UWM Holdings Corporation 1Q 2021 Earnings Call

May 12, 2021

Operator: Good morning. My name is Amy (sp), and I will be your conference operator today.

At this time, I would like to welcome everyone to the UWM Holdings Corporation first quarter 2021 earning conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question and answer session. If you would like to ask a question during this time, please press star followed by the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key.

Matt Roslin, you may begin your conference.

Matt Roslin: Good morning. I am Matt Roslin, EVP of legal affairs and investor relations. Thank you for joining us, and welcome to the first quarter 2021 earnings call for UWM Holdings Corporation.

Before we start, I'd like to remind everyone that this conference call includes forward looking statements. For more information about factors that may cause actual results to differ materially from forward looking statements, please refer to the earnings release that we issued yesterday.

Now, I would like to introduce UWM Holdings Corporation and United Wholesale Mortgage chairman and CEO, Mat Ishbia.

Mat Ishbia: Thanks, Matt. Appreciate it. Thank you, all, for joining today. We appreciate you. Definitely will try to keep my remarks somewhat short so I can take a lot of questions. But, we'll take as many questions as we possibly can. Want to make sure we answer everything about the business and about industry, anything you would like to know about our company. I'm happy to answer every question you guys have.

Now, with that being said, Q1--pivotal quarter, outstanding quarter across the board for UWM. I can go into all the details, and I'm going to go through the details here shortly.

But, you know, obviously became a public company, fortified our balance sheet, expanded our products, strengthened our focus on growing the channel and the mortgage broker market share. You know, we've done a lot of things in that. We grew to almost--over 8,600 team members and continue to invest in our technology while differentiating our process and speed to close. And so, we talk about making the process faster, easier, cheaper.

We had a great, great quarter across the board. You know, we completed a state of the art UWM sports complex and training center. You know, going to do some great things in the community with that. But, at the same time, we also have a big training center, auditorium for our team. And it's going to make an impact in the community in a positive way.

UWM is well positioned to, not only be the number one wholesale lender, which we have been for six consecutive years, but to be the number one overall mortgage lender in America. And we're going to talk about that path here today.

Now, you know, to look at the details--you guys saw the release. So, I'm not going to spend too much time going through every single detail. But, $860 million in net income, 42 times what we did last year in the first quarter, $49.1 billion in production, 219 basis points. It was fantastic across the board.

Public equity deal--we have this closed on. Finished the quarter with $1.6 billion in cash. In April, we closed our second long term, you know, high yield debt deal. We paid off all encumbered MSR financing. So, we have a $2.3 billion MSR asset with a WACC, weighted average (inaudible) on our rates around 3.00. So, now is actually--after April, it's below that. We're in the 2.99 range, which is awesome, with no debt on it, no encumbered debt to that. So, it gives us a powerful, powerful position.

You know, as you saw in our release, the board approved our quarterly dividend of $00.10 to consistently deliver, you know, money back to our shareholders for a record date on June 10th and payable July 6th. You know, the board and I--all of us explored increasing the dividend actually or looking at a special dividend or a share buyback program.

And, as you guys have seen, we've included a share buyback is the best use of our capital reward shareholders. We announced the authorization of $300 million share buyback over the next 24 months. You know, and quite honestly, with where the share price is, it's a great opportunity for us to continue to buy it.

But, I think that we're conscientious of the flow. So, we're not deploying it all tomorrow, as you can imagine, or today. We're conscientious of the flow. But, we do have that authorization of the board, which we do appreciate.

Other ways we're deploying capital, looking at acquiring. Three of the top 25 wholesale lenders were acquired or had been announced to be acquired here in the last 90 days or so, which is a really interesting way of trying to acquire market share.

You know, in wholesale, we need the best technology, the best process, the best system, and all the products. There's very little reason to acquire someone. We could spend a $1 billion in cash and stock and acquire a competitor and pick up three or four percent market share.

And not saying we won't look at that or continue to look at that. But, the reality is, with our platform, it'd be a very odd situation for that to make a lot of sense for us. It could--but, to make a lot of sense for us, because we are the leader--we generate a better return for our share by just investing organically, maybe in our pricing and going after certain brokers because we're really not acquiring anything besides, you know--there's maybe a servicing book we might be acquiring.

But, actually, from an origination perspective, we're really not acquiring much at wholesale. And so, we can acquire that by sharpening our pricing or expanding our product, which we are doing right now.

Now, let's look at the two one business strategy, understand the business. So, clearly, we're the market leader in wholesale. Demonstrated a 34 percent market share in the wholesale channel in 2020. We are going towards 50 percent mortgage broker market share for UWM in the channel. So, we are--that's our goal 2025, 2026.

We also want the mortgage brokers to be one in three mortgages. Right now, they're harboring around 20 percent, a little less than 20 percent of the overall market. We expect that to go to one in every three mortgages. And if we can get half of those, we're going to win as a team together.

Now, Q1--we focused on--and Q2 going forward--growing the share wall with our loyal brokers. We have so many brokers that love our technology. They love our process. They love our system.

But, they're always saying, "Hey, listen. I want to do more of my business with you." So, we did--we focused on rounding out the portfolio.

As you guys probably heard, we rolled out the jumbo program, which has been a huge hit. We did over $1 billion in April. We'll do over $2 billion most likely in the month of May with this new jumbo product that we roll out which--and the interesting thing about that--which we'll talk a little bit about purchase share--is almost half of the jumbo product is purchased, which is--it's a lot different than our competition, as you understand.

But, we also ran our program--we're rolling out ARMs recently. We expanded our government programs a little bit more, manufactured homes, just rounding out.

But, we're not going to go down on the credit matrix. We're not going down below 620. That's not what we believe in at this point. We're not going to do non-QM, you know--which other people say non-QM is focused, you know--certain non-QM loans are an awful lot subprime than what we're interested in doing.

We're focused on the highest credit quality and getting a bigger wallet share from our current client. And it's working. It's working.

We have purchase mix. A lot of people shy away from talking about the purchase mix. Quite honestly, we're not going to shy away from it because we think we are leaders here. And we have been a leader here for a long time. And so, we're going to continue to grow.

To give you a little bit of view, you know, people talk about purchase percentage. And that's not as important, purchase percentage, as in actual volume of purchase because they're going--purchase percentage goes up when they do less refinance.

