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Rocket Cos., Inc. (RKT)

Goldman Sachs U.S. Financial Services Conference - Fireside Chat

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MANAGEMENT DISCUSSION SECTION

Ryan Nash

Fresh off its first Investor Day, we're excited to have Rocket Cos., Inc. join us once again. You know, Rocket's had a successful year, continues to take market share across both purchase and refi as it leverages AI based approach. In addition, they rolled out medium term targets that positioned the company to be a leading player in the space for years to come. Here presenting to tell us more about the story CFO Brian Brown. Today's discussions will be fireside chats. So welcome, Brian.

QUESTION AND ANSWER SECTION

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Thanks, Ryan. Thanks for having me. Appreciate it.

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Absolutely. Well, Brian I think you've been a rocket for about a decade and Varun and you been leading the company for over a year now. You guys have added some other talent to the mix. A new CMO, a new CTO, introduced a new mission, exited some businesses. It's a busy year. So from your perspective, how is Rocket evolved over the past year and what does the next leg of the story for the company look like?

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Yeah, thanks for the question. So, yeah, as you said, I've been here for 10 years and I can say I've never felt better about the future of the company. First, bringing on Varun Krishna was a huge, huge accomplishment. When Dan went out, Dan, our founder and chairman, searching for the next CEO, he really only had one criteria and that criteria was bring someone in who thinks differently than we think today. And Varun was obviously the right person for that job. He comes with a product and technology background. But since he's been here, a couple of things have changed. One you mentioned, which is just the focus of the organization. You know, I really like that Steve Jobs quote about innovation is saying no to a thousand things. And I think, frankly speaking, we were probably guilty of trying too much. You know, we went public in the pandemic. Money was cheap. Obviously, mortgage rates were in a different place. It felt pretty good. So we did try a lot of things and some of those things worked and some of those things didn't. But right now we are laser focused in on homeownership and homeownership as a category as this group knows, the TAM is huge. We're the biggest in the space and we only have single digit share. So there's just so much to go out and get. So that's number one. And the second thing, which you also touched on was the talent aspect of it, Varun has done an amazing job bringing in some new leaders who come from other categories or think different, and pairing them up with an existing leadership team who really has decades and decades of experience in the mortgage industry. So what you end up with is you keep the entrepreneurial spirit, the growth mindset, and you pair it with some good technology, some good

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product folks, a whole new CMO and a brand re-stage coming up shortly here and we feel like we're in a really good place. I've honestly never been more excited.

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So there's obviously been a lot of great volatility in the markets and rates down...

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I'm sure it's impacting your expectations based on when you sit here today, what is your view of the mortgage origination market in 2025 and how do you see that impacting Rocket?

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Yeah. Great. Well, being a CFO at a mortgage company is always fun, as you know, if there's one thing that's constant, it's almost always some kind of volatility. And we, in fact, did a leadership offsite just last week and one of our mottos is really plan for a storm, but hope for the sunshine. So being flexible in your planning and how you think about the market and how you think about your own businesses is almost the first objective in any environment, particularly in mortgage. But secondly, we have a lot of reasons to be optimistic. Obviously, to your point, rates haven't come down as fast as people thought, but there is some green shoots, if I look at 2025, almost every forecast we look at has the – has 2025 growing over 2024. The only question is how much? I think Fannie right now is at about $1.9 trillion that's about a 20% growth on 2024. That feels really good to us. It feels really good and I think if you kind of dissect it a little bit more, you look at purchase, I think Fannie has purchased up about 10% in refinance up, maybe call it 40% to 50% clear the refinance number is going to be based on where your view is on rates and rate and terms.

But when I look at that 10% purchase number, that almost feels a bit conservative in some cases. We're seeing a couple of really important things on the purchase side. One which goes without saying is there is demand.

Clients remain engaged. Consumers want to buy homes. That's not the problem. Our pipeline of people that are interested in buying homes is actually bigger than it ever has been in the history of the company. Now, getting those clients into homes remains a challenge, and that's largely because of inventory. But even recently we've seen inventory tick up. We've seen inventory in terms of month supply go up to a north of four for the first time in a long time.

