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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Rocket Companies Second Quarter 2020 Earnings Call. (Operator Instructions)

I would now like to turn the call over to your speaker today, Jason McGruder, Vice President, Investor Relations. Please go ahead.

Jason A. McGruder - *Rocket Companies, Inc. - VP of Investor Relation*

Good afternoon, everyone, and thank you for joining us for Rocket Companies earnings call covering the second quarter of 2020. It's first as a public company. My name is Jason McGruder, and I'm the new Vice President of Investor Relations for the company. I have the opportunity to e-mail a number of participants on this call earlier this week, and I look forward to working closely with all of you in my new role. We are excited to share the results of a terrific quarter with you. But before I turn things over to Jay Farner to get us underway, I will read the policy regarding forward-looking statements.

Today's call is to provide you with information regarding our second quarter 2020 performance in addition to our financial outlook. 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 today as well as risks described in filings with the SEC, particularly in the section of these documents titled Risk Factors. Our commentary today will also include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our earnings release issued today. Please refer to our filings with the SEC for more information.

With that, I'll turn things over to Jay Farner to get us started. Jay?

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Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Thank you, and good afternoon, everyone. Welcome to Rocket Companies' second quarter earnings call, our first as a public company.

Before we get started, I'd like to thank our 20,000 team members for the dedication and unwavering commitment to our clients. Because of their efforts, I'm proud to share that Rocket Companies achieved record-breaking results in the second quarter.

Culture is the foundation of everything we do here at Rocket Companies. Our founder, Dan Gilbert created 19 principles known as ISMs, and they are the heart and soul of our culture and drive every decision we make. They are who we are, our DNA. Our culture has been the secret to our success over the last 35 years, and the second quarter was no exception.

One of those ISMs is do the right thing, a charge that we take very seriously. Earlier this year when we saw the impacts of COVID-19 overseas, we quickly invested in the tools and technology that was needed to ensure that all our team members could effectively work from home, weeks faster than many other large businesses. This allowed us to keep our team members and communities safe while also meeting the needs of our clients as mortgage rates begin to fall. This is just one of the many examples of our company making sensible investments in the future.

We spoke to many of you during the IPO process about our focus on investing for the long term. We're extremely proud of protecting our team members and achieving record results in the second quarter, but that performance has been years in the making. Thousands of our technology team members have continuously built and refined a platform that has truly risen to the occasion, allowing us to scale to meet unprecedented demand, all while 98% of our team is working from home.

It's a pleasure to be here today to talk about our second quarter results, the way we think about our business and why we believe Rocket Companies is well positioned to capitalize on the substantial opportunities ahead. In the second quarter, Rocket Mortgage closed $72.3 billion in loan volume, more than any quarter in our 35-year history.

Record low interest rates are driving demand for home loans. And as we've highlighted, the power of our platform is proving a key differentiator for Rocket Mortgage. In fact, we've been able to achieve record volumes while maintaining impressive loan turn times.

Industry-wide capacity constraints have led to significant gain on sale margins during the second quarter, with overall margins increasing to 5.19%, up from 3.25% in the first quarter. Our ability to scale volume at these elevated margins led to substantial incremental profitability in the quarter. While second quarter gain on sale margins were certainly elevated by historical standards, this is exactly the kind of market environment we built our platform to perform in. Quite simply, we're able to meet the needs of our growing client base and provide award-winning client experience.

Our mortgage servicing business was a key driver of overall performance in the quarter, which Julie will talk about in a moment. I'm also proud to share that we recently earned an unprecedented seventh consecutive J.D. Power award for customer satisfaction in mortgage servicing, an award we've won every year we've been eligible. This award is based entirely on feedback from our clients, and it's an honor our team members take tremendous pride in.

Turning to our broader ecosystem of businesses. We believe we have substantial opportunities to apply the same focus on client experience, technology and operations across multiple industries. When we look at our companies holistically, Rocket Companies generated 300% year-over-year growth in adjusted revenue and $2.8 billion of adjusted net income in the second quarter. We are delivering profitable growth at substantial scale.

And as you continue to get to know Rocket Companies, you will also learn we are passionate about the communities where our team members work, live and play. We are keenly aware of the role our company plays in building the American Dream and how communities are the foundation of progress, education and pride. We recently announced the very important Changing the Course initiative here in Detroit. Unfortunately, Detroit ranks last in digital connectivity among all major cities. We saw the effects of this digital divide truly manifest with the onset of COVID-19, when many of our community members found themselves without access to the technology needed to participate in telemedicine, schooling or find a job. We knew we needed to step in and make a change.

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Through the Rocket Mortgage Classic, our PGA TOUR event in Detroit, we have risen to the task to ensure that, by 2025, every Detroiter will have access to technology within a 10-minute walk from their home. As a technology company and the largest employer in the city of Detroit, this is a program that is near and dear to all our hearts and one we look forward to bringing to life.

Finally, many of you have asked us how things will change now that we're a public company. The short answer is, they won't. We have many more investors today than we did as a private company, including all of our team members who, once vested, will become shareholders. But that doesn't affect who we are.

We are committed to providing you with the same plain spoken transparency that has been a hallmark of our company. We also commit to you that we will continue intense dedication to our culture, our focus on the long term and our commitment to doing the right things the right way.

Julie will talk more about our current outlook in just a minute. But as we look to the second half of the year, we continue to see strength and durability in consumer sentiment. Record low interest rates and an improving U.S. real estate market continue to drive demand for home loans. The purchase market, in particular, continues to recover following COVID-related disruption in the second quarter. In fact, we expect the third quarter to be one of our best for purchase origination volume ever at Rocket Mortgage. Demand for a completely digital experience has never been stronger, and Rocket is delivering.

