previously we were not a public company, nor did we have public debt, and now we are a public company, we have public shareholders and public debt and there was a number of capabilities that we thought it was important for us to build in. So we started that ramp in the fourth quarter and even a little bit into the first quarter.

As far as the trajectory, going forward, I would say that the fourth quarter gives you a pretty good snapshot of where things are now, and that we would be able to start seeing the benefit of scale off of that. Roughly a third of our expenses are variable, so to the extent we are doing more volume you'll see an increase in terms of absolute expenses, but we do expect to start seeing the benefit of scale as we move forward.

Willie Newman

One thing I would add is that it is obviously, certainly, in reflection of the environment, we are starting to accelerate some of the efficiencies that we had anticipated achieving in the second half of the year, and we expect that we'll start to achieve some of those efficiencies in the second quarter of this year.

So, certainly, Kevin, as you might imagine, being very cognizant of what the environment is presenting to us.

Kevin Barker

And then a follow-up on some of the broker comments. Your growth in the amount of partners that you signed up in this past year has been tremendous and I'm assuming that a large portion of them have not or not as productive as they could be on a run rate basis. When you think about the competitive dynamic and the potential for refis to slow in 2021, would you expect your broker partners to be more productive, or basically in line with what you saw in 2020, just given the seasoning of the brokers in your platform combined with decreasing refinance demand?

Willie Newman

I think at this point we would expect that to kind of be a push. So we believe that we are better able—and we demonstrated that in 2020, better able to ramp-up the velocity with our newer broker partners more quickly. That said, we would expect that if and as the market tails off from an origination standpoint that there may be some kind of decline per partner in the addressable market.

So I think at this point we'd expect those two to kind of be a push. But as I mentioned, we do believe that there is an opportunity to ramp broker partners up, especially based on the last few weeks—or the inbound inquiry over the last week– there could be an opportunity to ramp-up more than what we had in 2020.

Operator

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

Brock Vandervliet

Good morning. I'm honestly really surprised about the guidance or lack of it. It's March 11th and this is the first quarter following the IPO. There was very deep guidance given as part of that and I'm really surprised that there is no guidance on the two metrics that really mattered here, the gain on sale and volume. Can you comment on that?

Willie Newman

Well, I think having been in this business for a long time, Brock, there are changes that can take place nearly daily. And so I think at this point we feel that it's the appropriate policy for us. I did mention that we had record volumes in January and February. So we'll continue to evaluate the policy going forward.

Brock Vandervliet

Well, I think one of the things that investors struggle with most because of the volume guidance there are various sources you can consult on on volume and get a sense of that. Should we use, for example, the level of gain on sale in 2019 as kind of a lighthouse of where things could go?

Willie Newman

I'm going to turn it over to Mark.

Mark Elbaum

Yes. I believe Willie also when he was describing the margin outlook he did give guidance that suggested that margins were compressing, but even in the first and second months of the year they were still above normalized levels. I would not describe 2019 as normalized levels. I think those were below normalized levels. So, it's not—I don't think that's where we're going.

So, we're above normalized levels for the first two months and that's where we think we're going to end up in the first quarter.

I hope that's helpful.

Brock Vandervliet

Okay. Well, we'll see where it normalized, but just—okay, thanks for the question.

Operator

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

Mihir Bhatia

Hi. Good morning. Thank you for taking my questions. The first question I wanted to ask, I wanted to go back to the question I think Don was asking right at the start about the noise in the broker channel currently. Understand you have more focus on your business and building a differentiated platform. But maybe you can tell us just what you've heard from brokers over the last week and what you're seeing in the market in terms of margins. Frankly, the news reports are not very encouraging in terms of what that means for margins from that channel. So I am curious on what you're actually seeing and to the extent—I understand you don't want to give guidance, but at least directionally and just maybe help us out with what you're seeing in March.

Willie Newman

Sure. Appreciate the question. What we're basically hearing from the broker cohort is that by and large they're looking for another large source. I think that's—we've definitely seen, as I mentioned, an increase in inbound and there's a lot of concern about not having the level of choice that they've come to appreciate, I guess, prior to the announcement of last week.

So, I think for us that certainly is a positive. We feel like we're very well positioned to be that next choice, if it does turn out that they only have one of the two largest other lenders to work with.

I think from a gain on sale perspective, as I mentioned, certainly the rising rate environment puts pressure on margins and to the competitive environment. The announcement, at least temporarily, has put additional pressure on margins, but we continue to navigate through the environment effectively.