And another important criteria that we measure is the number of homes sold for the list price or under the list price. And for the first time ever, we're seeing more homes starting to sell for the list price, which is huge because the tale of the past 18 months has been a really competitive process with multiple offers, sometimes cash buyers, you know, winning out.

So if I kind of take a step back and I look at inventory, I don't know exactly where rates will go. So I'm not exactly sure about affordability. But I look at inventory and I look at demand. We're starting to see some things cooperate that gets us really excited about 2025.

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So maybe to just build on that, you know, we've been operating in a very dynamic market the past few months. I think since the Investor Day we've had an election where, as we said, rates have bounced around.

We've seen, you know, the Fed ease 75 basis points. Maybe just talk about the volatility and how you managed the business through such a changing environment. And do you expect any of these recent events to that have second order impacts on the business?

A

Yeah. So, I think it starts with operating leverage and it's starts with your cost structure. If you think about traditionally how mortgage companies have scaled up or scaled down, it's largely been through human capital. It's really been through hiring, and we've done that ourselves, too. Now we'd like to think we've done it a bit more efficiently, and we've done it with better scale than anyone else in the space. But, you know, if we look at post pandemic, we had additional capacity, too. So in order to your point, to operate in a dynamic market like this that comes down through investments in technology, and you still need really, really good talent and you still need great team members, but you have to empower them with technology and AI and make them more scalable. It's still the biggest financial transaction that most consumers will do in their lifetime. So speaking to a human and getting great advice and understanding your financial situation is extremely important. But there's ways to do that more efficiently with data in meeting the consumer where they are. So our goal in life is as it relates to operating in a dynamic environment, is being profitable in any of these mortgage environments. And then like we talked about, we will hope for days of lower rates. And when that comes, we will absolutely take that share and be able to increase our operating leverage. And in tough markets, we'll still operate profitably at healthy margins because we'll do it through technology and AI rather than more hiring.

Q

So you talked about taking share and at your recent Investor Day, you set some market share goals for 2027, including, I think 8% purchase market share, I think around four, give or take right now and 20% refi share. Maybe just talk a little bit about the roadmap to achieving those. How do you think about the path to getting there? Are there any additional resources or investments required to hit those targets?

A

Yeah, thanks for the question. So I think – it starts with, you know, operating in a very diverse business model. So if you think about most companies that operate in this space, they're either a direct-to-consumer lender or a wholesale lender or maybe a servicer. And that's really it you have sort of one of those three paths to choose. But if you think about Rocket, we're all three of those things. We are the number one direct-to-consumer lender, yet we still only have low-single digit share in that space. So we have a lot of room to run and we're really excited about this brand re-stage because meeting the home buyer where they are and meeting the growing demographics and changing demographics in the US is really important to continuing to be the number one direct-to-consumer lender. And then you think about the wholesale space, we are the second largest wholesale lender today, we think brokers play a really, really important place in the mortgage market. And if you were us and you were sitting in our shoes, as long as we focus on that operating leverage in processing, underwriting and closing loans very, very efficiently, driving cost out of the system through technology in AI. It starts mattering much less where the loan comes from. Direct-to-consumer is great. We love interacting

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with the clients through our digital properties and through our thousands best-in-class mortgage bankers. But when brokers bring us the client, there's no cost of acquisition there. So we're happy to share in that revenue because we don't have the cost of acquisition.

And then finally, thirdly is servicing. Servicing is such a super power to us. If you think about how most mortgage companies, why they got into servicing -- servicers today, they really focus on collecting those servicing cash flows, low cost and processing them -- them very efficiently. And then, of course, ending up with the margin on that. But when we started servicing in 2011, we did it with a completely different lens. Our lens was how do we provide a service so that the client comes back to us and gets their next mortgage with us? One of the things I remember, Ryan, when I got in this business and I thought this was a mistake when you looked at the recapture rates because I said, wait, you're telling me 8 out of 10 people choose a different mortgage company for their second mortgage, the second time they get a mortgage and that's still to this day almost the industry stat. 20% of the time you stick with your current lender, 80% of the time you go with a different lender. So, when we started servicing, it was through the lens of, yes, we want to we want to collect the cash flows very efficiently. Of course, we want to have great default servicing and really keep delinquencies down, underwrite loans appropriately, of course. But it was all in the lens of getting that client's next mortgage, and that's why we have 85% recapture rate. So, if I think about these markets share goals, I think it's really the three pronged approach. We have a lot of room to run in. The best direct to consumer mortgage business in the company, wholesale continues to be very interesting, especially in a heavy purchase environment and then servicing and continuing to reload the servicing portfolio, continuing to work on to recapture efforts provides us a really unique experience.