With that, I'll turn things over to Julie Booth, who will take you through our second quarter results in more detail.

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Thanks, Jay, and good afternoon, everyone.

We spoke to many of you during the IPO process about the multiple drivers that we have to profitably grow our business. In the second quarter, broad-based strength across these areas led to record financial performance, highlighted by adjusted revenue of $5.3 billion and adjusted net income of $2.8 billion. Strength in both our direct-to-consumer and partner network channels drove record closed loan volume of $72.3 billion, an increase of 40% from the first quarter of 2020 and 126% compared to the second quarter of 2019.

Closed loan volume of $46.8 billion in our direct-to-consumer channel increased 143% year-over-year. The partner network also contributed strong growth with volume of $19.7 billion compared to $11.2 billion in the same period 1 year ago, an increase of 76%. Net rate lock volume of $92 million significantly exceeded closed loan volume in the second quarter. As a reminder, we recognize revenue at the time when we lock the interest rate with our client.

Rate lock typically occurs 30 to 45 days prior to the closing of the loan. As a result, rate lock volume is a leading indicator of closed loan volume. Accelerating momentum throughout the second quarter drove elevated rate lock volume relative to closings.

As Jay referenced earlier, Rocket Mortgage achieved historically strong gain on sale margins in the second quarter, with overall margins increasing to 5.19% from 3.25% in the first quarter of 2020. Gain on sale margins were strong across both channels, coming in at 5.09% in the direct-to-consumer channel and 2.1% in the partner network. As a reminder, overall margins are measured on a rate lock basis, while segment level margins are reported on a funded loan basis.

The difference in gain on sale margins by channel reflects the partial sharing of economics with our partners in the partner network. Lower client acquisition costs in the partner network lead to strong contribution margins across both channels.

Our mortgage servicing business was an important driver of overall loan volume during the second quarter, contributing 46% of total loan volume. These repeat transactions with existing clients come with little to no client acquisition costs, leading to substantial incremental profitability.

As we look at the lingering impacts of the COVID-19 pandemic, approximately 5.1% of our servicing portfolio was on a forbearance plan related to COVID as of June 30. The positive news is that we continue to see improvement in forbearance trends into the third quarter.

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Outside of our Rocket Mortgage business, growth in other revenue was driven by Amrock, our title insurance and settlement services business. Our investments in technology and process at Amrock paid off in the second quarter as the business was able to scale up and meet the increased demand for mortgages and the related title insurance and settlement services.

Also during the second quarter, we extended our industry-leading position in eClosings by deploying a remote online notarization platform which further enables the eClosing experience. Amrock processed more than 240,000 settlement transactions during the second quarter of 2020, up 45% as compared to the first quarter of 2020 and up 171% from the second quarter of 2019. Total expenses of $1.6 billion increased 24% compared to the first quarter of 2020. The increase was primarily attributable to higher variable compensation and production costs as a result of increased origination volume. Marketing expenses declined 7% and 11% compared to the prior quarter and prior year periods, respectively.

Turning to cash and liquidity. After June 30 and prior to the IPO, Rocket Companies distributed $2.26 billion to its parent company Rock Holdings.

We remain in a strong liquidity position following our IPO with total liquidity of $3.7 billion, including $1 billion of cash on hand, plus $2.7 billion of undrawn lines of credit and corporate cash used to self-fund mortgage loans, which could be transferred to warehouse lines at our option. Overall, we are extremely proud of our record performance in the second quarter, demonstrating our ability to deliver profitable growth at scale.

Now I'd like to take a moment to discuss our current outlook and our approach to the investment community as a public company. The guidance philosophy we're sharing today reflects the way we think about and manage our business. As we shared with many of you during the IPO process, our long-term strategic objective is to achieve 25% share of the mortgage market. We manage the business for long-term growth and aim to continue investing in our brand and technology through all market environments.

While our focus remains on the long term, we are committed to providing transparency to our analysts and investors about the trends we are seeing in our business. Today, we are providing our current outlook for loan volume in the third quarter.

Given the unique dynamics around gain on sale margins in the current environment, we are also providing our current outlook for third quarter gain on sale margins. Entering the second half of 2020, we continue to see strong consumer demand, as you heard from Jay. We currently expect third quarter closed loan volume of $82 billion to $85 billion and net rate lock volume of $93 billion to $98 billion.

Regarding gain on sale margins, we expect third quarter margins to moderate from the historically elevated levels experienced in Q2, but remain elevated relative to longer-term historical averages. We currently expect third quarter gain on sale margins of 4.05% to 4.3%.

Finally, for those of you thinking about updating your models, I did want to remind everyone of the normal seasonality we experienced at Rocket Mortgage. Our typical pattern follows the seasonality of the U.S. real estate market with lower sequential volumes in the fourth quarter compared to the third quarter. We are proud to deliver you these second quarter results and even more excited about the investments we continue to make in our platform that will guide us to our goal of 25% market share by 2030.

With that, we are ready to turn it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from James Faucette with Morgan Stanley.

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James Eugene Faucette - *Morgan Stanley, Research Division - Executive Director*

Great. I wanted to just quickly ask you the first question around the seasonality. You talked about fourth quarter being a little bit lower. I'm wondering how we should think about that from a normal percentage basis. And are you seeing the moves in at least treasury rates, et cetera, having any impact on how you're thinking about that seasonality for the time being?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Thanks, James. And just to open up as our first call, just to get folks familiar with voices, this is Jay Farner, the CEO. I'll be joined by Julie Booth, our CFO; and Bob Walters, our COO. And good afternoon, everyone. Thanks for being here on our first call.

