UWM Holdings Corporation 2Q 2021 Earnings Call

August 16, 2021 - 4:30 P.M. Eastern Time

Operator: Good morning. My name is Zen (sp) and I will be your conference operator today. At this time, I would like to welcome everyone to the UWM Holdings Corporation Second Quarter 2021 Earnings 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, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you.

Matt Roslin, you may begin your conference.

Matt Roslin: I am Matt Roslin, EVP of Legal Affairs and Investor Relations. Thank you for joining us, and welcome to the second quarter 2021 earnings call for UWM Holdings Corporation.

Before we start, I would like to remind everyone that the 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 this morning.

Before introducing Mat, I want to inform everyone on the call that our CFO, Tim Forrester, cannot be with us today due to personal reasons. Mat Ishbia, Chairman and CEO of UWM Holdings Corporation, United Wholesale Mortgage, will be delivering both the business and the financial updates on today's call.

Mat Ishbia: Thanks, Matt, appreciate it. And thank you, everyone, for joining the call today. It's great to be here, especially after another outstanding quarter here at UWM.

Before we start, you know, I obviously want to thank our team members here at UWM, our partners throughout America doing great things, mortgage brokers, independents out there, proud to partner with all of them.

The second quarter was our best quarter in company history from a volume perspective, so we're very excited about the results. Not only did we post record numbers for production, but we almost doubled our prior quarterly production on purchase loans, and that's going to make a big difference, as we talk about later on. Purchase production is an important measure, and I'm going to explain the details of how we think about it later on in this call.

On our last quarter call, as I will do every time, I let you know to hold us accountable to our numbers and what we say. We delivered above what we expected in many respects and are excited for you guys to see the results and talk about what's going to happen in Q3 as well.

We delivered $59.2 billion in production, beating our guidance of $50 billion to $55 billion. At the time when most of our competitors guided to do less and did less volume, our production was up over 20% at UWM compared to the prior quarter and resulted in an increase in overall mortgage market share by a significant amount at UWM.

Our gain margin was 81 basis points, in line with guidance, and is actually lower numbers than historic year numbers. However, we posted a solid profit. We delivered $138.7 million of net income. When I back out the $219 million to kind of fair market value of our MSR asset, our core earnings, as I like to call it, was approximately $358 million. That's the way I run the business. I mentally add back or subtract if it's positive.

The change on MSR really is more representative of what our business is. The $358 million we're very proud of, and at the same time we think of how to run the business to make sure that we deliver great earnings from an operating perspective at all times.

And obviously the MSR asset, we do not control the change in fair values, including the impact of certain market assumptions. And to me, when assessing the health of our business, I like to remove the changes up or down on a fluctuating asset that I can't control.

We've already noted that on a sequential basis, our second quarter results represent a 20-plus percent increase in overall production. I think it was actually 21%. More exciting to me, though, was the 97% increase in purchase production over the first quarter.

On a year-over-year perspective, Q2 looks great as well. We had a 90% increase in overall production and a 288% increase in purchase production. There's no mortgage company in America has comps like this. We are the elite mortgage company in America, and we're proud to show it to you quarter in and quarter out.

The second quarter was really interesting, as it provided a glimpse into the future to our industry for a couple of reasons. First off, the weighted average rate, 30-year interest rate, went to 2.99% from 2.80%. So, just about a 19 basis point raise in rates, and you would have thought the whole industry shut down based on how a lot of people reacted. That was only a small raise in rates. Wait till it goes from 2.99% to 4% and you'll see the strength of our business across the board.

The relative refi mix declined, and purchases increased and became more important for mortgage originators. But purchase mix is not the thing we focus on. We focus on purchase production because purchase mix looks really great if your refi volume went down. UWM's refi volume actually stayed about flat, but we almost doubled our purchase business from $12 billion to $24 billion quarter-over-quarter.

Some companies like to speak about purchase percentage or mix or really don't like to speak about it at all. But it's important to note that the purchase mix can solely change by doing less refinance, and that's really not the story we're trying to tell. We're trying to talk about the strength of our business, which is a purchase business.

And when rates go up from the 2.8%, 2.9% to 3.5% or 4%, that's really when the best mortgage companies will shine. And we believe we are that company. Just like in 2018 or the first quarter of 2020, you know, you can see how people perform when the tide is out in not such a frothy business.

So, second quarter, 24.06 purchase production, our best purchase quarter of all time, our best overall quarter of all time. And if you think about it, if you had no refi business, we'd almost do a $100 billion of purchase business in a year, which by far and away would be the number one mortgage company in America.

It's very important to understand this because our business to business model and history prove that not only when we gain the purchase share, we retain it and maintain that business with our broker partners and our independent mortgage companies that we partner with.

How are we growing in this market? Simple. Speed and service. Our cost structure allows us to be profitable with lower margins, but the reality is we're closing loans faster and more efficiently than anyone in America. Our real estate agents love that, our brokers love that, and that's how we continue to get more referrals and grow our business.

Time kills deals, we talk about here at our company, is never true on a purchase business. Once a broker closes a purchase loan, they stay with us. They want to continue to send loans to us. And guess what? The realtors want to as well.

We continue to close loans in 18 days while the industry is over 47 days. We are substantially faster than the market. Our client service remains best-in-class with our proprietary technology and uncompromising team members, improving our year-to-date Net Promoter at a plus 86.6.

While Q2 was a glimpse into the future with rising rates, we've seen rates drop a little bit in Q3, which means a lot of the heavy refi shops, our competitors, will be able to post decent numbers and better gain on sale margins in the third quarter. The reality is Q2 was a glimpse into the future and what this will look like in 2022, 2023, 2024, and UWM is the lead mortgage company.

Now, I want to take a quick moment to talk about a quick update on the all-in initiative that we announced on March 4th. A lot of people, a lot of the media, like to spin things and say negative things about the all-in initiative, questioning the decision process.

I want to make sure everyone understands that, you know, UWM is very in tune with our clients, and it's been an overall huge win for--not only for UWM, because that wasn't the focus. The focus was on the independent mortgage brokers and consumers. It's been overwhelmingly positive. We are very in tune with what our clients need.