Q

And so, maybe to dig in a little bit further on wholesale. So you talked about the wholesale channel tends to thrive in purchase markets like the one that we you know, we have recently been in. I guess maybe just talk about how critical is growing the wholesale channel to achieving your purchased market share goals, what initiatives are in place to grow there, does wholesale at all cannibalize the direct to consumer business? And over the longer term, are there any volume mix or gain on sale implications that we should consider from this transition? I know there's a lot in there.

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Yeah. Let me take the cannibalization. I think it's a...

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Yeah.

A

...it's a totally fair question. So we do a lot of studies on this and we look at, you know, we compare the wholesale business to our – to our direct to consumer business and we say how many clients that got a loan through the wholesale or broker business did we have the opportunity to interact with on our retail business and then we do it vis-à-vis-à-vis of all the clients that came through our direct to consumer retail business, how many of them showed up, you know, with a broker And then we do it vise versa. Of all the clients that came through our direct to consumer retail business, how many of them showed up, you know, with a broker? To the extent we can measure

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it and it's the amount of overlap is actually very, very small. And the reason for that is because it's really the type of experience that the client wants to have. You know, we are the number one lender in first time home buyers. And that's not a surprise, because if you think about how a first time home buyer wants to get a home and experience a mortgage process, the very first thing they do, like every American, is they go to Zillow, right. And they start their search online at a at a search property.

And then the second thing they do, particularly for millennial's and Gen Z and first time home buyers, is they want to know how much they can afford and when they want to know how much they can afford. They go to our digital properties. They play with mortgage calculators. And if they're if they're liking what they see, they might even try to get pre-approved or we'll pull credit on them digitally or on the phone.

And then the last part of the process for them, particularly the younger demographics, is the realtor. You know, they know they need a realtor. They need a trusted advisers. And realtors are very important to the transaction. But for someone who is craving a digital experience with chat and interacting over digital property, sometimes meeting a realtor, that's like the scariest part of the transaction. But that actually bodes very, very well for us because we have this network of realtors. So after they go through, they find they start falling in love with the home online. They find that they come to the mortgage company, they find out how much they can afford. Then we can we can pass them along to a realtor that's in our network that's already pre-approved, that's qualified, that understands that geography and will provide a great level of service. So that's kind of one characteristic.

But then to your point, on the broker side, there is absolutely clients, particularly demographics, that might be on their third or fourth home. Maybe there are larger home sizes. Brokers tend to work with higher net worth clients and they're super price sensitive, which we understand. And maybe that kitchen table relationship or maybe that person they see at a Chamber of Commerce event or coaches their kids soccer game is the experience they're looking for, both with realtors and brokers. So we need to be there to provide that. Going back to your your gain on sale margin question, which is totally fair in terms of a mix that's important and we should think about that. But remember, for us, it's not necessarily the top line, which is the gain on sale margin. It's really the, you know, direct minus the direct expenses, which is what we would call the contribution margin. So again, maybe the gain on sale looks lower on broker because you're sharing in the revenue with the broker who's doing a lot of work as you should, but you don't have that cost of acquisition. And guess what, since the broker is doing a lot of the work they bring, you really qualified clients that get through your system faster, pull through, you have less cost associated with that. So we're happy to be in both businesses because I think they'll both remain important.