Now heading to your question, I know Julie touched on some of our guidance around Q3 and also referenced that, typically, we see some seasonality as we enter the fourth quarter, December in particular. And Julie was referencing kind of the traditional seasonality that you might experience in housing, in particular, purchase. Obviously, we're in a different market right now, and I'll let Julie comment. But when it comes to kind of current expectations around interest rates or treasuries, I would say that what we're experiencing today, we anticipate will continue forward here through the rest of the year. Julie?

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. I agree, Jay. And certainly, while we're happy to provide some guidance for Q3, really, we typically do see that, that decrease in the fourth quarter and really wanted to just remind those thinking about our results that, that is kind of a typical seasonality in the business. So I don't think we're expecting necessarily anything unusual this year other than what we typically see. But of course, that could always change.

James Eugene Faucette - *Morgan Stanley, Research Division - Executive Director*

That's great. And then my other question is on we talked -- and Julie highlighted the long-term target of 25% market share. Can you help sketch out for us or how you're thinking about what that progression should look like? I mean are there going to be fits and starts? Or is there continuity? And are there some medium-term milestones you could share with us on your market share ambitions?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. Thanks, James. And I'll start out here, and then, Julie or Bob, feel free to chime in. I think it's important to take a step back and think about strategically how we, at Rocket Companies, go about our planning. We obviously don't control interest rate. And so for us, it's critical that we think about long-term growth over an extended period of time and then make all the right moves to make sure that we're growing and gaining market share.

And so we really look at the mortgage market as roughly a $2 trillion market. There will be years like this year where the market is much larger than that. And based on our tech platform and our ability to scale, we will take advantage of that and grab far more growth than -- and volume than maybe we had prepared for. But year in, year out, we look more towards a normalized market. And then we set our strategy to ensure that we're growing market share, we're growing clients throughout any interest rate market.

And as you followed maybe our last 15 or 20 years that we've shared, especially over the course of the roadshow, certainly, it's not a straight line for growth. There are moments in time where production may be flatter, but we're growing market share. But please understand, behind the scenes, strategically, as we think about our model, direct-to-consumer, our partner model, and now the ecosystem that we're building, that's just targeted to strengthen the platform, grow the capabilities of the platform and continually be able to grow that market share over time. And you'll see things happen like they've occurred this year where, due to interest rates, we're able to see a significant increase in where we really leverage the platform and exceed what our expectations had been when we set the strategy back in the fall of 2019.

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Julie, feel free to add or make comments?

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Well, I guess the thing that I would maybe add to that is, while we do expect to see growth over the next 10 years, it really is not something that we are going to be watching on a quarterly basis. So we may see some ups and downs when we look quarter-to-quarter. But really, we're focused on kind of that more annualized look at market share. So I just would encourage folks to kind of think about that when you're looking at market share quarter after quarter here and really thinking about how that's going to come out for the year.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I think that's a critical component. As we take a long-term view, there'll be times for us where opportunity to grow market share or acquire clients is the most important move, focusing less on EBITDA and more on that client growth. And Bob Walters can probably chime in on that. As I think Julie pointed out, a significant percentage of the loan volume that we've done this year has come from our client -- our servicing book and our retention rates, which is an important component of our business. And so when others are pulling away from the market, we tend to lean in because we can grow that client servicing. But Bob, I don't know if you want to touch on that, just to help educate everybody.

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. I think we talked a lot about this in the roadshows, in one of our key differentiators for us, we have a very large servicing platform. And we think about servicing quite differently than a lot of servicer, especially publicly traded servicers that are really looking at a return on capital model. We see it really as a retention play. And we have, on our refinance loans, 80% retention now. So our ability to monetize -- and those loans are paying off, and they're paying off for everyone. But our ability to monetize those surpasses most of our competitors, that it really is a key differentiator, and you're seeing that in a lot of our results now. So it's that ability for us, continually building out that platform that Jay talked about, that we're driving that new business, that we're not leaking out as the loans pay off like many of our competitors, we retain those while we continue to bring in new clients. And that march to 25%, that's the how. But as Julie said, that will come in [15] starts. We've seen that over the last number of -- over the last decade, quite frankly. We will grab quite a bit and then hold it, grab quite a bit and hold it. But not getting it up is key, and that retention is a big part of that.

Operator

Your next question comes from Ryan Nash with Goldman Sachs.

Ryan Matthew Nash - *Goldman Sachs Group, Inc., Research Division - MD*

Jay, maybe we could start with gain on sale margins in 2Q. They were really wide as the industry faced capacity constraints. We're obviously starting to see a little bit of that coming back on. For 3Q, I think you're talking about 4.05% to 4.30% which, given your mix, is still elevated relative to history. So can you maybe just talk about what you're seeing competitively in the marketplace for mortgage originations, your views on the ability to continue to sustain elevated margins in the coming quarters?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Certainly. I'll start here, and Julie can jump in. But as we've talked about, a defender margin mentality is critical for our business. We've demonstrated that over the course of 35 years that client service and technology, the experience is really what drives our growth. And so you'll find that our margins remain robust year in and year out.

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Specific to where we are today, certainly, there's a bit more capacity in the system than we saw back in March or April. We still feel great about consumer demand. And so as Julie gave the guidance around those margins, I think we think about where we are today, the demand we're seeing, our ability to defend our margins, and that helps inform us on that guidance. Julie, other thoughts?