And of course, media and our competitors love to spin the story, but the reality is this, black and white numbers. UWM grew 21%, $49 to $59 billion dollars, while one of our competitors, who is public, went down from $103 to $83 billion or in their partner network, Rocket Mortgage went from $41 billion down to $30 billion.

It's not a discussion whether it was successful or not, and other people can spin what they want. It was an overwhelming success not only because of UWM's growth and some of our competitors' non-growth, if you want to think of it that way, but the reality is this, the line within the broker channel. From culture, training, licensing, our clients are all-in with UWM, and they're all-in for the broker channel just like UWM is.

And that day, March 4th, was a changing factor for all of the independent mortgage brokers in America, and we're proud to have made that decision. That was very positive for the whole channel and consumers across America.

You know, this year will be our seventh consecutive year being the number one overall wholesaler in the country. And we're very excited about the growth and continuing to lead the broker channel as a partner with so many independent mortgage brokers throughout the country.

I'd like to summarize, you know, some of the production and look back on by saying that a solid foundation, strong and established relation with our clients, exceptional service position able to help us capture more market share in 2021, as we just did in the second quarter, but beyond, going forward in the future, and so we're very proud of where we're at.

At the same time, we have a lot of other good things going on, so now let's talk about some other highlights. Return to work; so, in June, we welcomed back a lot of our team members. By July 16th, we had all of our team members back here in Pontiac, Michigan. Our culture is more alive than ever. Our 200 acre-plus campus, we're excited to have all 9,000.

We have our clients coming in. We have hundreds of clients coming into our office every week, flying to Pontiac, Michigan, to get trained, to get coached, to learn how to grow their business. As they grow, UWM will grow and the broker channel will grow. And that's a big part of our story, and it's happening every single day.

We continue to reinvest in our business and our people. We've built some proprietary technology, will save us, you know, over $8 million estimated this year on some proprietary things we've done with some docs, document generation and document storage areas that we've done.

We've evaluated the feasibility, and we're looking forward to being the first mortgage company in America to accept cryptocurrency to satisfy mortgage payments. That's something that we've been working on, and we're excited that hopefully in Q3 we could even actually execute on that before anyone in the country, because we are a leader in technology and innovation.

We remain committed to our 9,000 team members. We're creating the best environment for collaboration and learning and growth here at UWM. And in the third quarter, you're going to hear about some game-changing technology, an innovation that we are rolling out. We're very excited. It's not things that other people have done. We're trying to be a leader once again, as we have been for years, and we've got some big things that will be announced in the third quarter.

Now, with all that stuff, I'm going to shift. And as Matt mentioned, Tim Forrester, our CFO, could not be available today for this call, but I will talk about our financials and go through some of the details about our financials before we wrap up and take questions. First thing I'd like to start about our buyback.

As announced in the last quarter, we authorized--we were authorized by the Board of Directors to buy back shares. The exact details are in our filings, but in the summary we purchased just under 800,000 shares in Q2 and a lot more since. If you add it all back, we purchased well more than two million shares. You know, and honestly, at these prices, you know, if the float issue wasn't a big deal, we could even buy more.

And we have the authority to buy more and we'll continue to look at it. But we are obviously very aware of our investors' concern about our float, and thus that's why we can't buy, you know, even more shares back at this time. However, we do have the ability to do so, and we'll continue to do so when that opportunity is there.

Q2 highlights; net revenue, $485 million, comparable quarter of $831 million last year. But remember $219 million of that reduction was really the change in our accounting for MSRs, which placed reduction in fair value of MSR within revenue rather than expense. So, it's really a $219 million difference there to change.

Our servicing income was higher due to our growing portfolio. And interest income, that followed our overall production volume, increasing substantially over prior periods. On the liquidity front, cash and cash equivalents remained over $1 billion dollars, which is significantly more than we operated in prior years.

Mortgage loans at fair value from $7.9 billion at the year-end to $12.4 billion at June 30th. This increase is due to the overall production, our entry into the PLS market to garner better execution in certain instances than selling through agencies, as well as the renewal of our jumbo loan program, which has been a huge success, doing about $2 billion-plus of that production per month.

Loans sold through private markets remain on the balance sheet a bit longer than what we sell to agencies, but the loans remain fully hedged and are readily marketable. So, we do not believe this increased our risk profile in any way materially and, an added benefit, increased our net interest income, which is something you can see in Q2 compared to prior quarters.

The fair value of our MSR increased from roughly $1.75 billion to $2.66 billion as the unpaid principal balance increased from one point--$188.3 billion, excuse me, to $260.3 billion at June 30th.

The weighted average note rate on our mortgage service portfolio is 2.97%, as evidenced by the fact that, in the last 18 months, UWM has originated over $290 billion. It's a very young book from a seasoning perspective.

Credit quality is quite strong. Delinquency rates over 100--over 60 days was 1.18%, down from 1.93%. In our prior call, we noted extinguished our MSR line credit and encumbers of MSRs, as well as issued debt to further support our investment in the business.

The Board of Directors has approved and authorized a quarterly dividend of $0.10 per share of Common A stock to shareholders of record closing business September 10th to be paid on October 6th.

Our costs per loan improved from--up to about $1,490 from $1,662. This is such a key data point that people don't want to talk about, but that's 43 basis points. So, when we talk about our gain on sale of 81 and our cost is around 43 basis points, we can win and be profitable in all markets. These are all-time low margins basically, and we are very profitable across the board.

And with our cost to originate in our proprietary technology, we're going to continue to win with our costs. And we can continue to put pressure on all of our competition. As you saw in the second quarter, as most of our competitors went down in volume and at the same time some of them even lost money, we succeeded and excelled because of our cost to originate and our proprietary technology.

Now, last quarter we set guidance. And we not only set it, we set a higher guidance and we beat it across the board. We realized record-breaking numbers at UWM, and we're very proud of it. The solid foundation we put in place is producing exceptional results.

Our technology platform, our operations, our team members, and what we're doing in the community, we're very, very proud of what we're doing. Liquidity is strong. The broker channel is strong and it's getting stronger, and UWM is going to continue to get stronger as we continue to make a big impact on the broker channel and all the consumers they serve, and the realtors for that matter as well.