As rates have picked up since the beginning of February all the way through the end of April--rates have picked up. What does that mean for you? What does that mean for business?

And April was one of our best new registration months of all time. And we did about 43 percent of those new registrations for purchase. And so, understanding that that trend, you know, compared to--I think we were in the twenties last year, you know, in this time.

So, realizing that that's a big uptick of purchase while our volumes stay high. So, you'll see. I think in the first quarter, I had mentioned, you know, that in the third quarter you'll see our biggest purchase volume--not percentage, volume--of all time in the third quarter.

And quite honestly, you might even see that in the second quarter if things are going really, really well. We've rolled out the FHA program in December. We rolled out the general program in March. And we're seeing massive adoption of our purchase program also with our technology.

Now, we announced the all in initiative in March. So, it really showed our commitment to the channel. The all in initiative was on March 4th.

We basically gave an addendum to our clients and said, "Hey, guys. You want to work with UWM, we're all in. We're going to give you the best in technology, our ecosystem, give you the differentiations to help you succeed in your market.

"But, if you're working with these two other mortgage companies, two mortgage companies that are, you know, doing things to hurt the broker channel--if you work with them, you can't work with us."

Now, there's 70 plus lenders out there that people can work with. Most brokers will pick eight, nine wholesale lenders, top. But, either way, we aren't going to be in the same portfolio as those two other lenders because those two other lenders are trying to hurt the broker channel and focus on the retail channel.

So, we decided to do the right thing. And we made this decision. A lot of media, a lot of press around this, which is obviously--the media is slanted based on who pays them the most, a lot of times, from a marketing perspective. And it's not going to be us. It might be one of those other two lenders.

But, the reality with the data is this: It's been overwhelmingly positive, more positive than we expected. Over 10,000 brokers said they're all in with UWM. About 600 or so said, "Hey, we're not. We're going to have to sign with them." They declined, and we wish them the best. And about 1,000 or so that don't--that do an immaterial amount of business. They haven't responded, haven't done their work.

But, all in, we won on that not because of the more volume. Of course we got more volume. But, that wasn't the point. The point was alignment with our brokers, sending the message that we are going to do whatever's right for the consumer, which is mortgage brokers, and for our broker partners. So, that's what we did.

To give you a quick early read on it, in February rates were low. And then, in March, April, they kept rising. So, from February to April, it's not really apples to apples comparing the months because rates were much higher in April.

But, net of any brokers we lost and, at the same time, the brokers we gained, we got over 17,000 more submissions in the month of April than February. So, massive, massive adoption. Positively--it was almost--you know, I couldn't have imagined it going so well.

And obviously, my competitors--they don't like the decision. But, our business is not designed to make them like us. Our business is designed for our shareholders, for consumers, for our team members, and for our clients. And we've done a great job with this, and all in announcement has really driven that home.

As you guys know, we really do believe with all our hearts and actually the data that the best way for a consumer to get a mortgage is through a loan officer, a loan officer who will navigate the process for them. And the loan officer should not be captive to one lender. They should have options, and that's why the brokers are the best. And that's why we're focused on an independent channel.

If a good old broker--we're the elite mortgage lender in wholesale, period. We're an elite mortgage lender across the board. But, in wholesale, technology, service, product, pricing--and so--and then, on top of that, we don't compete with them. So, understand that that differentiation has helped UWM and will continue to help UWM.

And so, the all in announcement was really just sending a message that we are all in with brokers, high level of confidence that UWM is the right partner. And it's worked out extremely, extremely well.

You won't see that data really until the second quarter, maybe even in the third quarter because there's obviously a lag effect on loans closing in our competition.

But, the reality is that I wanted to give you a quick snippet of February to April, massive increase. In a worse market, we grew. And that's really tied into the all in announcement along with the loyalty. Our brokers have appreciated UWM standing up for what the right to do is, which is standing up for the broker and consumer, and that's what we did.

Now, to move forward a little bit on operations--you know, we talked about speed, speed to close. We are at this point, 17 days, which is compared to 18 days in the first quarter. The industry is still running 50 plus days. And so, massive differentiator there.

We offer--that's faster. Right? We offer lower rates, 2.70 is what the UWM average note rate in the first quarter was versus 2.78 industry average. Seven fifty-six FICO--we're top two or three of the top 25 vendors. So, high quality. And that's shown in our forbearance rate of 1.48 where the industry is 4.8.

Our delinquency rate of 1.54 where the industry was 4.3. You know, our operations team does a great job. We're knocking loans our fast. My chief operating officer, Melinda Wilner, along with--my whole team of leaders are doing fantastic things. They're doing a great job.

Now, technology, where my chief technology officer, Jason Bressler and his team are doing great things. They have built us to scale at the level. We are in position right now to do twice the volume, from our architecture perspective, than we are today. So, we can really double our business.

You know, our IT infrastructure rivals any organization, and we leverage a mix of cloud infrastructure, API, and our own proprietary technology. We’ve made major investments, and we’re looking at all different things, you know, from artificial intelligence work and ADR, OCR. We’re making a lot of different investments that, at the same time, investigating in things that other people maybe aren’t or don’t--aren’t ahead as far as we are.

There are some big tech announcements coming in the next quarter or two--you’ll see--that are going to really take it to the next level. And our client-facing technology is fantastic.

We have a smart routing system and we built proprietary with our CR system where we get 5,000 of these a day. And it’s smart routing the right person at the right time along with an automatic closing process, which we built proprietary. YouClose 2.0 is really differentiated where brokers and originators and title companies--anybody in UWM can close automatically quickly. So, consumers have an amazing experience.

At the same time, our Brand 360, which is just a marketing platform that we built from scratch, proprietary, which is using different technologies that many people aren't understanding or using, to really take it to the next level and help our clients, you know, compete at a different level.

And so, you know, we continue to do different things to raise brand awareness and help the brokerage. And actually, I challenge you guys to go to FindaMortgageBroker.com if you want to find out what UWM--the brand at FindaMortgageBroker.com. But, just out what brokers think about UWM and what we've done.

You go to that website, pick any loan officer on there. Go to page five, page 20. I don't care what you find. You'll find a broker that works with UWM and brokers that understand what we're doing for the brokerage channel and why we are the differentiator for them so they can compete in their markets.