Q

So just to dig in a little bit further on some of the goals, so you've been on a steady path to increase purchase share. You've gotten to over 4%. You guys have been at this for the last 15 years. And as we talked about in the prior question, you're expecting to double it over the medium term. Maybe just talk about how much of this do you think is is secular shifts that are happening in client preferences versus some of the investments and relationship oriented things that you're doing to drive growth over the medium term?

A

Yeah, I think it's absolutely there's some tailwinds. There's no question about it. Some of the things I just mentioned about the changing demographic, who's buying homes today. The reason why the first time homebuyer is really interesting is because, yes, just like everyone else, they have affordability concerns. But remember, they're not trading a 3% rate for a 6% or 7% rate. Their comparison point, the more appropriate

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comparison point is what are they paying in rent in terms of their monthly cash flow. And then if they got a mortgage, what's their monthly mortgage payment and that's why that, by the way, why little changes in rates from the outside, actually are big changes because rents only reset annually or maybe every two years, but mortgage rates are adjusted daily, so all of a sudden when that arbitrage has gotten smaller, you could see first time homebuyers off the fence. So I think one thing is just the changing demographics. When we study consumer segmentation, we see a couple of things. Number one is, you know, female head of households is one of the fastest growing segments. So meeting those consumers where they're at black and brown communities, Hispanics continue to grow is in terms of total population and the demographics of the United States, but also in terms of home buying and they're in some cases looking for a much different experience. So meeting these consumers where they're at and being their home loan provider of choice is extremely important, but I think Ryan it comes back to that multichannel approach, right, to achieve these targets which we have a ton of confidence in doing. It really comes through those three prongs of growth through the direct to consumer business as I just talked about, we continue to invest in wholesale and then continuing to grow that servicing portfolio and increasing the recapture abilities on servicing is what's going to set us up for success there.

Q

So since Varun has become CEO, AI has become the big buzzword of the company. I know it's core to your strategy and you guys have highlighted that it's been deployed, you know across the business. Maybe talk a little bit about how much is Rocket actually invested in AI and as CFO, what metrics do you track to evaluate its effectiveness and when do you expect it to material impact your financials?

A

Yeah, I mean I'll be the first to say is a, is a finance person. I was skeptical, you know not, not necessarily in the power of the technology because I use probably all the same platforms you guys use and it's probably changing your life just like it's changing mine, but in terms of the more immediacy of the impact, that's what I've been most impressed with. Varun obviously comes with a list of credentials and he's brought in a new CTO from Thomson Reuters. So this is his focus. But if you think about the type of business that mortgage is and home ownership. It's literally primed. It's ripe for this type of technology because think about it. Number one, you're sitting on such a rich data set and that's really the foundation, right? You're sitting on. You know, we sort of joke around about it, but likely collect more info. We know more about you if you're applying for a mortgage than probably you're doctor or you're psychologist or, you know, you name it. I mean, think about it. We know how many kids you have. We know where you work. We know how much you make. We know what you have in savings. We know your Social Security number and the list goes on and on. And so that's number one, sitting on a really rich set of data. But number two is, if you think about it, Dan Gilbert, our Founder and Chairman, even back in the day before it was popular, used to say that we're a technology company that happens to do mortgages and essentially we're manufacturing a digital widget. That's all we're doing is we're moving data through a process and we're underwriting and collecting docs and verifying income and verifying employment, all of which is so ripe for automation. Even before we knew the buzzword to your point, AI, we were using things like machine learning and large language models just in our business. So I've been very impressed. To your point, what metrics do I look at? Well, there's a lot of them, but I'd say most importantly is capacity. That's where it's had the biggest impact. And I measure capacity based on number of loans per human being in the process, and we break it down pretty granular. So we look at underwriters, we look at processors, we look at client specialists, we look at servicing professionals, and we measure it all along.