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. I would say that as we kind of look at the runway here, I think there is quite a long runway of working through the demand that is in the markets, given the constraints that we are seeing. So I think that with where rates are kind of anticipated to be here, I think we'll continue to see strong demand for some time. Primary-secondary spreads are wide right now. So you may see an opportunity for those to come back in here. But I think the 4.05% to 4.30% that we're looking at here, in Q3 certainly is still very strong. We will continue, as we did talk about on the road show, defending our margin, and that is something that won't change. And I think, over time, we'll probably see those margins come back to more normalized levels. But I think we have some runway here given the demand that we think is still coming yet over the next upcoming quarters.

Ryan Matthew Nash - *Goldman Sachs Group, Inc., Research Division - MD*

Got it. And if I can maybe ask another question, just on the size of the market. So originations, Jay, you alluded to, they're likely to pass $3 trillion this year given how low interest rates are. I think most of the market is eligible for a refinance, which means activity should be elevated again next year. So I wonder if you can just talk about your expectations for the market. Obviously, we see the industry forecasts which tend to be a little bit of lagging indicators. And I'm just curious, based on what you see in your portfolios, what do you think about expectations for the size of the markets? And then to follow up on the question from earlier, how do you think about the ability over a 1- to 2-year time frame to continue to drive market share gain?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. So as we've maybe alluded to in the past, anchoring to a forecast, whether it's MBA or Fannie or others is very, very challenging. It's not as if they're off by a 5% or 10% margin, they're off usually considerably. So I'll go back first to the statement I made which is, for our planning purposes or thinking strategically, we really don't look at the forecast. We look at a more normalized market and we structure our growth around that if the market is larger, of course, than we benefit from it. And as we've talked about, by the end of the year, our goal is to have a platform that can close $40 billion a month.

And so we will continue to grow that platform, the tech, the client experience, the brand and the people required. And if the market shrinks, we'll be able to grow market share. And if the market is larger than the forecast may state, well, our capacity will be there to take advantage of it.

I think Bob can probably speak to who's in the market today. As you pointed out, a significant portion of mortgages here in the United States are in the money and we expect them to be in the money for quite some time.

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. I guess the total size of the market, between $11 trillion and $12 trillion. And depending on how you want to look at it, $9 trillion or $10 trillion of that is in the money, would benefit substantially from a refinance. And so given the 10-year between 60 and 70 basis points and the Fed essentially taking really a strong long-term view on that, at these levels, it could take 2 or 3 years to work through these. So it really will become a capacity theme. And so as Jay said, building out close to $500 billion of annual capacity, the ability to take advantage of that, I think, is really -- that is really the cornerstone of us picking up share in an environment like this. It's truly capacity. The market is there for the taking. And so absent a surprise with longer-term interest rates, we're hard at work at adding that capacity and taking advantage of it at high margin.

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Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I want to jump into that. I know I mentioned this during the call, but I couldn't be more proud of our group. And a lot of folks are seeing some growth, which is expected in a market like this. For us to grow from $15 billion to $30 billion over the course of the first 6-months of the year, I think speaks to the true scale that our platform allows for. And I just can't say enough about the team members here that allowed that to happen, our tech team and others.

Operator

Our next question comes from Timothy Chiodo with Crédit Suisse.

Timothy Edward Chiodo - *Crédit Suisse AG, Research Division - Director*

I want to ask about the partner opportunity, so -- and talking about how that could relate to share in the purchase market. So you gave stats around 18,000 existing influencers, which is de minimis relative to the potential opportunity of 2 million-plus financial professionals. I know that you've already got contracts sort of at the parent level with approaching 200,000 of that 2 million. Maybe you could just talk about the approach to attacking that other 1.8 million or so.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. Really -- and take a step back. Thanks for the question, very good question. And Julie speaks a lot about this. But just to kind of level set how we think about that, our platform and the growth. I think kind of the old line thought process has been purchase or refi. And that's a question we receive quite a bit. It's important to understand our organization, to understand the differences and how we think or approach the business. We think capacity. We think capacity, brand and client experience. So at any moment in time, there's another loan to add to our platform. And the way that we view it is we have the most profitable loan will be the next loan into the platform. In some cases, that will be a refinance loan. In other cases, that will be a purchase loan. But we don't specify purchase or refi. We think we have a platform that's capable of underwriting, processing, closing x amount of loans growing each and every day and how do we put the next most profitable loan on there.

So in a market where refinances are more prevalent, you may see more refinance volume from us. In a market where purchases are more prevalent, you may see more purchase volume for us. But that's -- you need to kind of view it from the perspective of like excellence in operations is really our focus and then maximizing profitability with that excellence.

Now pivoting to the partner, or Rocket Pro channel as we reference it, we've rolled that out in the last few years. We've seen great growth from that channel. And yes, I think that channel gives us flexibility to reach prospective clients that our direct-to-consumer advertising may not reach. And in particular, in a heavy purchase market, that channel allows us to have access to those purchase loans that the direct-to-consumer advertising may not have the same reach because we're talking to financial planners, insurance agents, et cetera, who are right there at the point of sale.

And so we have, of course, a sales team that specializes in that, we've got a marketing group that specializes in that. And just like we do with direct-to-consumer, that team is out there each and every day, being thoughtful about the partners that we want to approach, taking on a lot of inbound requests and then figuring out the proper approach to onboard those partners. For us, one of the most complicated things in the industry that we have built proprietary technology to solve for is the licensing requirements. So we're able to onboard those partners, license them so they're legal to originate loans in all 50 states and then move forward with that.

So our approach will be the same that we've taken to this point in time. And Julie talked about it, and I can turn it over to her in terms of size and scope. You referenced a lot of those numbers but kind of a methodical, strategic approach, rolling out that channel, finding the right partners, licensing those partners and allowing them to continue to grow the Rocket Pro business. So I think the same process you've seen in the last few years of its growth will continue here in the years to come. Julie, feel free to...