We did nice revenue sponsorship (inaudible) we did a Super Bowl commercial with our brokers. We actually had more media impressions in the first quarter of all time, over $21 billion. So, you get an idea. Our CMO, Sarah DeCiantis, has done a fantastic job. And we'll continue to grow. And so, day after day, you know, hour after hour, we'll continue to grow.

Now, quickly, before I turn it over to Tim, I want to talk about two things: people and community. First off, people--our chief growth officer, Desmond Smith--he used to be at Fannie Mae as a top executive there and also used to run Citi and Chase's retail divisions. He decided to come over because he really sees the light of what the broker channel can do, and it's the best for consumers and for loan officers.

So, he's really focused on helping us grow that channel. With over 800 team members--about 800 team members promoted in the quarter, which means we create opportunity internally.

And, at the same time, we rank the number one training company in America by <u>Training</u> magazine. It's not in the mortgage business. This is in America, period. We're very proud of that.

You know, I came from Michigan State basketball, as you guys know. Coach Izzo was known as getting great players but then training and coaching them to be the best version of themselves. That's what we do here at UWM. It gives us a massive differentiation as we continue to grow. Training is a big differentiator, and we're proud of that.

And in the community, we did some great things. You know, it's still pandemic going on out here. And obviously, we made a lot of money. We helped--over 10,000 meals we served to homeless shelters through buying food at restaurants to help the restaurants, to help the homeless shelters, doing right in the community. We talk about being dream makers here, not only for consumers, but for people in the community. We're doing great things.

And at the same time, for the vaccine--you know, we have a UWM sports complex, state of the art. We set this thing up, and we set it up for the county to have vaccines for people, not only for our team members, but for people in the community, making an impact, trying to put this pandemic behind all of us, so doing our part. So, a lot of great things are going on.

I'm going to turn it over to Tim Forrester, our chief financial officer, to go through some different things about the quarter. Then, I'm going to give you some quick guidance, and then, let's jump into some questions.

Tim Forrester: Thank you, Mat. It has been an excellent quarter on many fronts. Our success in execution continues to lead to success in our financial statements.

Our cash increased by over $350 million, and our investment in our servicing portfolio increased by over $500 million. So, we invested more in MSR, while our liquidity increased.

With our performance in Q1, our equity increased by just over $450 million. Subsequent to quarter end, we successfully executed our second unsecured debt issuance for an additional $700 million to continue supporting the balance in our capital structure, and a majority of the proceeds were used to satisfy existing secured debt facilities. Now only our mortgage loans are secured by debt facilities.

Let’s turn to the income statement. Our performance improved considerably over last year as margins were robust and volume was strong, leading to substantially higher loan production income. The increased size of our servicing portfolio continues to provide additional loan servicing income growth to further enhance our performance.

As Mat mentioned, we continue to invest in our technology efforts, but we also continue to invest in our people through team member additions as well as training. The training award recognition doesn't have a line item on the income statement, but it sure helps to explain a key element of our success. We invest in our people so they can best serve our brokers.

One item where we made a change was our ongoing accounting for mortgage servicing rates. We elected to adopt fair value accounting for all of our servicing rates, effective January 1, 2021. We believe that this will assist in comparability between our performance as well as our peers. The adoption of the change was immaterial as the recorded balance and fair value were very close as of January 1.

Our cost structure continues to perform well. While our cost per loan was higher in Q1, going from $1,473 per loan for all of 2020, it went to $1,662 per loan for the first quarter, which was significant, but lower than our competition.

This is also an investment in our people and our scale. And the first quarter traditionally carries a bit more cost load. So, overall, great performance.

Our continued cost discipline and effective deployment of our team members allows us to remain profitable in various rate and margin environments, as we have demonstrated in the past. We are positioned to do so again and are prepared for various market conditions.

Now, I'm going to turn it back to Mat to close out our prepared remarks.

Mat Ishbia: Yeah, thanks, Tim. I appreciate it. So, briefly, before we get into questions, you know, we already talked about--we did 40 times plus our first quarter of 2020. You know, we had a great quarter, continued to grow technology, operation. We went through all this stuff.

But, the reality is this--so, you guys get my perspective. I told the board and I told our leadership team, I've never been so sure of our success from the perspective of feeling so good about where we're at operations wise, cost and pricing, technology--the investments and things we're doing in technology are out of this world, and I think you're going to see more and more there's a capacity to handle business--capital, liquidity. You know, now return to work--we hope to get our people back here in the next 60 days or so to bring our team members all back in our building together, you know, 9,000 people strong.

And so, I've never felt so good about where our business is right now in position to gain market share and show as the elite mortgage company in America.

And so, you know, when we did our road trip back in September, I wasn't telling a story about, "Oh, this is what we do. We're less cyclical, and this is what our business is." The reality is I was telling you the reality. It's true.

And now--I didn't think you'd get a chance to see it in 2021. But now, with what happened in the market, you will actually see it. You will see that we are the elite mortgage company in America.

And as our competitors all guide to do less volume in Q2, we're guiding to do more volume because we're going to take market share and grow. We win a purchase environment. We win in these environments.

Our cost to (inaudible), our technology gives us the differentiator. So, a lot of people are not excited--our competitors are not excited about Q2. We're thrilled. We're excited about when rates go up a little bit. Because you know what happens? We will gain market share. We will prove ourselves that the thing that we talked about before wasn't a story. It was actually reality, and you're going to see it.

And now, we're going to demonstrate it in the second quarter. You don't have to believe me now. But, you can see me in August 9th--August 10--whatever the next call. And you're actually hold me accountable. Q2 2020 to Q2 2021--who grew the most in the mortgage industry? UWM versus anybody--I'll take UWM.

Q1 2021--the quarter we finished to Q2 2021--is everyone else growing? Or is everyone else going down? They're guiding down. They're going to do less business. UWM will do more business in the second quarter than we did in the first quarter.

Other people cannot do that because their business is cyclical, a lot more cyclical than UWM's. And so UWM will win just like we told that back at the roadshow.

So, understand you're going to see that. Will margins compress? Absolutely they will compress. They usually go from all time highs to all time lows. That's what happens in the mortgage industry. Then, they'll settle in at normal numbers.

We didn't expect them to go down to this point at this part of 2021. But, we're excited about it because we're still going to produce a lot of income where our competitors might not. And at the same time, we're going to take market share and show you that we are the elite mortgage company.