One of the last points I wanted to leave you with is, you know, we were very, very profitable in one of the toughest market environments. Trough margins, everyone else struggling, UWM, we won, and we're going to continue to win here at UWM.

We're looking ahead, and we're going to guide to $57 to $62 billion and--from a production perspective, and gain margin between 75 and 100 basis points. We're excited about the third quarter.

And I'm excited to take questions, so I'm going to turn it back over to you guys and take any questions you have about UWM and our second quarter results or how we see the mortgage market playing out going forward.

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

Your first question comes from the line of Steve Delaney of JMP Securities, LLC.

Steve Delaney: Thanks. Good afternoon, everyone, and congratulations to management on either beating or meeting your May 11th guidance for the quarter, very strong.

Mat Ishbia: Thank you.

Steve Delaney: Mat, I say that for--you're welcome--for one reason, and that we heard a lot of--we didn't get a lot of clarity, but we heard there was a lot going on at the GSEs in terms of, I guess you could call it, pricing actions or capital markets changes.

It obviously had maybe--it had less impact on you than it had on others, it would appear. But could you share with us just generally what was going on there? And what I guess we really need to know is how much of this was a one-time pie plan--pipeline impact and how much of this may be ongoing in terms of, you know, constricting the volume of business you do with Freddie and Fannie? Thank you.

Mat Ishbia: Yeah, thanks for the question. You know, first off so everyone knows, Tim Forrester will be available for any questions this week, next week. If there's any follow-up questions that I can't handle financially or you want to hear his perspective, he's available for you, so he is always available.

But to answer your question specifically, you know, obviously, you know, I know other companies have spoke about some changes. And, you know, we kind of look at those changes and see that that happens, you know, from Fannie Mae for everybody.

I can't control what Fannie Mae and Freddie Mac do and how that impacts our business, and sometimes there's things that happen and it's retroactive. There also will be some things that are retroactive in a positive way also sometimes. And so, it--there's gives and takes in it in a positive way.

What--I think the most important thing that's happening on this so that you won't see these types of things from some of our competitors or really with us at all, obviously, we're prepared to be profitable really in all situations. I talked about our cost to originate. But even on a compressed gain on sale quarter like this one, the reality is this, you know, the wholesale market is becoming more and more known as quality strong lenders, opportunity for growth, and the best way for a consumer to get a mortgage.

And so, with that being said, we think a lot of the legacy, if that's the right way, legacy mindset around wholesale or around brokers or around some of the pricing actions that some of these places take are going to be a thing of the past in the very near future. Now, does that mean it's going to happen in third quarter or fourth? I don't know.

But we do know that the markets are adjusting to that the best way to get a mortgage is through a wholesale lender, through an independent mortgage broker, and the quality and all the other aspects of a mortgage process, people are--and that's why so many people are trying to join in the wholesale channel, because it's such a strong channel. Everyone sees the mortgage brokers as the future of the industry.

And so, some of the legacy rules and some of the things that other lenders have talked about that the GSEs might have imposed recently, I think those are short-term. And I think one day we'll be talking on a quarter where they got reversed, and all of a sudden we've picked up some money in our positive way, and that will happen then too.

Steve Delaney: Well, definitely doesn't sound like they've put you on defense, that's for sure, whatever they did. And I guess what we'll hear about all that over time, but just keep moving it forward. I like that.

And look, just a quick follow-up and comment. Thanks for including the third quarter dividend in the press release, $0.40 a year. That's a nice 5% yield, you know, on where the stock is trading today, and I think it will keep some people interested.

So, look, it's not--it's a little, and I'll let others talk maybe more about the buyback, but it's somewhat not completely unusual for a company to be paying a cash dividend and also buying back shares. But, you know, on the one hand, you know, I was a little concerned that maybe the board would change its view on the dividend and to allocate more capital to shares.

Do you think it's possible? I guess the board'll make a decision every quarter. But at least in this quarter for the third quarter, it looks like the board is doing both, paying the dividend and buying back shares. Is that fair, a fair assessment?

Mat Ishbia: That's fair. And I don't--you know, as the chairman of the board, you know, at this point, I don't see a reason that we would not pay the dividend.

The dividend is a way to repay our shareholders, and I plan on that going forward. Obviously, we have to vote on it and talk about it every single meeting, but there's no inclination. There was no discussion or any concern about continuing it forward.

The buyback was approved for $300 million and we have 24 months to execute on it. We executed a good amount on it. And once again, if the float was larger, I would be taking a lot more advantage of it, because what the share price is at right now, with the dividend it's a ridiculously high yield, as you're well aware of. And we're happy to reward our loyal shareholders that way, and we're going to continue to do so going forward.

Steve Delaney: Thanks for the comments, Matt.

Mat Ishbia: Thank you.

Operator: The next question comes from the line of Henry J. Coffey Jr. of Wedbush.

Henry Coffey: Good afternoon, and thank you for taking my call. And if we're collecting votes here, given how your stock is trading relative to the book and given the float challenges, I think the dividend is a terrific way to return capital. It seems it's one of the more attractive aspects of the UWM C shares. So, if you're taking votes, I vote in favor of the dividend.

On a highly technical area--.

Mat Ishbia: --I mean, I agree with you, Henry. And I'm a large shareholder too, so we're on the same team, me and you.

Henry Coffey: Yeah, right. You get to vote more than I do, sir.

Smaller item, and we can get into this offline if it's--but in March, your G&A expense was $16.8 million, and then in June it was 42.1. Even though overall expenses were lower than we expected, I was just wondering what that one item was all about.

Mat Ishbia: Yeah. I think that we can go offline on it, but it was just a reversal in the first quarter, so 42 was aligned with it. We--our expenses actually went down, as you saw. We just had a reversal in the Q1 of about $20 million, if I remember correctly--.

Matt Roslin: --That's correct--.

Mat Ishbia: --Which puts us around 36, 37 on that same line item. So, it was basically apples-to-apples. And our overall expenses have gone down, and that's why our cost to originate and our--has gone down as well.

Matt Roslin: Yeah, and that--.

Henry Coffey: --Yeah. No, I--that was very obvious, that it was--all the other numbers moved in the other direction and I was just curious about that one, but thank you.