Mihir Bhatia

Understood. Thank you for that. One other question for me. In terms of the opex, just you mentioned, you talked about the step function. What I was curious at was accelerating the synergies that you were thinking of. Maybe can you just talk a little bit more about that? What level of synergies are you thinking about that you'd be able to get and just a scale advantage that you'd have, just any kind of additional quantitative guidance you can provide on that? That's all for me. Thank you.

Willie Newman

Again, we're not going to provide forward guidance from a numbers perspective.

Mark, I don't know if there's anything you want to add there?

Mark Elbaum

Yes. Some of the things that we had built in included deployment of technology that would improve productive, it included acceleration of getting productivity up in terms of our Futures program, it included items such as making our AEs more productive so that on a per unit basis they could be doing well on a lower per unit cost basis. So those were some of the things that were built into the scale model that we expect it to enable us to improve our productivity over time.

And then as far as the step function that I had mentioned in terms of IPO readiness, I feel like we're where we need to be now. So I would look to see the corporate expense line start to moderate a little bit after the first quarter and that becomes on a per unit basis more favorable to us over time as we build up capacity and scale and volume.

Operator

Our next question comes from the line of Steve DeLaney with JMP Securities. You may proceed with your question.

Steve Delaney

Good morning, Willie and Mark. Mark, first thing for you, could you comment on—obviously, this is a year in in the IPO, but looking forward to first quarter and ahead, how many weeks do you expect it will take you to be ready to report quarterly earnings after the first quarter, just a sense of timing for model updates?

Mark Elbaum

Sure, absolutely. Gary, do you mind taking that and give a sense of what we're looking at as far as our calendar going forward?

Gary Stein

Yes, for the upcoming quarters we would expect to be reporting, essentially, for the upcoming quarter, for the first week of May, and then for the quarter after that, the first week of August, and then the first week of November. That's the current timeline.

Steve DeLaney

Great. So about five weeks to—from quarter end.

Gary Stein

Yes.

Steve DeLaney

Okay, great. Willie and Mark, heard you loud and clear on guidance and this whole issue and I do want to echo what I think Brock said. That is that, volume is going to be what it's going to be, right, and there's macro issues there and rates and everything else. I do think investors are focused on margins. Obviously, the models are incredibly sensitive there. I appreciate the fact that that's going to quarter to quarter you reported as it occurs, but just if you would comment on this. Thirty years in the business, built three companies. Over that time, the Wholesale channel specifically I'm looking at, can you comment on what at the bottom of that cycle when business is at its worst, how the low end of the cycle looks like? Clearly, 2020 was the opposite of it. But I just wonder if you could give us any sense of the width of that band of where maybe the downside scenario is in terms of margin, not including events like last March, etc.

Willie Newman

Sure. Wow, that's a long history. Yes, I think gain on sale margins get—they go below a hundred basis points at periods of time, and I think that one of the challenges is that from day to day and week to week you can literally see pretty meaningful swings, but over time we feel like that kind of around a hundred is where it typically hits its lows, and then as you said you saw the upside. So, that doesn't mean it couldn't go below that. That doesn't mean volatility doesn't have a role to play in that and where they go. But generally, in my career, that's been around lower bounds.

Yes, the other thing I wanted to mention is that—I know we're focused on originations, but the business model does include our servicing, managing the asset and we have positioned ourselves from a hedging standpoint such that to mute the impact of the swings in the value of servicing, whether rate's down or rate's up. That said, with rates up, certainly the Servicing portfolio kind of buttresses some of the pressures that we might see in the Origination side.

Operator

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

Henry Coffey

Yes, good morning everyone and thanks for taking our questions. And this first opening discussion has been interesting. When you were contemplating this IPO—and I'm assuming that was back in November based on the filing of the initial S-1, but when you were talking about this with bankers and analysts, we were looking at a mortgage market of $2.5 trillion to maybe $3 trillion in 2021. Now, I mean, even with the rates up and all the cross winds, we're probably talking about something like $3 trillion to $3.5 trillion. You've got an 8% market share in the wholesale channel. Could you kind of just step back and talk about what does this bigger market mean for 2021? What are your thoughts on—obviously, you're going to be gaining share in the wholesale channel. Do you think it could go to 10%? 12? What are your long-term thoughts on what 2021 could look like and what market share could look like? And then I have a follow-up question.