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Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. And one of the things that we think about when we consider this channel is really the brand that we have built, and these partners that we are approaching also have very strong brands. And really, we want to partner with them and they want to partner with us. So I think that's important to think about as we're considering who those right partners are for us.

And the technology that we are building and this effort that we have been putting into that platform, which allowed us to launch and grow as we have over the last couple of years here, we'll continue to invest in that. It's a heavy source of where we've been investing here as of late and trying to really continue to hone that process that we've got so that we can continue to bring on new partners that want to know us, will partner with us for brands and the technology...

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. And I think that also kind of those partners we're talking about -- I think I referenced this on the call, but our Q3, while refinances are at the -- at record levels, I think Q3 will be one of, if not the best, purchase quarter we've ever had. So we're seeing strong demand and a lot of that's coming through that partner channel, which is great.

Operator

Your next question comes from Rick Shane with JPMorgan.

Richard Barry Shane - *JPMorgan Chase & Co, Research Division - Senior Equity Analyst*

One of the topics that's been addressed is the scaling of your peers. And you've talked about the impacts over the intermediate term in terms of gain on sale margin and really trying to defend that. You've also talked longer term about market share. I'm curious, in a market where supply and demand are changing or capacity is changing, do you think that, that may put some pressure in the short term on market share?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I think market share for us is something that we look at yearly, 2-year, 3-year period of time. At any moment in time, and as we touched on, even getting the right denominator, that can be a bit challenging to determine what exactly is happening. They're always revising and revising. So we don't necessarily fixate on a month or a quarter when we think about market share. But long term, there are really 3 components to scale. One, of course, is the tech platform and the operations process platform. And Bob always touches on this, there are a lot of folks that might go from 5,000 loans to 10,000 loans or 10 to 15. But to go from where we were, 50,000 or 60,000 to over 100,000 -- and I'll turn it over to you in a second, Bob, you can talk -- speak to this, is really a challenge. So we find a lot of our competition getting stuck somewhere along the way that benefits us, that we're able to continue to scale.

The other thing, of course, is the financing that's required. So as you grow, even if you have the technology or the process to allow for that, having the deep financing that we have -- and Julie can speak to this, is another thing that many will struggle with.

And then I think the third is the brand. And this really helps us quite a bit. Speed with our operations, client experience with our operations and in brand all form a strong moat around price. And so we, of course, have to be competitive with price. And as capacity comes and goes, as it typically does in the mortgage space, we can apply a little bit of pressure. And Julie talked about the fact that margins can go up and down a bit. But client service, speed to close and then that brand really give us a competitive advantage that drive consumers to our experience and make it less about price. And for the last 25-plus years, that's really worked in our benefit, to defend our margins and have that strong margin that you're seeing today.

Bob, I don't know if you want to kind of touch on the capacity piece, which I think is the stopper for most of our competition?

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Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. I think it's a great question about thinking about market share. And as we talked about how we think about it when it comes along, usually, we grab it at some opportunistic times. And what we find a lot of times is we scale faster than our competitors. And we're like a rabbit, we run out ahead, and then they can -- they begin to add some capacity. And so at that point, we'll hold it. But there are 2 long-term bigger picture, systemic things that allow us to continue to gain capacity.

One is that, for smaller lenders -- unlike pre-financial crash, where anyone could come rushing into the industry and often did. They were selling cars. They're like, oh, look, it's hot in the mortgage industry, we're going to jump in. That's very different now. Licensing is still a big moat around that. And so people can't easily enter small entities. And then the big entities, as Jay said, they can add capacity, but it's not linear. It's exponential in the sense of it becomes more and more difficult to add that capacity, so they begin to hit limits.

And so I think we're in that range now where we will find out who can truly add capacity and be able to take advantage of this ongoing market. And I think we're very well positioned to do that.

Richard Barry Shane - *JPMorgan Chase & Co, Research Division - Senior Equity Analyst*

Got it. Okay. That's great. Very helpful. Just one housekeeping question. What is the NPV now on servicing portfolio? I missed that.

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

About $400 billion.

Richard Barry Shane - *JPMorgan Chase & Co, Research Division - Senior Equity Analyst*

$400 billion? Okay.

Operator

And our next question comes from Dennis McGill with Zelman.

Dennis Patrick McGill - *Zelman & Associates LLC - Director of Research*

First question just has to do with headcount. And you've talked about and we've seen obviously an unprecedented environment for the industry and a lot of competitive dynamics in play, loan officers being sent away. People trying to build their own capacity. But you're set up differently. And I was just hoping you could maybe explain a bit about how you handled head count during the quarter and since -- and what you've seen from a turnover standpoint?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Well, yes, I think Bob talked a lot about this, but our business model is structured differently. So we're able to flex capacity and grow capacity without having to add the same number of heads. Now of course, when you're growing the way that we are, we're still hiring individuals, but we really get -- we get a lot of extended capacity through the same team members really using technology and bringing efficiencies to those team members.

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In terms of turnover, I mean, our folks are very happy, as we mentioned before, all now working on their vesting to become shareholders and experiencing great success. So we've had a strong -- our culture is very strong, and it's been very strong going through this period of time even with COVID. We've got 98% of our team members working from home very successfully. And so we're in great shape from a retention perspective.

Bob, I don't know if you want to touch a little bit more about how we think about that -- we're not hiring the same types of folks our competition might be because we don't require someone with 20 years of experience to come in for our group to grow.