Matt Roslin: Yeah, Q1 was a one-time out of period reversal of a contingency. In Q2, there was a 5 million added. But when you net out, that line item is basically flat.

Henry Coffey: Cool. Thank you.

On a more interesting topic, you made a comment in the press release, "In the second quarter, we began seeing the return from the foundation we've built, particularly growth in purchase production and also renewed focus on jumbo, FHA, or government lending and manufactured housing." I was wondering if you could tell us a little bit about both--about two of those legs, the jumbo business, which I'm assuming is more of a PLS securitization, and then the manufactured housing lending, which is an area that's been really quiet for some time.

Mat Ishbia: Yeah. So, we're--you know, we're looking at ways to continue to help our clients serve their clients. And so, the jumbo product has been a huge success. We rolled it out. I think I announced it. It came out on March 17th.

So, really, we didn't really get a full two quarters--a full quarter of it because, you know, you don't really close loans at--until the middle to end April on it. But we did on average, I think in the second quarter, about $2 billion a month of that product, so just under $6 billion. I think it was 5.9 off the top of my head in those three months and growing in July.

And so, we feel really good about that product. The nice part about that product is it wasn't quite 50%, but it was almost 50% purchase. And so, we talked about how it's going be a big purchase product as well, just like FHA. And just like manufactured homes is much smaller product, but it's a nice way to take care, you know, of all consumers. Equitable housing is a big focus of ours and how we continue to do good things throughout the country.

And quite honestly, a lot of our brokers, they just want to use UWM. They want to have the consistency of our process and submit their loans to UWM. And so, when there's--they have the confidence that the jumbo comes to UWM, their FHA do, their VA, of course their conventional loans do. They have the consistency that when a realtor brings them a loan and a transaction, they know they can come in and out and close in 10, 12, 15, 20 days with UWM.

And so, we rounded out our products a little bit. We obviously had our all-time record quarter of $59.2 billion, and we're going to have our biggest year in company history by a lot as well. And so, the growth at UWM is not slowing down. And once again, rates just ticked up a tad bit, and everybody else fell off and we grew.

Wait till rates tick up a half point or a point, and you'll see the value of these products along with our purchase focus. And UWM will not only become the number one overall lender but we'll continue to show great market share gains and a lot of great returns to our investors.

Henry Coffey: Given the--our housing group is very bullish on manufactured housing because of the role it plays in affordable housing and the ability to give someone a house with a yard and security. I know Fannie has been a lender somewhat; Freddie Mac hesitant. Can you tell us in--from your own perspective what's going on with the GSEs and manufactured housing and what role United will be playing in that going forward?

Mat Ishbia: Yeah. You know, we're working with the GSEs on the product. We're going to continue to offer the product to hopefully make, you know, affordable home--affordable housing more available to more and more people. And we think manufactured homes aren't going to become less of the market. They're only going to become more of the market.

And so, we figured we'd get into it, make a--good inroads in it, make sure our processes are tight. And we actually had a lot of success in the--we just rolled it out in mid-April, so it's still very new from a perspective of it of our business. But you'll see more of it in the third quarter and more going forward as, you know, our commitment to equitable and affordable homes throughout America.

Henry Coffey: The gain on sale margin competition, the primary, secondary spreads have actually improved, then reasonably stable in July. We don't quite know what to expect for August. But can you give us a sense of what the competitive environment looks like in August on the gain front?

Mat Ishbia: Yeah. So, we're looking at, you know, our competition and we're continuing to monitor everyone. But the reality is we feel that we are guided in a really good place.

We feel really comfortable with where margins are. We can play in a place that other places can't based on our cost to originate. We feel really good about the guidance I've given you guys along with--on both the volume and gain on sale numbers.

And so, I don't think it's becoming more competitive or less competitive. I think, you know, the market is what the market is, and we obviously are the leader which drive a lot of that volume and margin compression or increase. And so, we're controlling it. We feel really good about where we're at and we're highly profitable.

You know, the way I look at it is, you know, on our core earnings, we made over $350 million in the quarter, grew our market share substantially, grew 21%, gained $10 billion of volume, and all of our main competitors went down. And so, I feel really good about where everything is at. You know, we can make $300, $400 million in core earnings in a quarter, and I feel really good about where we're at. And then when the big opportunities come to make a little more margin, you'll see these huge numbers that you saw the last couple of quarters before this.

Henry Coffey: Well, thank you, and congratulations on a solid quarter.

Mat Ishbia: Thank you.

Operator: Next question comes from the line of Doug Harter of Credit Suisse. Your line is open.

Doug Harter: Thanks. Mat, hoping you could talk a little bit about, you know, kind of how sticky you think some of these market share gains will be, you know, following the all-in, you know, and kind of the need or desire to kind of keep some of the price match, you know, promotions, for lack of a better word, you know, that you've been running.

Mat Ishbia: Yeah. So, it's extremely sticky. The loyalty on the all-in is black and white. That's not even whether it's sticky or not. Those people are all-in for the broker channel, which includes UWM and doesn't include two lenders, which we pointed out that were not doing the right things for wholesale brokers. And so, we made that stance.

But the stickiness has been significant there with our clients. The growth has been significant with our clients. And quite honestly, just the alignment across the board where, hey, if you're all-in for the broker channel, we're going to help you continue to grow. We're going to give you trainings. We're going to help you build your business, help you with, like, all aspects of your business to grow and succeed.

And that's what's working, and those clients are growing faster than the rest of the clients in the country. And so, we had a very few amount that weren't in the all-in mentality, and that's perfectly fine. But the great, great majority of all independent mortgage companies are, and that's why we've grown and we will continue to grow as their partner going forward, and so, you know, that's a big part of it.

And so, how the stickiness--you know, the price match and talking about those things, those things aren't really driving volume. Those things are more of confidence and explanation for our clients to say feel confident UWM's price is great, our products are great, our service is the best, our technology is the best, our partnership's the best. Let's continue to work with UWM, and we can help you grow your business. And it's not only resonated with them, it's been overwhelmingly positive where they understand it. And they're all-in with us, and we're helping them grow.

And so, our prices are very sharp. Do I have to continue with price matching and those things? Those things are very, very nominal amounts because, quite honestly, you saw our margin. Our margins are pretty good. Our price is already really good.