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Now, one of the things we have right now is, you know, we do have a depressed mortgage market, as is we spend a lot of time talking about. So I got to measure two things. I got to measure the actual throughput of loans I have in the system. And then I got to measure what could it be and that's how we got so excited to say, hey, if I just look at 2023, I think we did $79 billion of mortgage production. We said at our Investor Day right now we could do $150 billion of mortgage production. And that's all through this efficiency and capacity gains, largely driven by technology and AI plus just, skilling up and hiring great talent. But one other point I wanted to touch on, because it was part of your question is just the investment, which I think is important. I think for us, because you're right, it is a buzz word. And we've heard it a lot at this conference in terms of how much are you investing. So for us, it's definitely a core principle that we'll invest in. But to set the record straight, we're also not building our own large language models. That's not something we should do those capabilities exist. But to the extent we can take our dataset and plug it into a large language model that's off the shelf or through an enterprise solution, that's where we really get excited. So there's no question that there is an investment associated with that, but it's much different than what you hear and read about from these companies really developing the LLMs. Our process thus far has been use those LLMs, but put it on top of your dataset and make it very specific to what you do.

Q

Let's talk a little bit about operating leverage. So in the third quarter, I think revenues were up 32% and expenses grew just over 5%. So obviously very strong operating leverage. Maybe just talk a little bit about what's driven this. And as you look to 2025, how do you think about giving an improving mortgage backdrop, how do you think about the pace of operating leverage?

A

Yeah. So, you and I spent a lot of time talking about this, of course. But just for the group going back a couple of years, we had some tough calls to make. We had to take a lot of cost out of the system coming off of those record, pandemic numbers. And we did the hard work. We reduced our cost base by almost 40% and then another significant chunk the following year. So that was – that was the starting point, there's no question. And that kind of goes back to my earlier point around this yo-yo effect that you see in mortgage, where most companies have to hurry up higher and expand in times of low rates and then hurry up and shrink in times of higher rates, which we never want to go through again. Setting the fixed cost based for any market and of course there will be more operating leverage when rates are lower, is important. So that that's first and foremost. But secondly, to answer your question around, just general expectations. So let's just take the let's take the 20%, call it, you know, Fannie Mae growth for next year. You may all have your own assumptions, but that's really exciting for us. I mean, 20% growth in any given year for most companies is a good thing. But remember, that would be on top, right, of what your comment about those share goals, right. So 20% on average, but us continuing to take share at a rate much faster than the market gets us really, really excited. And the other thing we've said is we believe we can do that with a relatively similar fixed cost base that we have today. So, you know, the numbers that I run in the scenarios that we plan for internally start getting really, really exciting. And if you believe in that market size and you believe in that growth and you're getting to operating leverage that you haven't seen in a mortgage company for quite some time.

Q

And obviously, the volume side sounds pretty encouraging as you think into next year particularly. And we get rates keep coming, continue to come down. And when I think about margins in the business, historically, you've had a margin advantage over peers, particularly in in the retail channel. Maybe just talk about what has driven that and is that sustainable over time?

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Yeah. So one of the biggest components of the advantage that that you speak of is our secondary markets, our capital markets, team. One, they're just the best in the business. I mean, they're working at the biggest mortgage

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company. But secondly, it's the ability to pool in securitized loans across 50 states and 3,000 counties. So we can essentially create the most diverse mortgage-backed security in the market and the markets willing to pay for that. So that's a big chunk of it. The second thing is just pricing very smartly to the consumer. There's no question, particularly in today's market, that, you know, consumers are price sensitive, as they should be. But just being really thoughtful about your pricing. Most mortgage companies today, the control, I guess you could say of the pricing really lives with the individual loan officers. And you want to give the loan officers the ability to, you know, do what they do best, which is, you know, get clients and great mortgage products that they can afford and makes sense for them financially. But our pricing strategy is really a holistic, centralized strategy that's data driven based on the consumer, of course, with fairness in mind, first and foremost, always, but making sure that's right for the client's financial situation. So I think those two things really give you a strong advantage in the markets.

Q

I wanted to shift gears and talk about, you know, bringing together a couple of things that we've talked about. So I wanted to talk about profitability. So the company was highly profitable in 2020 and 2021, but then experienced challenges that the entire market experienced, you know, just given the, you know, the shift in the environment over the last three years. However, we've now seen profitability improve several quarters in a row. I guess can you maybe just talk about what you think normalized profitability looks like for Rocket, what market or operational conditions need to be in place for you to achieve this?