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

That's right. And it keeps coming back to this capacity theme that we've been talking about and the ability to get scale because that is really key is do you have to add 1 individual to get the same amount of loans as you're getting before or can you add 1 individual and get more loans? And we've seen a pretty dramatic increase in the number of closings per team member. And so we talked a lot during the roadshow about what we call Rocket Logic and the algorithms that are guiding that work, which allow us to plug people in, where it's, historically, our industry and even today, you have to -- you're plugging in highly seasoned people, and there's only so many of them. And so that remains an impediment for a lot of our competitors to truly grow. And so utilizing technology to assist people. And because -- but we've also bifurcated those roles, so you don't just have a loan processor who needs a couple of years of experience to be able to be confident. You can plug people in and keep them and show them and guide them through technology on things to work. And then you can reduce those choke points. And so that's been really, really successful for us.

Dennis Patrick McGill - *Zelman & Associates LLC - Director of Research*

Very helpful. And then second question, just -- there were a couple of stats you mentioned, I didn't catch them. I think one was 40% -- 46% of closed volume came from the servicing book. And I think you've talked about the 80% retention rate. As you've grown in servicing and added more clients to the portfolio, can you just give us any historical perspective on ratios like that? Have you been able to improve those ratios over time as you've gotten larger?

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. I think I can speak to this, it's Bob. But they continue to get better. I think the most recent numbers are maybe at the higher percent of where we've been and through that. We were always industry-leading, but usually in that 60% to 65% range, then we -- in the last couple of years, it's been in that 70s and pushing into the -- so I think it's really a continuation of a number of things. A, we're continuing to get better at it. I mean we really focus on the data and the analytics to drive that and to just continue to refine the speed, speed to the client is everything, but also this is where the brand continues to kick in. Plus, people -- we talk about barrier to exit as it pertains to servicing. We want to provide an experience that -- because servicing doesn't have the greatest reputation in our industry of high client service. Jay mentioned our seventh J.D. Power award in a row. And every year that we've been eligible to win that, people want to come back to that experience. A lot of people have had experiences that weren't so great elsewhere. And so that leads to higher and higher retention. So it's not a surprise that, that number continues to go north.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I think when you think about the investments that we make, technology investments, when we think about servicing, we invest there just like we do in origination. And a lot of folks are trying to cut cost to drive -- increase, I suppose, profit around the servicing. But for us, the client experience, having access to property data, what's happening in their market, in their neighborhood, having access to get answers to questions they have about their payment real-time, not wait on hold for half an hour, hour, it's all important because, as we talked about, lifetime value of that client, it's critical to the success of our business. And as we think about the amount that we can pay to acquire clients, we're even more competitive because, the second time around, there is no acquisition cost for that client if they enjoy our experience. So we really view servicing as a strategic advantage to grow our origination platform.

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Operator

Your next question comes from Dan Perlin with RBC.

Daniel Rock Perlin - *RBC Capital Markets, Research Division - Information Technology Analyst*

Congratulations on your first quarter out. Obviously, a great setup for you guys. I had a question, if I could revisit the gain on sale margin just for one second. And it really is trying to understand the dynamic around price sensitivity and competitive in that when some of that is so much focused on the servicing portfolio. I'm trying to understand the difference between price-sensitive clients versus maybe nonprice-sensitive clients that you have to go out and be a little bit more aggressive to acquire.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes, good question. So I don't think there is a significant difference around price sensitivity. I do think it's important to point out that there's a -- we operate differently, but there's a floor -- and Bob can speak to this as well, a floor to price. And that floor is created by the cost to underwrite, process and close mortgages. And so we benefit in this area because, although margins can go up and down -- and Julie talked about how robust they were here in Q2 and how good we feel about the margins in Q3. But as we even see more pressure on margin, what stops our competitors for dropping margin is the cost that they have to acquire, process, underwrite and close.

And so we have to be competitive. I touched on that before. We have to be within an age or a quarter of interest rate. But that difference for us and the profitability it brings versus our competition, which is kind of stuck because of their cost to underwrite, process and close, really allows us to have very strong margins in tougher markets, in easier markets regardless because of the advantage we have around the efficiencies to underwrite. We've seen that for years and years and years now.

Bob?

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. That's -- another thing we talked about a lot in the roadshow was who's in control of the business? And so with a lot of traditional mortgage lenders, what you find is that the loan officers are in control of the business. And so as -- they are the brand, they are the reason that the client is coming to them, so they are the ones that then can really drive those margins. Then of course, since they get paid the same, whether margins are high or margins are low, they're always going to be advocating for lower margins. And so that is a very real and very powerful force at a lot of places, driving those down. It doesn't really exist here.

And so as Jay said, we find that a mortgage is a very difficult thing to price shop because you have interest rates, you have points and you have fees, and you have -- it's a very, very difficult thing. And you have the difference between [1/8] which can often be pretty imperceptible day-to-day since the market is constantly changing, can mean 0.5 point in price, which on a $400,000 loan is $2,000. And when you couple that with our ability to maximize execution via our size, and that's where you can really see that we can carry more substantial margins than a lot of our competitors over the long haul.

Daniel Rock Perlin - *RBC Capital Markets, Research Division - Information Technology Analyst*

That's super helpful. The follow-up I had is, you clearly have outperformed plan. The guidance suggests that, that's likely to continue. And now you got a public currency. And I know that a big part of the strategy long term is to continue to expand into some new verticals as well as geographies. And so I'm just wondering, 2 things. What is your kind of near-term appetite for all this excess capital that's flown through the model? And then secondly, now you have the public currency as well, what are your thoughts around M&A to accelerate some of that expansion plan?