So, we're excited about the second quarter, very excited. Hopefully you can tell that from my perspective. We're going to guide to $51 billion to $55 billion of mortgage volume in the second quarter with the chance of it being our all time high as a mortgage volume in history and between 75 and 110 basis points in margin in the wholesale channel, which, once again, all time highs to all time lows. And it'll settle back in.

But, we're excited about the second quarter. It's going to be a great, great quarter across the board, and we're excited for you guys to see the data and the numbers here soon.

So, with that being said, I'm going to turn it back to the operator. I'm happy to take all your questions, spend the time doing it together. And so, turn it over to the operator. Let's open it up for some questions, and excited to chat with all of you guys. Thanks.

Operator: At this time, I would like to remind everyone in order to ask a question, to please press star then the number one on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Doug Herbert (sp) with Credit Suisse. Please proceed with your question.

Doug Herbert: Thanks. Mat, you were just talking--coming off the lows and ultimately stabilizing in terms of markets. I guess two questions. One, are you seeing any time--I guess what are you seeing in kind of the monthly data as far as, you know, stabilization in margins and, you know, how do you view--you know, kind of normalize margins?

Tim Forrester: Yeah. Thanks, Doug. Appreciate the question. So, normalized margins, you know, we talked about during the road show and during the crossing last quarter. You know, we think it’s mid 100 range is more likely to normalize.

You know, we expected this year to be more mid to high 100 as we talked about. But, obviously, with the ten year going up and the market shifting quickly, it naturally goes from all time highs to all time lows. And so, we think 75 to 110, you know, this quarter.

Part of that is even tied to, you know, some of the acquisition concepts that we discussed I talked about, which was understanding that, you know, we could acquire someone and spend money, or we can organically do it by lowering price a little bit and acquiring their clients, their brokers.

And so, we see 75 to 110--we see that, you know, for a couple quarters potentially. We'll see when that happens. I think it could go back up. I have to see what the ten year does.

Once it gets to a new norm, the lows are hit, and then, it goes back to kind of the mid 100 range, whether it's 115, 125 or more like 150, 160. That's kind of how we look at these things, and it just depends on the market and how quickly the rest of the market comes back to normalized numbers.

Doug Herbert: Great. And then, just, in terms of capital return, you mentioned sort of flow. I guess just how are you thinking about, you know, kind of how much, you know, flow you'd be willing to take out facing--around share repurchase?

Mat Ishbia: Yeah, Doug. So, I'm learning these rules as we go because, at this stock price, I'm a buyer. Right? And so, we'll buy shares as soon as tomorrow, I think, as our legal team said we're allowed to do.

So, I don't know how many I can buy--we can do. But, I'm very conscientious of the flow. If the flow was not a concern, we'd be more aggressive. However, we have authorization from the board to buy up to $300 million, and, you know, I'm going to take advantage of that opportunity while being conscientious of our partners and the flow.

Doug Herbert: Great. Thank you.

Operator: Your next question comes from the line of Henry Coffey with Wedbush. Please proceed with your question.

Henry Coffey: Yes, good morning, everyone, and thank you for taking my question. First, a housekeeping item. In the market against your MSR, can you break down for us the portion that was amortization or realization of cash flows in the part that was fair value?

Tim Forrester: Sure, Henry. Thanks for the question. The capitalization--a couple of pieces that go--that create the difference is that we capitalize just under $600 million of new servicing. And so, that $59 million that you're looking at in the income statement is broken down between about $198 million of fair value pick up with a remaining $257 million or so being the amortization and paid in full, you know, combination. So, that's the primary difference is that the $198 million is the fair value pick up over the quarter, and the $257 million or so is the paid in full and effectively the decay.

Henry Coffey: Great. Going back to Doug's question, I think it's what everybody is asking about. You know, United is a market leader, and obviously holding that position and growing that position is extremely important to the company. But, there appears to be a pretty painful cost to it.

You know, as a market leader, what capacity do you have to impact pricing and maybe accelerate the return to something, like you said 125 to 150 gain on sale? And related to that, as you're looking at April, are we at 75 basis points or 100 basis points? And I assume that that number is both gain on sale plus your origination.

Tim Forrester: Yeah, thanks, Henry. So, a couple things. Yeah, we are the leader, without question. People will follow us up or down the price ladder, if you think of it that way.

As you understand and we talked about before that, you know, in order for our competitors to get business, they have to be substantially better priced than UWM. Our technology, our service, our partnership is elite, and our clients know that.

And so, the way our competitors can get business is by being significantly better priced. We were not near the 75 number for the first quarter--or first month where my competitors have to be. I'm not saying--you know, we'll how the next couple months come out.

But, my point is, you know, 75 to 110 is what I'm guiding for. And I'm just confident about that number. And I also feel confident that, you know, we're going to grow our market share. And if we decide to ease off on the margins, everyone else will as well. And we will continue to succeed and grow.

We can acquire companies with cash and stock, or we can acquire companies and acquire business with margin compression. And we had that decision in the first quarter, and in the fourth and third quarter, we have the decision as well, and we make the decision, you know, on a daily basis of where we think the market is and what we think the best thing for our shareholders, our team members, our clients and consumer at the end of the day.

And so, we feel really good about where we're at right now. And yes, we can leave margins on the way back up. But, remember, our cost to originate is substantially lower than everybody else's, and it gives us a major competitive advantage. And, as I said earlier, I feel really good about where we sit right now, and this quarter, third quarter, fourth quarter, and a lot of opportunity to grow at UWF.

And then, when we're as large as we are and we take the time to take more margin, then the profits come flowing through, as you saw in the third and fourth quarter and even in the first quarter.

Henry Coffey: But, when we look at your operating cost in the first quarter--and, you know, we don't think about it in our core loan basis, as you all do. But, when we look at your operating cost and we subtract out servicing expense, it looks like your--the remaining overhead was about 50 basis points of origination.

Can you break that out? How much of that is corporate and fixed, and how much of that is really, you know, the direct segment expense?

Mat Ishbia: Yeah, just real quickly on the fixed portion of that--it's--usually about two thirds of that will be fixed cost. We don't break out necessarily corporate. You know, we just allocate the cost regardless of where the cost sits. Everything is attributed to the origination core servicing side.

You know, but most of that is going to be sitting in the origination. So, when you think about our cost structure, usually it sits about a two thirds to one third. When I look at first quarter results, 53 basis points is what we calculated our expense all in, 33 basis points was fixed, 20 was variable.