A

Yeah, I think it goes back to again, it's hard. No one has your crystal ball on the market size itself. But I would argue right now we are definitely in a depressed mortgage market. And I think one of the things that kind of gets overlooked when you think about the mortgage market is ultimately every mortgage company, every home ownership company is competing for consumers. They're competing for loans. And if you look at just the sheer number of loans and units that are being produced right now, that's a really depressed levels. It's sort of overshadowed a bit by home values, right. Since home values are up, mortgage values are up. And so you look at a $1.7 trillion, $1.6 trillion market and you say oh, that's bad, but it doesn't feel that bad. But then if you sort of divide that by the average loan amounts, which have only been increasing the number of units that's getting actually, which is really all we're going after. So when I look at average profitability, I do think you have to take this mortgage market sort of out of the equation. When we look back historically, 2.2 to 2.5, it's been a healthy market, but remember, that's at a lot higher unit volume. So I think we've done the right things on the fixed cost base. Right now, our focus is growth on the top line without adding fixed costs at the same rate and increasing that operating leverage. It's really through technology. It's really through AI and I think, it's probably worth just mentioning right now, I don't know it'll happen next year, but I know we're sitting on a ton of capital. I know we were just upgraded to investment grade by Fitch. We have the best balance sheet in this business. That optionality is a major, major advantage, because if I think about a scenario where if rates are higher for longer and it's another year like this, I think there's going to be a ton of pressure on competitors. We're already seeing it both not only from just companies. Companies in this space are definitely under pressure and they're not able to redeploy capital and invest like we are. But even just loan officers in general, if there's really this few units being done, mortgage is a pretty rich transaction. You can make a great living in this business. But there is a breaking point, right. If you're not doing a loan amount, it's kind of like a realtor, right. You have to there's a certain amount of, you know, productivity that has to be there just to make a living or otherwise you start looking for other career paths, rightfully so. I think another year of this could be a real challenge and I would expect more capacity to come out of the space.

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Q

Wanted to touch on capital but first, one that's about the servicing portfolio. So, you guys have acquired, I think about $70 billion year-to-date, you recently announced an Annaly sub servicing deal. Talk about the strategic importance of MSR as you touched on this earlier, how it fits into the business model. And you know, you talk about $150 billion of origination capacity. I think the servicing book has been around $550 million, as you look for further additions, is there more capacity to add in the servicing book.

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Yeah, great question. So, you know, growing servicing is, – is a key priority to us. The good news is we grow it every single day by just being a big lender in retaining the servicing. So organic growth is, is always the best because if I can do the client's loan and then onboard them to servicing, I know that my recapture ability is 2x to 3x what the industry is so that something will continue to grow just organically by being a great lender helps you be a great servicer. So that's number one. And then second to your point is just acquisitions of servicing. And this is something, you know, I know you know this, Ryan, but for the group, we kind of slowly walked into meaning, you know, we weren't we hadn't been a big acquirer of servicing. And the reason for that is because we didn't know. We knew if we did the client's loan, we knew that we would recapture really well. But what we didn't know is if we didn't do the client's loan and we bought them, meaning they got their loan from somewhere else, how we would recapture. And so we started doing it more a I would call it a test basis, kind of slowly walking into it. And we started to prove to ourselves that even when we acquire servicing portfolios, we still have a really good recapture rate, meaning we still will likely capture that client's next loan, not as good full disclosure as we do if they go through our origination process, but still better than the industry. So that started giving us the confidence to go out in market and buy more servicing. So I think that is something we want to continue to do.

Now there is, it is a competitive market for acquiring servicing their are servicers that we all know and love but have put out some pretty bold goals. But here's the good thing. Number one, we do have the best recapture in the industry. So theoretically, just from a financial model, we should be able to pay more than anyone else because our ROI should be higher than anyone else. So that's number one. But number two, the other good news is we're not all interested in the same servicing. If you're a servicer by trade, and that's first and foremost what you're set out to do. Those lower no rate pools actually benefit you and probably look more attractive to you because those cash flows are going to extend out for a very long time versus us, the higher note rate stuff is a bit more interesting just because it's in the money sooner. So that's that's the good news.