And so, we're going to continue to be aggressive with growing the broker channel because it's best for consumers, it's best for the brokers, and it's best for UWM. And our market share gains were substantial, seeing--you know, I think we are--in the first quarter we were $54 billion out of the number one spot, and now we're $24 billion out of the number one spot. So, a $30 billion closing of the gap in one quarter wasn't so bad. Imagine if rates went up to 3.5 or 4, you'll would see a whole different game very soon.

Doug Harter: And then just following up on kind of the margin outlook, you know, I guess what type of environment do you need to see to kind of go from kind of the 2Q 81 basis points towards the upper end of the guidance range of 110 basis points?

Mat Ishbia: Yeah. I think we guided to 100, so 80 to 100. And so, I think--you know, do I think it will be 81 again? No. That's why--you know, I think we got it 75 to 100, actually. But I think--you know, I don't see margins going down, however I don't see them going up much either.

And so, the reality is this. Margins are going to be in the range that we gave for this quarter. And I think I told you guys last quarter that I believe it's a--you know, between three quarters and six quarters it could be at these all-time lows, but it's not--you know, it's not going to stay down here very long.

And, you know, when you see the overall year, you know, base averaging in the first quarter along with the second, third, fourth, it will be, you know, in the--on the lower end of normalized but not as low as you see right now. And I don't think there's that far off until the opportunity comes back to where it gets back to more normalized, which is our, you know, low to mid-100 numbers, but it's not going to happen in the third quarter and I don't foresee it happening in the fourth quarter.

And so, there's a lot of dynamics that go into how we price and how we think about it and what we think will be the best way to deliver value to our shareholders, while at the same time taking on market share and continuing to grow and meet the vision and the goals of our company.

Doug Harter: Thank you, Matt.

Mat Ishbia: Thank you, Doug.

Operator: Next question comes from the line of Ryan Nash of Goldman Sachs. The line is open.

Ryan Nash: Thanks. Good evening, guys.

Mat Ishbia: Hey, how are you?

Ryan Nash: Good. So, Matt, you know, you just talked about the fact that you think pricing can stay at these levels for three to six quarters and, you know, you don't think it's going to ease, it sounds like, for the next two, so that will put us at four quarters. I guess big picture, you know, what do we need to see to sort of break this gridlock to eventually drive margins higher?

And then when I look at your margin, you know, the--last quarter and expectations for this quarter, it is a little bit lower than some of the others in the peer group. So, my question is can you hold on to volumes as price eventually increases and, you know, achieve a margin in line with others but also still drive the volumes. Thanks.

Mat Ishbia: Yeah, Ryan. Thanks a lot. So, first off, our margins are not lower than anyone in my peer group. So we're on the same page, Home Point, as you know, was substantially lower than us and not able to be profitable at those numbers. We would be, as you know.

Rocket, who--they mix and match their partner book. It's not really broker business. Their broker margins are actually well below ours. However, they have 300 basis point plus margins on their affiliations, whatever they call them, and they kind of jumble them all together. They're not 116 basis points. Their wholesale margins are well--from our data, well south of 50 or right around 50, so just to put it in apples-to-apples comparison.

And so, you'll see that across the board we are the leader. The way that other lenders can get business is they have to be substantially better priced than us. And that's what's going to happen is--since they couldn't be we grew, and they all shrunk. You're going to see that trend again, and so--unless they can be substantial lower. And even Rocket, who was substantially lower, and Home Point substantially lower, they still both declined.

And so, there's a combination of gain on sale along with business strategy. The business strategy around purchase and our focus on purchase is a big differentiator. Price sensitivity is not there as much on purchase. And no matter what, even if your price was 75 basis points and you were making zero on it, brokers won't place a purchase with certain lenders because they can't actually deliver.

And so, that's why I keep telling everyone, when rates--and rates went up 19 basis points and everybody went crazy. Margins compressed. Everyone did less business. Everyone struggled. Wait till they go up 100 basis points. That's when we're going to be doing $120, $150 billion, maybe $200 billion depending on exactly where rates are, and everyone else will be well below us.

And so, gain on sale margins, we feel great about where we're at. No one can originate a loan at our cost structure. And so, we're going to use our proprietary technology to continue to enhance that, and I'm going to use that leverage whenever I see fit and as the right decision for our business and our shareholders.

And it was in the second quarter as we had an all-time record quarter, and it will be again in the third quarter, similar type concept where we will be successful. Other places will get a little bit better volume because rates got a little bit better for them so they can, you know, feel good about it--themselves for a quarter or so. But the reality is, when rates do go back up, that's when UWM shines.

And that's why Q2 was just a glimpse, a glimpse into what 2022 or '23 or '24 is going to look like with everybody else, Ryan. And you're going to see that UWM is the strongest and most elite mortgage company, and we plan to prove it quarter in, quarter out.

Ryan Nash: Got it. Thanks for the color. And then you guys had a nice quarter on the expense side. Can you maybe just talk about further opportunities to rationalize expenses?

I think you talked about cost to originate going from, I think you said, 1,662 down to 1,490. I'm curious. Where do you think that could go as you guys continue to leverage the investments you've made in the business and the technology that you've developed? Thanks.

Mat Ishbia: Yeah. So, thanks, Ryan, I think that's a real key part that a lot of people don't recognize is that cost to originate, that 43 basis points or wherever that number is. It's a huge, huge competitive advantage. And there's a lot of things we're working on right now to actually drive that even further down.

Now, does that mean it will show up in the next quarter or the next quarter after that? We're going to wait and see, but we are doing different technologies that we rolled out. One of them I spoke to would save us $8 million, a couple of others that could save us five million here, two million here. There's opportunity there.

And, you know, all those inches add up the feet which add up to miles, and that's how we win. And so, we focus on every inch here every day UWM. There's a lot of things, but we are not confused about our competitive advantage, which is our technology.

Our technology is elite. It is the best in the country, not only for our clients but internally as well. And that drives our cost to originate, which is elite too. And it makes a big difference. And so, everyone can look good when there's a lot of volumes because their cost to originate isn't going to choke them out a little bit.