So, that's how we look at it. Again, we don't look at it as a corporate allocation. Every cost has a home, and it's attributed to the business.

Henry Coffey: Alright. Thank you very much for taking my question.

Mat Ishbia: Thanks, Henry.

Operator: Your next question comes from the line of Steve Delaney with JMP Securities. Please proceed with your question.

Steve Delaney: Hi, everyone. Good morning. Thanks for taking the question.

Mat, you mentioned that you--with your all in program--that you said goodbye to about 600 partners. Could you estimate for us what your total signed up and active partner count would be, say, at the end of March or currently? Either way.

Mat Ishbia: Yeah, thanks, Steve. Appreciate the question. Yeah, we have well over 10,500--actually, we have over 11,000 partners. So, 600 is out of that--it was out of, you know, almost 12,000--take 600 out. And that's kind of what I look at the number at.

There's still--I said, as I described, you know, some that are undecided. A lot of those are small companies that maybe just don't even do that--do a loan every month. Thus, they haven't responded, or we haven't connected with or we never did business with them anyway.

But, in general, we have a lot of active clients, and it's growing. And the clients that we're doing business with are actually doing a bigger percentage of their business with us. So, think same store sales. It's growing with UWM. Ever since this announcement and since we’ve rounded out our product, including the jumbo prime I described earlier.

Steve Delaney: You’re right. The press got all over it. But, it seems--from where we sit, it seems to have settled down. Is that the right observation? I mean, it-okay, it was a big deal, a lot of articles. But, is it back within the industry, within the broker--the wholesale channel? Have things chilled out, a little bit calmer now, and it just is what it was.

Mat Ishbia: They were always chilled out, Steve. You know, the reality is I don’t control the marketing machine that my competitor is and what they like to do. The reality is brokers--I walked into a couple of places with hundreds of brokers there during COVID. And everyone was wearing a mask. So, don’t worry. We’re safe.

But, they--literally standing ovation for me walking in, thanking us for doing the right thing for brokers. And so, it never was an issue. It’s never been an issue. People know that someone had to stand up for the right thing. And we didn’t, and it didn’t hurt our business. It only helped our business.

But, let’s just say it was neutral, which it wasn’t. It was very positive. Let’s consider it neutral. The alignment and the loyalty and the structure has been a 10X win. And so, my competitor can spin it all they want. The two of them are not happy with me.

But, once again, I don't think they're shareholders. But, if they are, they're probably happy as a shareholder.

Steve Delaney: Great. Well, as long as you and the insiders feel like you won the game, then that's a big plus right there.

Quick follow up, if I could, for Tim. So, you know, everybody is trying to figure out what's normal on margins. And, you know, we'll see that soon enough.

But, Tim, let's just take an extreme case, and let's just say that 100 basis points is--you guys will sit down and figure out that's all you can count on for the next 18 to 24 months. I mean, is that something that you can be profit--is that a level you can be profitable and some rough idea of what kind of return on equity, 100 basis point of margin, you know, would result in? Thanks.

Mat Ishbia: Yeah, thanks. I'll jump in real quick. And Tim can obviously--.

Steve Delaney: --Oh sure, Mat--.

Mat Ishbia: --Round out my comments on it. But, the--you know, I don't know if those would be the numbers in that 18 to

24 months. Remember, like I said, they go up high, and they come to all time lows because everyone has built up a lot of capacity, and everyone wants to get competitive and try to play the game.

But, I'd be very surprised if numbers were in the lows for as long as you discussed. And we are the ones that can play the game longer than anyone that they want to play with us based on our scale and our cost to originate and our proprietary technology. And so, we have a huge advantage there.

So, we're willing to play as long as people want to play. But, the reality is they're not going to play that long with us, and we think margins will go back up off the all time lows sooner than what you described.

Tim Forrester: I think the--.

Steve Delaney: --Let's say they--go ahead, Tim. Sorry. Go ahead--.

Tim Forrester: --I think the hard part about getting to the--you know, the ROE is you are dealing, exactly as Mat said, with a volatile amount of margin. So, can it sustain at 70? We've never seen this business sustain at such a low amount or 75, you know, whatever the low end of the range is.

So, the normalcy is a matter of time of when does the--you know, when do the margins get back out? But, we're still--how we model it out, we're still profitable at a very low end of that spectrum and even lower than that.

Steve Delaney: And if we were back to 150 basis points, you feel you could still deliver a very strong return on common equity for investors at that level?

Tim Forrester: That's correct.

Steve Delaney: Stabilize long term. Okay. Thank you, both, for the comments.

Mat Ishbia: Thanks for the question.

Operator: Your next question comes from the line of Ryan Mouche (sp) with Goldman Sachs. Please proceed with your question.

Ryan Mouche: Hey, good morning, guys.

Tim Forrester: Good morning.

Ryan Mouche: So, Mat, I'm curious for your view about the differential pricing that exists between different markets right now, wholesale versus retail. I fully understand that you're not a player in the retail market. It just seems strange to me that there’s such a different price. And how do we think about the risk of it spilling over into other markets?

And then, when you look back on the last time we had significant price competition, which, I think, was 2019, can you maybe just help us understand what drove the market back up last time? Was it just rates? How long did it take for capacity to normalize, and is there anything else we should be thinking about that impacted margins normalizing? Thanks.

Mat Ishbia: Yeah, thanks, Ryan. Appreciate it. So, a couple things. Retail versus wholesale--yeah, it’s an interesting anomaly right there. Not an anomaly though. Right?

So, the difference between retail and wholesale is there’s a massive difference in price to the consumer. And so, there are some of our competitors or companies in wholesale that offer retail and wholesale. And to offer a consumer that goes directly to you in retail a worse rate and worst fees by a substantial amount than one that goes to a broker and comes through your same channel to a wholesale channel is, in my opinion--inappropriate is the nice way of saying it. But, that’s the way it is right now.

And so, you’ll see us shying on that. But, as the market continues to evolve that the retail--you know, the margins in retail are substantially higher. Therefore, the benefit to the consumer is not as good. And that's why it's silly that the broker channel is only 20 percent of the market.

If it's cheaper for the consumer, faster for the consumer, and easier for the consumer, why does the consumer still go to those retail lenders and pay more fees? It's because they just have not been educated. And that's one of the things that we're going to be working on is educating consumers. Realtors and LLs understand it mostly. But, consumers definitely don't understand.