Willie Newman

Sure. Good morning, Henry. We certainly anticipate gaining market share in wholesale, and as I said, with January and February in the books we would anticipate we would have a meaningful increase in share, the wholesale share in the first quarter, and obviously that would drive our overall share from a nonbank standpoint. We see multiple forecasts. If you look at even, as you mentioned, even with the 3.25 thirty year, the addressable market benefit for refinance is significant. A recent number that I saw was over 60%.

So, we do believe that it will continue to be a robust market. And that's, frankly, one of the reasons why providing forward guidance is somewhat challenging, is that there may be temporary movements based on various elements of what's going on in the market, whether it's the competitive changes or adjustments, or what's going on in a more macro basis. But we do still believe that the market will be strong in 2021.

Henry Coffey

And then gain on sale by channel, can you give us some sense of what that looks like in the fourth quarter? Obviously, we're focused mainly on the wholesale channel here, but can you give us some sense in the fourth quarter where you saw changes by channel?

Willie Newman

I'll turn it over to Mark.

Mark Elbaum

Sure. We've not been reporting specifically our margins by channel and there's a few reasons for that, the most significant of which is that when we aggregate all our volume together it becomes hard to allocate back out to the various channels. But having said that, we saw the largest decrease in gain on sale margins in the Correspondent channel where you would expect it. To a lesser extent, we saw it in the Wholesale channel, and then the Direct channel held up pretty well. But we won't or we will not be, at least in the near term, reporting our margins by channel.

Operator

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

Rick Shane

Hey guys. Good morning and thanks for taking my questions. Look, I think the issue on guidance is interesting and I'm trying to understand what potentially drives that. When we think about gain on sale we think of it as a function of your locked volume with your pipeline hedgings. So given where we are in the quarter - presumably you have an enormous amount of data in terms of you have 80% of the data for the quarter - I'm curious if there's something that we're misunderstanding in terms of the locks or the hedges or if you are right now seeing something extremely unusual with pipeline fall out that's causing you to not be able to sort of translate that data into a quarterly guide.

Willie Newman

Good morning, Rick. Again, if you step back and look at even the last—since the beginning of February, it's been significant adjustments in the market, whether it's rate's up, whether it's some of the competitive announcements, whether it's some of the day-to-day variability which has increased, and I think to us it's not as much about what happened in the last 40 days, but it's indicative of the fact that things can change rapidly in the mortgage market.

So, there's really nothing from that perspective that I would say that we would point to and say there's a reason why we're not doing it now. It's more a function of our experience in the mortgage market and the fact that the Company is still growing and evolving, where there may be a point at which we say, okay, it starts to make sense to provide some level of guidance, but right now, especially with the variability that we've experienced in the market, we don't think it's prudent to do so.

Rick Shane

Got it. But I just want to make sure I understand this. Again, given the gain on sale margin is a function of locked volume and you know what the locked volume is, am I correct in saying that at this moment in time you have 80% to 85% of the data that will contribute to first quarter gain on sale? So you're describing that there's so much uncertainty related to the remaining 15% to 20%, or am I thinking about this wrong? Do we not actually have that much information on what's happened through March 10th?

Willie Newman

I think, again, the fact that we're 80% through the month doesn't necessarily mean we're 80% through what will happen—or during the quarter, rather, it doesn't mean we're through 80% of what might happen during the quarter from a market standpoint.

Mark, I don't know if you want to add to that but.

Mark Elbaum

Yes, let me just... So first of all, I'm hearing loud and clear a hunger for guidance. I'm not surprised by that and I think it's something that we do need to take under consideration. The issue I'm having with it is that while we do have two months plus that we know about, there's other dynamics in our overall business and to give guidance on a single metric and not provide guidance on the entirety of the business, including things like how the MSR's performing, I just think it potentially risks not really giving a complete picture.

So we've opted to not give guidance at all, and I do hear you that we need to reconsider that, but it's hard to just focus on a single metric and call that guidance. So that's kind of where I'm coming down on it. We'd made the decision for this quarter not to give guidance. It's something we're going to reconsider and think about.

Rick Shane

Fair enough. Again, I understand why people are interested in guidance. I'm also trying to understand what the dynamics that drive that are and it sounds like you just don't want to provide that single—that narrow a slice because it doesn't feel like it provides the overall context, as opposed to lack of visibility on that particular metric.