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Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes, I'll take that, and Julie chime in as well here. We've always been, I think, opportunistic when it comes to leveraging capital to grow and usually organic is the first place that we look. We've touched on our drive to $40 billion a month, investing in technology growth at the origination and servicing level. So that's the first place that we will go.

As a private company, we've historically done special dividends over the course of time. We have lots of cash coming in right now.

So something like that is certainly a possibility for us as we think about the future. And we feel good about our ability to continue to grow the business. It doesn't mean that we're not always out looking for opportunities. So an acquisition is something that we think about as a use for the currency as well and, of course, repurchase if we think that, that makes sense.

I mean, Julie, am I missing any of our kind of...

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

No, actually, you said it great, Jay. I think that's right in terms of kind of the waterfall of how we think about using our capital. Investing in the business, we found, is generally the best way to deploy that capital. And we're certainly looking very hard at all the opportunities that we have to continue to use that capital to invest in technology, invest in our processes, think about things that might be strategic to add to the platform from an M&A standpoint. So I think we'll keep looking at that, just like we always have here. And as Jay said, if it gets to the point where we say, you know what, there's not something that we want to invest in beyond what we're doing already and we have opportunity to consider a dividend, it is something that we may consider down the road.

Operator

Your next question comes from Arren Cyganovich with Citi.

Arren Saul Cyganovich - *Citigroup Inc., Research Division - VP & Senior Analyst*

If you think about maybe where you started this year in the real massive amount of customer acquisition that you've created through this environment, how does that change your view? Has this accelerated your kind of growth expectations for the business and some of the other businesses you have within the ecosystem?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

I'll go back to that comment around kind of strategic thinking. Certainly, this is some wind at our back. But the long-term strategies, that marketing technology to allow us to grow in markets, whether it's real estate, auto, mortgage, I think we're still on track with all of those things. We certainly benefit from having a larger book of clients that have had a great experience on the mortgage side. It offers up opportunity for us to reach out to them, not only for mortgages down the road but, of course, some of the other businesses that are growing in our ecosystem. So I think it's helpful, but nothing that would deviate us from the strategy that we've set out to see growth in all of the businesses here in our ecosystem.

Arren Saul Cyganovich - *Citigroup Inc., Research Division - VP & Senior Analyst*

Okay. And then just lastly, the GSE adverse market fee, maybe you just talk a little bit about how that might impact your gain on sale volumes or just general mortgage volumes overall once that's implemented.

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Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. We know -- and Julie can speak to this, that there's been a change, I'm sure everyone's aware of, where it was pushed back. But Julie can kind of elaborate on what's happening and how we think about it.

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. So that fee was pushed back to December 1 now, and that's going to be effective for us. So that was good news to hear that. And I think that what we'll see really depends kind of on how others will react too. I think everybody is going to be subject to the same fee. So the thing is that it's consistent across everybody who's originating mortgages. So what sort of impact that has on pricing, I think we'll have yet to see. There's certainly other factors that -- I can let Bob chime in on this as well, that we consider in thinking about that. Bob, do you want to...

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

We have a real-life experience with how it's going to affect because it went live for us for 2 weeks. The FHFA came out and said that the fee is effective right now. That was, I don't know, earlier last month. And so for 2 weeks that was in place, we didn't see a material change because, again, at capacity, which the industry is at and will be at for quite some time, primary-secondary spreads largely absorbs much of that, whether all or not, we can talk about. But we didn't see a fundamental change to our volumes or to our margins for that period of time. So that pricing that goes live on December 1 will largely be reflected in rates sheet, in mortgage companies' rates sheets early October. And I would imagine the experience will largely be the same. It will be a pass-through.

Operator

Your next question comes from Jason Kupferberg with Bank of America.

Unidentified Analyst

This is [Maher] on for Jason. I want to just quickly start with cost structure, maybe. If you could just talk about that a little bit. How much of it is related -- how much of your costs are related specifically -- tied to origination volumes or will move in lockstep as we grow quarter-over-quarter with the seasonality, if you will? And then just any comments overall on just how much is variable versus fixed would be great.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I'll let Julie field most of this question, but I think that's another really important concept to understand about our platform. And Bob talked about it from the mortgage banker, loan officer perspective, from the operational perspective. But the next loan that we load onto our platform, the vast majority drops to the bottom line. And I think that makes us much different than others who grow capacity. They're growing expense right along with capacity where we're not. So Julie can kind of give you some more specifics.

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. The things that tend to vary more directly with production are the banker commissions and compensation that we pay our operations folks as well. Production costs that we have also will increase. And it's about 25% of our costs that will vary. So when we're adding new loan production to our platform, about 75% of that tends to fall to the bottom line. So it is pretty substantial amount as we continue to add on production to our platform in terms of the profitability of that.

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Unidentified Analyst

Great. And then just a quick question on the other income line item. Obviously, you had a strong growth this quarter. But some of that, I think, is your small business administration. I think you had like $248 million extra from that in Rocket Loans. Is that -- can you just talk about just the growth expectations for that for the rest of the year? And just -- is there -- has there been other things that accelerating and any businesses to call out other than, I guess, Amrock, which is directly based on originations?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Right. Yes. And Julie can speak to this. I think as we go through the documents, you'll see growth in a lot of those businesses. In particular -- and we touched on this on the roadshow, our Rocket Loans business is really designed as a flex lending tech platform. And so the relationship that was established, and in particular here with the SBA, allowed that group to do somewhere near or over 9 million loans or grants that is reflective in that other income that Julie can speak to. So that's over a limited period of time. But the underlying ability for that technology to be adjusted, I think, is something we're very excited about. But Julie, do you want to talk to that?