And those large retail organizations--they need those higher margins or they can't compete because they have massive infrastructures with bloated executive comps along with massive amounts of money in marketing and TV commercials. They spend a lot of money on things that make it so they can't be profitable at 100 basis points.

So, with technology--I want you to think of this, Ryan. In any industry--don't even think mortgage--as technology enters an industry--and mortgage--we've always been lagging. But, it's coming hard, and we're hopefully a leader in that, and we've shown that.

As technology enters the industry, what happens is margins compress. That's just natural. Right? But, who can sustain that and who can win on lower--the people with the biggest, bloated costs are the ones that will lose first. And that's an opportunity, and that's why there's over 400,000 loan officers in America that are in the retail channel that are seeing their broker competitors with only 50,000 loan officers offering lower rates to consumers.

That's going to change once their pipelines dry up a little bit. And they will migrate to the broker channel, and that's why we're very steadfast on our belief that the broker channel will become one in three, a 33 percent market share. When that 33 percent market share happens, UWM will be in prime position, not only to be the number one overall mortgage lender, but for brokers to continue to make an impact on consumers throughout America in a very positive way.

So, we're very excited about that. And there is a massive difference between retail and wholesale. And the media does not want to talk about that story because, once again, you know, the media doesn't play well necessarily with the brokers because brokers aren't paying for the commercials.

But, the reality is the difference between retail and wholesale is substantial. Go ahead.

Ryan Mouche: And I was just--that's helpful color. And I was going to ask a follow up question on--you know, you sounded pretty positive on the outlook for volumes, the 50 to--51 to 55 in the second quarter.

And I was just hoping--maybe can you talk about, you know, obviously what we all understand what's going on in the pricing side? But, can you maybe just talk about maybe an intermediate view on how much share within the wholesale channel you can take? So, on one side, price is compressing.

But, could we--you know, where could we see volumes go? And then--and I guess, related to that, you talked about, you know, $2 billion of jumbo volume in May, also expanding the government program. Like how big can some of these programs be, and are there any other pockets of volume that maybe you pulled back during COVID that we see--that we could see becoming--coming back on that could also drive incremental volume? Thanks.

Mat Ishbia: Yeah. Great question. And you're exactly right. So, there's a lot of things--as we rounded out our products, bringing back jumbo, offering FHA in a more meaningful way, you know, even rolling out ARMs and just like--once again, nothing that's a silver bullet--I mean, the jumbo, you can consider $2 billion a month is a pretty sizable number.

But, the reality is rounding out our price--brokers want to use UWM. They've been--they wanted to use UWM. There's a different--there’s reasons that they have not. We’ve basically closed the gap on those reasons.

Can UWM get the 15 percent market share in wholesale? Absolutely. Will we get there in the second quarter? No. But, we can get there and we will get there over the next five years when we continue to grow because we are the choice for the brokers. We are their true partner. We don’t compete with them. We offer them a very consistent strong product and pricing. And we have the best technology and service in the industry.

And that’s not an opinion. Like I said, you can go to FindaMortgageBroker.com and ask brokers. They’ll tell you. Once again, you don’t have to pick a broker that works with us. You can just pick anyone on there. They’ll tell you, you know, what they really think.

And that’s why, if I’m a mortgage investor or an investor in general, if I’m picking a mortgage company, it’s UWM. UWM will win. UWM--our net promoter score is an elite level. You know, think of the top Fortune 1000 companies. We’re probably a top one percent, if not, even better than that. And so, our service, our technology win.

Now, how big can we get from a market share perspective? Like I said, I think 50 percent is very realistic, and that’s what we're targeting over the next five years. And that's even within the broker channel growing.

And so, these products rounding out will be a substantial benefit for UWM. We guided up $51 billion to $55 billion, up from the first quarter. Like I said in my remarks, nobody else is going to be going up first quarter, second quarter? Right? They're just not going to. And if you want to really compare second quarter of 2020 to second quarter 2021, you'll truly understand the power of our business and the strength of a UWM company and the broker channel.

When rates are low, everyone looks great. We look great too. When rates start to pick up, you know, you start to see people's blemishes. They start to come out. When you're 90 percent refi, you know, you start to think, "Uh oh. I might do a little less volume in the second quarter and going forward."

So, we're excited about the opportunity to show that we are the elite mortgage partner in America, and you guys will see that as investors of ours.

Ryan Mouche: Appreciate all the color, Mat.

Mat Ishbia: Thank you.

Operator: Your next question comes from the line of Sumeer Kaluta (sp) with Deutsche Bank. Please proceed with your question.

Sumeer Kaluta: Hi. Good morning. Thanks for taking my question. What I wanted to touch upon is--a number of key players in your space are getting more attention for their technology and how they're modernizing their mortgage process.

So, I was wondering, with the great technical prowess you have and the scale of the infrastructure you put in place, are there any (inaudible) you can go after aside from the core wholesale lending?

Mat Ishbia: So, thanks for the question. So, just describe--I'm trying to understand exactly what you're asking. Are there companies--are you asking if I can buy technology companies or look at that? Is that what you're asking? I'm trying to just make sure I understand it before I answer.

Sumeer Kaluta: You could buy, you could partner and just to embed yourself more in the process so that you can expand your (inaudible) from the lending business to the whole home ownership business because you have such a great tech infrastructure already in place.

Mat Ishbia: Great. I got it. Thank you (inaudible).

Sumeer Kaluta: It's one of the questions you could look at.

Mat Ishbia: Yeah. So, try to understand the process all the way through. And so, we've looked at partnering with different companies, tying our brokers in because our brokers generally have not had the partnership, whether it's with builders or insurance agencies or even technology companies, at the level that a lot of retail competitors do.

That's how a lot of retail competitors get their business and are able to still maintain their margins because they kind of have a captive partnership in a lot of respects. And so, we have looked at a lot of different ways we can help break through that for our mortgage brokers.

But, the reality is with education and with time, people are realizing that the difference between wholesale and retail is a major difference. And people are going to want to work with mortgage brokers. Brokers are not a fad. Brokers were the elite partners prior to the crisis in '08. They're 56 percent of the market.

Everyone understood that brokers offer a lower rate now. Brokers offer--all things--brokers still offer a low rate. But now, they have a faster and easier process because UWM has enabled them. We've empowered them with the technology we've built, proprietary.