But when rates are as low as they--as rates go up a little bit and your cost to originate is not that great, you have bloated infrastructure, you have different locations throughout

America and all these different places that you have to pay for, regardless, fixed cost, they struggle a little bit more, and you'll see that in the future. We don't know when, but you'll see it.

Ryan Nash: Thanks for all the color, Matt.

Mat Ishbia: Thank you.

Operator: Next question comes from the line of Tommy McJoynt of KBW. Your line is open.

Tommy McJoynt: Hey, good afternoon, guys. Thanks for taking our questions. Yeah, so we've seen that you guys have continued to add to the team member headcount, now up to about 9,000. So, is that a signal that you expect to continue to be able to grow the dollar amount of your production even when the market, you know, moderates a bit up to more normalized levels?

Mat Ishbia: Yeah. Thanks for the question. So, yeah, 9,000 people, we got a lot of families that depend on us and we're proud to have that many great team members joining our company. The reality is we think that we are not in any position of concern around team members and we are continuing to hire pretty aggressively.

Now, at the size of 9,000, you always have some people that--you know, attrition that happens, right? And so, we're not--I don't think we're going to go from 9,000 to 11,000 people this year. So, I feel really good about--you know, I believe, and I think I've stated this before, that we will become the number one overall mortgage company in America whether it's next year, the year after, or the year after that, and we might only have between 8,000 and 11,000 people because we can actually handle the volume where we're at right now, while at the same time, with our technology continuing to make things better and more efficient, we don't need to add headcount to do more volume.

And so, we're able to do more business as we stand today. And so, we're not going to be growing the team member account aggressively, but we feel really good spot. And so, I don't think our expenses which is tied to team members, which is about 65% to 70% of our costs, are going to be going up much from where we see them today.

Tommy McJoynt: Great. Thanks.

And then just on a different topic, yes, we saw the interest income increase, and you, you know, partly attributed that to longer hold period times. And then just looking at the balance sheet, you can see the loans held for sale obviously jumped pretty significantly over the quarter from $5 billion to $12 billion. And then you also noted that post-quarter end you temporarily increased some warehouse funding facilities. Just want to see if those are all kind of interrelated and sort of what the reasoning is for the longer hold period times.

Mat Ishbia: Yeah, thanks for the question. And so, there's opportunity out there. Obviously, the interest income is tied to that, so that makes sense. You got that right.

But the opportunity for us, you know, we've always been so efficient with selling our loans to Fannie Mae, Freddie Mac, even Ginnie Mae very efficiently. We didn't have any programs that could not go to them so we didn't have jumbo back then prior to this. And so--and then also the PLS market was not something that we were accessing.

Now all those things are in play. More jumbo, which is a couple of billion dollars a month, that generally just takes longer to be sold. And then, at the same time, we also have the PLS market where we have some investment properties, second homes that we can take out. We've done a couple of deals out in the market, and we're in the process of right now. So, we actually have to aggregate and hold those loans. Although they can go direct to the GSEs, we can aggregate and hold them and actually have an arbitrage where we can pick up profitability.

And so, there's a lot of different spots in our business. That's one of them that you're speaking of. Not only interest income went up, but I made a little arbitrage on some gain on the sale. There's a lot of response where we can pick up margin, pick up, you know, what people will think are pennies. But pennies times 60,000 loans a month, you know, or whatever the number is, 150,000 loans in a quarter, it really adds up. And so, those are opportunities for us.

And so, we look at that, and our--we have the great capital markets and financing that are looking at all of these inches we can pick up. And one of them was on the interest income that you saw and the arbitrage maybe on some gain on sale on some of these private label securities.

Tommy McJoynt: That's great, appreciate that dimension.

Mat Ishbia: Thank you.

Operator: Again, if you would like to ask a question, press star then the number one on your telephone keypad.

Next question comes from the line of Ryan Carr of Jefferies. The line is open.

Ryan Carr: Hi. Good afternoon, guys, and thanks for taking my question. You know, first is on in terms of capital return. You've had a lot of progress with respect to expanding the purchase volume and really being able to expand the momentum that you've had following the all-in initiative. I'm just curious where you're thinking about it from a priority standpoint going forward between the dividend buybacks and then maybe reinvesting in the business and kind of where your decision making is in that respect.

Mat Ishbia: Yeah. Thanks for the question, Ryan. So, first off, we're always reinvesting in the business. That's a--that's the main focus, is growing the business to make sure it's a strong, stable business that has great returns for our investors.

Then on the return of capital, the dividend we're very proud of, and we're going--planning on continuing that as we--as I mentioned earlier, because I think it's the right way to reward our loyal shareholders. And we're going to continue it. And based on how low the stock price is right now, it's an amazing yield for anyone who's buying our stock, and so that's a great opportunity as well.

And now on the buyback, once again, I don't have all the levers I can because of the lack of float right now. And I think that's actually some of the drag on our stock price, and so I have to figure how to get more float out there, not less. And so, therefore, I'm looking at all different ways, and I'm very--we're being very creative to figure out ways to provide more float, because that's something I told people during our road show that we--that I, as the majority owner obviously, would help provide more float to the market. And so, I'm working on that.

And so, it's kind of going a little counterintuitive because I'd love to buy back a lot of shares at prices below $10 like they are, and below $8 maybe even, where it's at right now.

And I'd love to be able to buy shares back. However, I have to be cognizant of the flow and honoring what I said I would do.

So, we're looking at creative ways to provide--get more float out in the market, and at the same time we'll continue to pay a dividend as we announced, and looking at all different opportunities to reward our shareholders. But investing in the business is what we've always done. And we're going to continue to invest in technology because it creates a major differentiation and moat around our business as we continue to grow in scale.

Ryan Carr: Got it. That makes a lot of sense. And then kind of going off of that, you know, you really have invested in growing the business and expanding it, especially given, you know, kind of the growth and being very amazing, quite frankly, success that we've seen through this point.

And you also mentioned in the release kind of some of the savings that you're seeing from these investments going forward, the $8 million for the balance of the year. But how do you really think this was going to play in from a cost savings perspective going forward, going into the environment that we're in, especially margin-wise?

Mat Ishbia: I think it's going to be huge. And so, the difference is, you know, the 8 million is one thing. It was a couple million here, a couple million there. And I know that sounds small, but that actually does add up.