And the third thing just on servicing, I wanted to touch on which we're really proud of is you may have seen this announcement on the Annaly deal.

Q

Yes.

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Makes so much sense for both parties. You may have heard Annaly talk about it too, but if you think about Annaly, one of the best-in-class servicers and wonderful asset manager. Tons of experience in the space, really,

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really great at what they do and driving, really nice returns. But for them, the number one risk is prepayment risk. Right. Is that servicing paying off. So enter Rocket into the equation, you have a great servicing experience as we've won more J.D. Power Awards in servicing than anyone else, but we also protect their book by extending our recapture abilities. So it's truly a definition of a win-win proposition because their clients get a great experience, a really good award winning servicing experience, and then when their clients want to do the next loan, we're happy to take care of them, do that next loan, give them back the MSR asset and extend those cash flows for another number of years. And we're happy to take some of the loan economics for doing the work for recapture. So that deal I think if something is you talk about expanding the servicing portfolio, one Annaly has a big portfolio. So that's very interesting. But also there's other analysts out there and other people that are in a similar situation that don't they're not operating companies. They don't want to do the work of collecting and applying the cash flows, but they sure as heck don't want their loans to prepay and get picked off either. And no one else should be able to offer that like Rocket.

Q

Couple more topics I want to hit here, so maybe we'll go for a lightning round. So capital allocation, you talked about you're sitting on a ton of capital. What are the priorities and how do you think about using it for things like strategic purchases or M&A versus building up more capital?

A

Yeah. First and foremost, our waterfall is simple. It's capitalized the business we've obviously proved, even well before going public that that's always been a priority to us reinvesting in the business. We talked about a lot of these priorities around technology and AI and building out a proprietary LOS that's best in class. And then to your point, next we start thinking about things like acquisitions or inorganic growth. And so far, the servicing is a great example that we continue to love those ROIs if we can build out that recapture. And then finally after that, it's of course returning capital to shareholders. And that's been our priorities as we were a public company or excuse me, a private company and now same priorities as a public company. But you're right, the option value is really what's exciting especially is you compare us to others in the space which are much more thinly capitalized.

Q

So I think Dan talked about the potential to maybe increase the float size and obviously that's his decision. But you know, as the CFO, I'm sure you're involved in the planning. So I guess if you were to increase it, what would be the mechanism? And, what do you think it would mean for the company and for shareholders?

A

Sure. So what Ryan was referring to, is at our Investor Day, Dan did a fireside chat and one of the questions he was asked was about the float size. And his answer was very specific in that, of course, he would have never taken the public company public to only sell down 5% to maybe now 7% of the company. You just don't do that. You don't. It's just not worth it. Trust me. So he, you know, so he wanted to be clear that is not the long term plan. But that being said, also doing it efficiently and doing it, you know, in a very efficient manner is also important to him. I think. You know, there's no pending big event on the other side that's driving any of this. But just you just wouldn't go through all this work and do all this stuff. As much as I love talking you up here, you wouldn't do it for

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only 7% of the company. And the other thing he mentioned for the group, too, is he mentioned inorganic growth. I mean, one way to increase the float efficiently is, you know, using our stock as a currency. If the transaction's right, it's attractive. It's good for both parties. And that's a nice way to do it, too.

Q

We only have about 30 seconds left. So hopefully this will be a quick one. But we're obviously two months into the quarter. any high level updates on how things are progressing or just observations that you're seeing as we're, you know, two months into the quarter?

A

Yeah. So we haven't come out publicly and said anything about the guidance, so I'll stay away from that. But I think, you know, as I said before, just going back to my original questions, I think part of it is I'm really excited about consumers still being engaged in home buying, which is, you know, a traditionally seasonally low quarter, very excited about that. I still look at the Fannie Mae fourth quarter assumption and I say, well, they had rates here and rates aren't there. So maybe that looks a little rich from just an overall market size, but we feel good about where we're in.

Ryan Nash

Awesome. Well, please join me in thanking Brian.

Brian Brown

Thank you.

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