Can I partner with companies that have great technology? Yes. Can we build it ourselves? Most likely. You know, have we looked at acquisitions? Absolutely. We have a lot of cash on balance sheet. As you saw, we're going to look at repurchasing shares. We obviously pay a dividend out quarterly, which has been very positive. And, at the same time, we still have a lot of cash sitting here.

And our MSR book is growing immensely. And the value of that MSR book will only continue to grow if rates go up, and we're very, very proud of that. So, we are in a very, very strong position. Like my remarks, I said--I don't know if we've ever been in a stronger position at UWM, and I'm excited for you guys.

I didn't think the investor community would see it as in the market share growth and a lot of things that we talked about during a road show and our process until 2022 or 2023. And I think if rates start picking up a little bit or stay picking up a little bit, you're going to start to really see the power of UWM and why, you know, our earning, our value, our market share, and quite honestly, our stock price will follow. And you'll see that as it goes up and we continue to succeed.

Sumeer Kaluta: Thank you.

Operator: Your next question comes from the line of Bowen George (sp) with KPW. Please proceed with your question.

Bowen George: Hey, guys. Good morning. Just wanted to follow up on the question--discussion about the growth in the broker channel. As loan officers, they move from retail to the broker channel, you know, can they make more money?

I'm just curious, you know, how--the shift that sort of drives the growth in the channel as long as the consumer, you know, seems to not be aware of sort of the full benefit they're getting in that channel.

Mat Ishbia: Yeah, great question, Bowen. So, here--yes, the loan officer will make more money, and, yes, at the same time, the consumer will get a better rate. So, put those two things together and say--how can the loan officer who's originating it make more and the consumer get a better deal? That's the difference between that 300 basis point--350 basis point margin everyone else has and 100 basis point, 125, 150 basis point margin in wholesale.

Major difference. And so, the LO will win. And that's not even taking into account the benefit of a W2 loan officer at whatever company--calibur, guaranteed rate, can start his own company, issue a mortgage, or a little broker shop. And now, he's self employed, and he gets the benefits of writing taxes off and doing different things and doing--you know, there's a lot of benefits.

And so, the opportunity is huge. You will see that happen this year where some of the biggest loan officers in America leave their retail companies and go to brokers, make more money, get better deals to consumers. And it will make the shift. This shift will happen. It's not an if. It's just a when.

And we think it was going to happen later on in this year, early next year. But, it's starting to happen a little sooner because, as rates go up, those loan officers that are charging borrowers higher rates--they say, "I'm charging my cousin a higher rate. I'm not making that much money. And I don't have that many loans in my pipeline. Like why don't I just go do this myself? And I know that the brokers are out there winning and competing right now."

And so, as long as they know that UWM is stable and strong, which everyone knows that, then they feel more comfortable to join the broker channel, and we're going to see it. We're seeing it every day. But, we're going to see more of it as this year progresses and into next year.

Bowen George: Okay. That makes sense. Thanks. And then, actually just switching to the jumbo channel, the--can you just talk about, you know, how large it could be there? I mean, 30 basis is a large channel. But, there's also the--I guess the risk is issue--of like how do we best execute there? So, is there a way to be, you know, much larger in that while sort of balancing--with the execution issues that we kind of saw last year, which that market shut down?

Mat Ishbia: Yeah. So, we have to understand the market, and we--we're very good at understanding when the right time to be in this market is. Now, the market is a lot more stable, and we also have a lot of outlets and partners, along with our ability to go direct with the private label securities ourselves.

We are the size and scale that we can do that, and we are investigating different ways to do that right now. And you'll see that happen in this quarter most likely--and how we handle that. And so, I guess I would say is--how big can it get? It can get bigger than it is now.

You know, can we do $6 billion, $7 billion a quarter? Yeah, absolutely. The interesting part about it, which was--I will say a little surprising--although I knew it would be big in purchase, but seeing almost have of it being purchased at the initial read was higher than we expected.

And so, that’s a big opportunity. Brokers really win in a purchase market. And so many brokers--and I was on the road in this last month talking to some clients, and they said, “You don’t understand, Mat, how many clients a month I would throw, you know, as in refer, to a large bank or another competitor, a friend of mine that works in loans, because I just couldn’t handle it because we didn’t have a jumbo product.”

Now, UWM has it. Now, they’re competing. Now, they’re offering their services. And what happens is if the broker does that jumbo loan for the borrower and closes it efficiently in 15, 20 days like we do at UWM all the time, what that does is that gives them that referral from that realtor, that listing agent, buying agent all the sudden--they’re like, “Whoa, that broker did it.” And they get more business.

It usually has opened up the brokers to a different market. And then, they can get even more of the regular market that they’ve always been in because they just didn’t have that connection. And so, it’s really been a huge success. Like I said, I think about $2 billion in May is a rough estimate that we will do.

And could it grow from there? Yes. So, I'll say it could be as little as $4 billion, as much as $10 billion in a quarter. That would be my, you know, high level estimate. But, I think the first quarter--the second quarter is not going to be a great indicator because I didn't roll it out until March 17th. So, April was a slower month, and even though we did over a billion of it. But, we expect May to be a more normalized month, and we'll get you that number, May and June numbers for you on the next quarterly call.

Bowen George: Okay, great. Thanks a lot.

Operator: Your next question comes from the line of Michael Pay (sp) with Wells Fargo. Please proceed with your question.

Michael Pay: Hi. Good morning, everyone. I think I've heard you mention you're doing more same store business with your broker customers now with that sharper price exchanges. But, historically, when you ease back on those pricing expenses at their competitive (inaudible), how much of that market share do you end up keeping?

Mat Ishbia: Yeah. So, we keep a great, great percentage. So, the one that we don't win in the past--so, our process, our technology is quite sticky. Right? People love working in our system. And once they see it and they get used to it, it's hard to go elsewhere. So, it creates price elasticity where people are comfortable partnering with.

Now, in the past, the rate--the reason that stuff doesn't stick as long as when it's a refi market when people are always focused on--companies that are refi centric--brokers that are--and we have, of course, all they do is refinance. They're less price--they're less sticky than the partners that we really are all in with from a broker perspective.