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. That's right. You got that right. The other income increasing from $244 million to $562 million quarter-over-quarter, there are 2 significant things, and you mentioned both of them. So that opportunity that Jay just mentioned and also Amrock increasing really kind of alongside the Rocket Mortgage business as well. Those 2 things do have the majority of the impact on that increase in other income for the quarter.

As we look ahead, there may be some additional income that comes in through the rest of the year from that. But we do not expect that, as you'll see when you look at our 10-Q, to be necessarily a recurring source of revenue. But I think it's a great point, Jay, that the platform is built to do things like this. And from time to time, there may be further opportunity.

Operator

Your next question comes from Mark DeVries with Barclays.

Mark C. DeVries - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

You mentioned potentially investing in servicing. Would you consider bulk servicing acquisitions or correspondent lending? It seems like it could be a good use of capital with such an unusually high recapture rate.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I'll let Bob take this on as he is the expert with capital markets. As we've talked about that we certainly think a lot about MSRs and understanding the value of MSRs on our platform. And in some cases, you may see us sell MSRs, if that's the right move. In other cases, we may acquire them. Bob, you can elaborate?

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Yes. We -- there's really 2 ways to think about acquiring MSRs from a profitability standpoint. One is a simple return on capital and how you might lever that and how that might -- how might -- that might play out. But the other piece, as I talked about earlier, is retention. And so often, when we look at acquiring MSRs, we look at not only acquiring the MSR to get that cash flow but also to get that client and how many -- how much of that future stream of cash, when they refinance or buy another home, we'd be able to acquire.

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It's something that we've done in the past, it's been incredibly valuable to us. But a lot of it also depends on what the market looks like and what the capacity is to handle that market. So we're always out there. We're always looking. I don't know as right now, we're thinking, doing -- we talked about that, as far as putting capital to work, to give us some kind of a levered or unlevered return. But from a retention standpoint, in many different ways, we're very active in that market.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. The last -- I think this is an important thing to point out. When you think of other folks who service loans -- again, we're an originator, and we leverage the servicing of those clients to really drive our origination and it will drive our additional ecosystem moving forward. So we can be really thoughtful about how we acquire MSRs. We also, of course, have the largest engine in the world to produce them ourselves. Our competition has to buy servicing, whether its return is -- that's the only way for them to grow that business. And so we're probably more strategic in thinking about how we buy because we have the luxury of being able to produce them ourselves.

Mark C. DeVries - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Okay. Got it. And could you help us size how meaningful the Ginnie EBO opportunity is for you guys and kind of timing as to when that could flow through to earnings?

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Sure. Go ahead, Julie.

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. That is something that we're looking at, certainly, as an opportunity. Given what you see on our balance sheet right now, you can kind of size that opportunity and see that we've got about $3.5 billion of loans on our balance sheet because those loans are 90-days past due, which does trigger the ability to buy those loans out of the portfolio. And really, the analysis is the pass-through rate that we continue to have to pass through versus how we can finance those loans and what the cost is to do so. So we are actively looking at that. We have bought some loans out already. And our -- I think the liability, got $241 million on our balance sheet at year-end that we had bought out. So we're thinking about whether it makes sense to continue to do more of that right now, in fact. So it may be something that we do, but we'll see.

Mark C. DeVries - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Okay. Any color you can provide on what percentage of those loans that are in delinquency or in forbearance are Ginnie Mae loans?

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. Yes, I don't know quite the Ginnie Mae mix. Bob? Maybe Bob knows.

Robert Dean Walters - *Rocket Companies, Inc. - President & COO*

Well, so it's about 90,000 loans and a disproportionate amount of the exact numbers that are Ginnie. So I don't have that off the top of my head.

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Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. But the trend has been decreasing is the good news. Compared to where we saw it at June 30, we are seeing a decrease in the number of loans in forbearance. So it's been a good trend to see.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Yes. I would say that trend, along with just the strong market that we're experiencing right now, the strong growth that we're experiencing right now, all incredibly exciting for where we're headed here for the second half of this year.

Operator

We do have time for one more question from Don Fandetti with Wells Fargo.

Donald James Fandetti - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I just wanted to ask a follow-up question on the Q3 gain on sale margin guidance. Is there a mix component in there? Or should we sort of view that as just normal capacity coming into the market? And also, in Q2, it seemed like the partner network gain on sale margin went up a lot quarter-over-quarter. I don't know if you could provide a little more color on that.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

Well, I think from a mix perspective, if you're referencing direct-to-consumer versus partner, I would expect that mix to remain the same as we -- or similar as we think about the Q3 guidance for margin. Julie, I don't know if you want to reference the -- or talk -- speak to the partner margin in general. And that's the second part of the question.

Julie R. Booth - *Rocket Companies, Inc. - CFO & Treasurer*

Yes. Yes, you've seen the partner margin come up here. As I think we explained, the partner margin is reported on a funded loan basis, so there's a bit of a lag on that. But we had made some investments in the partner network in 2019. And you're really seeing that margin in that channel come up here into 2020, consistent with what we're seeing in the direct-to-consumer channel. So I think in both channels, you're seeing the impact of the current market environment on those margins.

Operator

That is all the time we have for questions. I'm going to turn the call back to Jay Farner for his closing remarks.

Jay D. Farner - *Rocket Companies, Inc. - CEO & Director*

All right. Thank you. Again, we appreciate everyone joining us here today, taking the time as we answered all of those questions. We're excited about getting to know each of you better as we build the relationship. And as I mentioned before, really excited about where we came out here in Q2 and how we feel about Q3. And anxious to get on the phone with you in a few months to talk about those results once we can. So thanks again, everybody. Have a great evening.

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Operator

This concludes today's conference call. Thank you for joining. You may now disconnect.

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