But the big stuff is on the efficiency gains. And so, we have some technology we're building proprietary in-house that's going to help our team members, let's just call it--we'll say conservatively 5% to 10% increase. Well, 5% to 10% increase of our team members, which means you don't have to hire as much to continue to grow, so we could really do--instead of $20 billion in a month, we could do $30 billion a month with our team potentially right now and not have to hire more people.

That's a big difference, right? And maybe $30 billion is a little exaggerated, so we'll call it maybe 25% above what we're doing. So, we'll call it $25 to $28 billion comfortably right now at UWM. And so, that gives us a huge, huge upside because of our technology.

And people don't recognize it because everyone says they've got great technology. Well, the way you know someone's got great technology is how long does it take them to close loans? We're at 18 days. Everyone else is at 47, 50, whatever they're at. And then what are costs to originate. And those are the two factors that really determine whether you have great technology or if it's just a sales pitch.

And so, we feel really good about our technology and where we're going with it and how it's going to help drive our cost so that we can play in this. When we're at 43 basis points, it's going to be really hard for someone to compete with us if we want to really put pressure on people. Now, we're not planning on doing that. We feel good about where the market's going and being able to make nice gain on sale margins, but we have the ability of competing at the highest level with anyone to grow this business, and not only being the biggest but the best mortgage company in America.

Ryan Carr: Yeah, absolutely. And I would say, you know, to anyone that comes to visit you and sees the momentum that you built in the technology, they would agree.

Final question for me, you know, just given where rates are at at this point and how they've come of back in, just curious to see--to hear what kind of trends you saw throughout the second quarter. Did you see a time--like a tick up in volume and demand, at least on the consumer side through the brokers through the last half of the month, and kind of what are you seeing through this point in the quarter at least just demand-wise as rates have kind of come where they're at?

Mat Ishbia: We're seeing huge demand. So, I know a lot of people will like to say the inventory's tight. And yeah, the inventory is tight, but there's people buying houses out there. And it's at a--at major, major levels right now.

And so, seeing $24 billion of purchase at UWM in the quarter, you know, I think if--I even said to you guys in the first quarter was that, you know, maybe we'd get the 15 billion one quarter this year. And so, seeing $24 billion, massive demand, and the key is other people aren't seeing it because people are going to the brokers, because the brokers are local. The realtors know brokers get the loans closed fast and efficiently. They don't want to go to those other lenders.

And so, the reality is inventory, you know, in quotations as like that's the reason why, that's not the reason why. We had a pretty good purchase quarter and when inventory continues to--now, could we do more? Yeah, but people are--we could do more.

But people are buying homes every single day, and the inventory out there does have constraints. However, it does not constrain you from being successful in the purchase business because so many houses are for sale. And if you can close fast, which is a big differentiator for us because people that are selling houses, they're getting cash offers, they're getting--but if they get an offer from a mortgage broker of ours that that says, hey, 15 days no contingencies, or 15 days appraisal-only contingency and they take that offer, we close it in for them in 12, 14, 15 days. We're doing that a lot, which is giving our brokers a way to get out there and get more business. And that's why our purchase business grew and our overall business grew in the second quarter.

Ryan Carr: All right. Thanks, Mat, and thank you, Matt Roslyn as well. And congrats on the quarter.

Mat Ishbia: Thanks, Ryan, appreciate it.

Operator: Next question is coming from the line of Michael Kaye of Wells Fargo. Your line is open.

Michael Kaye: Have you see tick up in competition in the wholesale industry? You know, you would--that would seem to enhance the value proposition of the broker channel, you know, with lower mortgage rates offered to consumers. So, I've been somewhat surprised when I look at mortgage industry employment data when we saw mortgage broker employment growth actually stall out over the last couple of months. I wanted to hear your views on why you think broker employment has slowed. And do you have confidence that the broker market is poised to continue growing?

Mat Ishbia: Yeah. Thanks, Michael, appreciate the question. So, I have zero confidence in any of the data that you have on the leader.

I don't know who that is. But on--I don't know if you want to mute that line. Is that you, Michael?

Michael Kaye: Yeah. Sorry, it's my kids. Sorry about that.

Mat Ishbia: Oh, it's okay.

Michael Kaye: I'll mute it. Go ahead.

Mat Ishbia: No, it's all right. They're--hopefully they're having fun.

But my perspective is that the data on the labor reports, that means zero to me. It doesn't even cross my mind as a relevant data point because I don't know where they're pulling it from or how it pulls. I have data here which is, hey, 70 loan officers started their own broker shop last month, almost 200 loan officers. We helped find a brokerage shop leaving retail.

I've talked to, you know, I'll say three of the top 20 loan officers in America that are at retail shops. And they all have the intention of starting their own mortgage broker shop in the next six to nine months, calling me personally and reaching out and visiting our campus. I have no question that the broker channel is growing, not even a thought.

It's like--it's just--it's like I--as sure as I'm sitting here, I know it's happening. And the problem is I don't know what--the data of guys for the employment stuff. I can't really speak to that. But the reality is brokers are growing.

And when rates go up, that actually in--and you talked about the pricing competition, Michael, which is a very astute thought, because one of the strategies around us having lower gain on sale margins is the retail lenders that have branch models that are, you know, I won't say dinosaur models, but they kind of are dinosaur models, the Caliber retails, the--I think the guarantee rates alone, Depots, the Fairway independents, all nice companies, do a good job, but the reality is those loan officers offering consumers higher rates, right, isn't going to last long.

Those loan officers and those companies don't have the infrastructure to actually lower margins down. Loan--so the loan officers are saying, hey, listen, I can't be working at this retail shop offering my consumer a quarter-point, three-eighths higher in rate while I could be offering a better rate or making more commission as an independent mortgage broker. I want to move.

The only reason they don't move is because their pipelines are so full. And so, when rates go down, it's like, man, I got 38 loans in my pipeline. I'm not walking away from this right now. It's messy to move. And so, what we saw in the second quarter is a lot of people reaching out. Rates got a little better at the end of the second quarter and early in the third quarter, so people, they pause on that.

But it--the reality is the more differentiation between retail pricing and wholesale pricing that there is, the more likely that these loan officers migrate from retail to wholesale. And that will only grow our channel.