Mark Elbaum

That's—yes, agree.

Rick Shane

Okay. Thank you.

Operator

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

James Faucette

Great. Thank you very much. Wanted to ask a couple of questions. Let me say, congratulations for becoming—making it to be public. I wanted to ask a couple of other industry and environmental questions. First, what are you seeing or what were you seeing in the December quarter in terms of ability of the industry, and particularly your competitors versus you, to process the loan demand volume? It seemed like the fourth quarter was—there's a massive amount of applications, etc. How did you handle that surge and your ability to service that demand versus competitors in the market, at least from your perspective?

Willie Newman

Sure. Good morning, James. Yes, we would agree. I think that definitely the accumulation of really three quarters of significant growth kind of came to bear in the fourth quarter. I'd say traditionally the fourth quarter is more challenging because of the holidays and especially when you have a year when the industry's running really, really hard.

So, we certainly saw pressure from an industry standpoint on kind of turn times and gestations for pipelines. We also experienced some of that in the fourth quarter for those consistent reasons. I think for us, we've been able to recover from that really well in January and February, as evidenced by the throughput. But we do still think the industry—there are certain participants in the industry that have done pretty well with capacity and there are others who are challenged by it. And we do think that scale is a really important variable there. But we would agree that generally in the fourth quarter things got backed up a bit and they seem to be clearing up in the first quarter.

James Faucette

If I take what you're saying and I assume—it sounds like you feel like you did better than at least some in terms of your ability to address and service the demand. How do you think about what happens competitively on a go-forward basis and what you have to do to retain that share versus as we come back down to maybe a more manageable level? Do you think that you can retain the share again versus those that were unable to process the demand that they had and benefited you, or is there some ebb and flow there? More specifically, what can you do to make sure you retain that share?

Willie Newman

Sure. Definitely, always on our mind. And it's really what Mark had mentioned, which is, all the things that we're doing from a technology process standpoint to ensure that we continue to evolve both our service levels or the gestation of our pipeline, the experience that our partners and customers have. So, I think to us that's the way to build a sustainable advantage is to take that experience. We've invested, especially in certainly fourth quarter, invested not only in capacity but in capabilities, as Mark talked about.

So, that's the way in which we'll continue to stay ahead. We do believe the scale also gives us an advantage. Generally, to the point, it really was by and large subscale participants that were more challenged by the flows.

Operator

Our last question comes from the line of Ryan Nash with Goldman Sachs. You may proceed with your question.

Ryan Nash

Hey, good morning everyone. Willie, I think you mentioned regarding the first quarter that you expect to have significant market share gains. Can you maybe just help us understand what would be realistic goals for the organization in terms of market share gains over the medium to intermediate timeframe?

Willie Newman

Again, not going to put specifics on it, Ryan, but I think what you've seen from a growth standpoint in 2020, kind of that pace. Obviously, we're working from a lower denominator to start 2020, but we do think that pace and potentially higher is achievable during 2021.

Ryan Nash

I guess, just a follow-up to some of the questions that had been asked earlier. There's clearly a significant change in the competitive dynamic in the channel. Can you maybe just talk about strategically what you guys are actually doing to capitalize on this? Clearly there's a lot of dislocation right now within the broker population. So I'm curious what are you guys actually doing to drive market share in your direction and what do you think this could mean for market share over time?

Willie Newman

Yes. So I think this may sound a little strange, but what we're doing is—I'll say nothing, but really it's to maintain a consistent profile. As I mentioned, we really have designed our strategy to be differentiated and aligned with both the broker community at large and our broker partners in particular. So it's really a matter of continuing to execute on that, but also reminding especially our broker partners that this where we're positioned, we're not deviating from that based on what somebody else does or what somebody else says.

I think one of the data points I think that is strongly supportive is that on the retention side, our broker—retention of loans in our service portfolio that were originally provided by brokers, that retention number's at all-time high. So I think that also kind of points to the fact that we're continuing to execute on the strategy that we've established and being out there and reminding our broker partners and the broker community that we built this to be aligned with them, is really the way in which we're driving both awareness and then, as I said, we're seeing an increase in inbounds from an approval standpoint.

Operator

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

Gary Stein

Great. Thanks Operator. Thanks everyone for joining us this morning. We appreciate you taking the time to participate with us. Please feel free to contact me directly if you have any follow-up questions. We look forward to speaking to you again next quarter. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Enjoy the rest of your day.