And so, quite honestly, a couple of the brokers that didn't go all in with UWM that stayed with Fairway and Rocket were interestingly the refi shops that are, you know--have very low cost, very low revise, and their business has fallen off consistently because that's all they sell.

People that only sell rate will not win in any mortgage market, whether you're retail, wholesale, anybody. You have to sell value. And our value is technology. Our value is service. Our value is partnership. And, yes, our value is having a competitive price, and our brokers know that.

And as long as we stay consistent with price and dominate on service and technology and they know we are not competing with them, we will continue to grow. And that's what's been happening with them.

Michael Pay: That’s helpful. And it seems like you’re touting the quarter in quarter increase in loan originations you expect in Q2--but, it seems like you had weaker quarter in quarter growth in Q1 versus your wholesale peers. And I believe the Q1 volume was below the prior guidance you gave. I was just wondering if you could provide some more color on the dynamic--what looks like some market share in Q1?

Mat Ishbia: Yeah, there’s no market share loss, really, in Q1. So, one thing you’ve got to realize is UWM closes loans in 17 days. My competitor is closing them in 45, 50 plus days. A lot of people that you looked at Q1’s numbers, they had zero impact from rates going up in the first, second week of February. When rates went up first, second week of February, which was after my last earnings call, we actually had a worse March because of it and even a worse February because we actually close loans that fast.

Where all my competitors were still closing loans from December and January and February and March. And so, we already--you already saw our, you know, downward trend based on rates picking up. You have not seen everyone else’s. They were still living off of Q4. And so, the speed that we close loans is shown in that example, and you’ll see it in Q2. And that’s why we’re quite confident that we will grow in Q2 while others will not because this is--now they're actually going to live with the real numbers of what the market is.

And even if it takes them 40 or 50 days to close, they can't escape the March--February, March, and April rise of rates.

Michael Pay: Okay, thank you. That's helpful. Thank you.

Operator: And, again, ladies and gentlemen, please go ahead and press star then the number one on your telephone keypad. Your next question comes from the line of Mark DeVries from Barclays. Please proceed with your question.

Mark DeVries: Yeah, thanks. I had a question about the purchasing and how that's shaping up. Do you have a sense, just looking at your rate locks in April and May, you know, where that's trending or what your share of purchase is in the broker channel relative to your share of refis? And also, do you have a sense for how you're kind of--the relative efficiency in, one, fulfillment that you highlighted. Is it any different for purchase loans versus refinance? And then, finally, any difference in margins you're seeing in purchase versus refinance?

Mat Ishbia: Great. Great question. So, the first one, I'll just answer real quickly. Excuse me. There's no difference on margins on purchase versus refi with UWM. So, the numbers you're seeing are the numbers that they are across the board.

Efficiency--same thing. The close to purchase transaction is more complex, period. That's why a lot of the direct to consumer companies--a lot of people that are refinancing their servicing book--they don't do much purchase because it's more complex. It's not a one to one lender to borrower. It's lender to borrower and then two real estate agents. Right/ And then, a seller--right--and then, you know, you always need--not always--but, you most likely will need an appraisal.

It gets a little more complex. Our efficiencies are within a day or two. So, it's not a big difference. So, let's call it 17 days, 16 days on refi, 18 days on a purchase. There is no difference material wise for UWM on purchase for a refi.

You see a little more of a difference on some of those efficiencies on product. Could FHA or jumbo take a little longer than conventional? Yes. But, once again, with us, we're talking two or three days is not material. Once again, we still expect our time frames to be in that 17 day, 18 day range that we talked with our mixture right now.

Now, the big question is purchase refi mix. And so, April, I gave a little bit of an indicator for you guys is that--on the new registration, which means when someone puts a loan into our system for the first time, April was 43 percent purchase. And 43 percent, like I said earlier, doesn’t matter. The percentage doesn’t matter because if I just did less refis, then you wouldn’t be that excited.

The difference is it was one of our best registration months of all time. And so, with high volume and 43 percent purchase, that’s why I said--last quarter I said it--so, I say it again--that in the third quarter, you’ll see the biggest all time purchase volume out of UWM. And we will continue to be the leader. You might actually see that in the second quarter, our purchase volume.

And so, our volumes are going to be up over Q1. Our purchase volume will be up over Q1. And across the board, we’re winning on that side. And so, people have to move their business and readapt or adapt to the purchase market compared to the refi market. And a lot of these competitors of ours or companies in the wholesale and retail channel are not built for that. Right?

Think about--if you’re a direct to consumer business--right--and you don’t have any local presence, you will not succeed in the purchase market, and you’re going to see that coming forward in the second quarter numbers on purchase side.

Mark DeVries: Okay. Just one follow up on that. you mentioned, you know, on the purchase it's a little more complicated, and it takes a couple more days. Does your relative efficiency actually widen out relative to the competitors or maybe about the same or tighten when you factor in that extra time?

Mat Ishbia: Absolutely. You got it exactly. So, where you're seeing people's time to close and their efficiency tied to refinancing a current servicing loan of theirs that they're--they already have all the data, all the information and just send them the application process, one out of one contact, lender to--that's a lot different when you get purchases involved.

And that's part of the reason a lot of these companies that are out there in public and also in private are not capable of doing the purchase business at the volume scale of UWM. So, our competitive advantage increases. And that's why I said earlier. I'll say it again. You know, Q1 to Q2 purchase growth and overall market share growth, volume growth, UWM will win. We are not guiding down 10, 15, 20 percent. We will do more business because everyone else is kind of a little concerned with what's going on, not just from margin. Everyone understands that. Everyone knows all time highs, all time lows, and then, settle in. That's nothing new to mortgages.

But, having to figure out how to do purchases after you've been living off of refi for the last 12 to 18 months, you know, it's game on. We're going to see how that goes for everybody.

Mark DeVries: Okay. Great. Thank you.

Mat Ishbia: Alright. I think that was all the questions. And so, thank you, all, for the time. We're always available. My investor relations, Matt Roslin's available, Tim Forrester, CFO, myself, I'm always available. We look forward to talking and continue to build a great relationship with all of you guys. I'm glad we were able to take all your questions. And we're excited to talk to you again, you know, early August to discuss the second quarter numbers.

And you guys hold us accountable to what I said today. And we're excited about the opportunity. So, thanks for the time. Thanks for the questions. Have a fantastic day.

Operator: And this concludes today's conference call. Thank you for your participation. You may now disconnect.