And so, the brokers being one out of three mortgages or 33% by 2025, that's going to happen. We are making that happen. We are working with them, and the loan officers transitioning is a big part of that.

Michael Kaye: Thanks. Thanks, Matt, makes a lot of sense.

The second question, you touched on this a little bit, but I wanted to get more perspective on that price matching promotion that you have. I believe it was originally slated to expire in June. You know, it's been extended, you know, multiple times. I think the latest is to the end of August. How often do you see broker clients actually utilizing this broker match, and is this more of like a marketing tool to help your account execs rather than an actual negative from gain on sale margin perspective? And lastly, do you plan to extend it once again? Thanks.

Mat Ishbia: Yeah, thanks for the question. And so, I have not decided if I'm gonna extend it once again. So, I have not made that decision yet. It is not a big drag on the gain on sale, to answer your question.

It's--I would call it negligible because the reality is our price is very good. Our brokers are very confident. Our brokers feel good about using UWM. Our salespeople have the confidence to go out and call them. And so, it's really not been much of a drag on it. It has been more of a positive. And that's why I've continued it and extended it a couple of times.

And so, we'll continue to look at it and see if it has the value to continue it, or if there's something else we look at doing to continue to help our mortgage brokers grow their business. If they're growing, UWM is growing. And if we're growing, then our shareholders are going to be happy as we continue to build our business.

Michael Kaye: Thank you, Matt. Take care. Thank you.

Mat Ishbia: Thank you for the questions.

Operator: Next question comes from the line of Sameer Kalucha of Deutsche Bank. Your line is open.

Sameer Kalucha: Hi. Thanks for taking my question. The--you talked about investments in technology, and in Q2 you launched a proprietary document management software. I was wondering if you could provide more color on that. And second, what is the impact of that? Does it change the closing period in any way, and how does it make the process more efficient?

Mat Ishbia: Yeah, thanks for the question, Sameer, appreciate it. So, the one we--I spoke about on the call earlier today is just one example, because we have a couple of different things out there. But the example you're speaking of is the way to--it does not affect anything. It's basically taught our--it's an internal system that we were paying a vendor, and we basically built it proprietary, made it better for our team members, made our people more efficient, made it more agile, if you think of it that way, for our clients, because there's only a little use for our clients, but a little bit for them but mostly internal.

And it saved us multiple millions of dollars and will continue. Like, these savings are not just one-time savings. It's a monthly saving because we're paying a monthly fee. And as we continue to grow, those savings will actually be bigger. I think the $8 million is a low estimate. We are just trying to be conservative. But we know that the technology work we put in place does make an impact not only on the bottom line but on our efficiencies too.

Sameer Kalucha: Got it. Thank you.

Mat Ishbia: Thank you.

Matt Roslin: We have time for one more question, operator.

Operator: Yes, we only have time for one final question. Your final question comes from the line of James Faucette of Morgan Stanley. Your line is open.

James Faucette: Thank you very much. I'm glad to be able to wrap up here. I wanted to go back to your brokers and those relationships. And I'm wondering a couple of things. Is that first, any idea or sense of your share with brokers in the U.S. where you're at and potential to add incremental ones and then secondly, as you think about kind of growing the share of the broker channel itself, I think that the argument around, kind of the better pricing and even better service, in some cases, may resonate.

But I'm wondering if, if there are other things that you could or should be doing to support the growth of brokers, whether it'd be direct advertising or investment or some of these other areas beyond the support that you mentioned, even as new brokers look to set up their own operations. Thanks a lot.

Mat Ishbia: Yes, thanks for the question. So on the -- our market share, because I think the numbers will come out soon, but I think we're going to be well north of 30% in Q2. If you think about it, the three or four top competitors of ours all went down, and we went up substantially. And so I'd be very surprised if we weren't well into the '30s and growing, and we will be at 50% of that in the coming years because brokers choose us. They prefer to work with UWM as long as we're in the ballpark on price while at the same time delivering our technology, our service, all being great partners.

Now on the partnership side, how can we help them continue to grow? We obviously have helped build a website called Find More. Please broker.com. We also have a phone number of -800 - brokers where people call in. They call us every day, where they call in, and we find them a local broker in their area where consumers can actually -- we can warm transfer them to a broker that's the right person in that community to help that consumer. And so we're doing more and more things, and we're going to continue doing more and more things on the marketing side.

But the reality is this; there are three ways we can help brokers grow. One is consumers, educating consumers because the reality is that you guys can help me want to if you will, I'll get it right on [Indiscernible] and through. But it's faster, it's easier and is 100%, it's cheaper. So it's, I won't say 100, I'll say 99%, whatever you want me to say. It's factually correct. But it's going to be cheaper for the consumer. It's a better deal for the consumer to go through a broker than to go through any of these large retail lenders. That's not an opinion; that's a fact backed up with data. The second thing is realtors, they're educated, and they're warning really quick.

They know when you can go call a realtor and find out who they want to -- They won't refer loans in certain places, and you know who those places are because obviously, they can't close purchases. And that's why a lot of people that are doing a lot of business right now are refi only and just refinancing their servicing book. That's not how we've done our business. And then the last piece is loan officers. I talked a little bit about earlier loan officers leaving and migrating from these retail lenders; that's going to happen, right? Because it's best for the LO, it's best for the consumer.

Why wouldn't it happen? It's only not happening because there wasn't a big difference in retail and wholesale pricing. We fixed that. And the second reason was they're so busy because they have so many loans in their pipeline. Well, rates going up will fix that. So when rates tick up, you will see a major migration over. And so, all these things will help move the channel in a positive way for independent brokers, and a rising tide will lift all boats, and all the brokers will continue to grow and thrive. And we're proud to be part of that with them.

And so, I think that's all the questions. I don't know if--we're going to turn it back to the operator, but before I do, I just want to say thank you all for your questions. Tim Forrester will be available if you want to talk about anything else. I think I answered everything as anyone needed, but we're here for you guys, and Matt Roslin, my Investor Relations EVP is always available as well. But we appreciate the support, and we're glad to share another record-breaking quarter here at UWM and excited to talk to you again after the third quarter and share our results again. Thank you for the time.

Operator: This concludes today's conference call. You may now disconnect.