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# Rocket Cos., Inc. (RKT)

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## CORPORATE PARTICIPANTS

### Brian Nicholas Brown

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

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## OTHER PARTICIPANTS

### Terry Ma

*Analyst, Barclays Capital, Inc.*

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## MANAGEMENT DISCUSSION SECTION

### Terry Ma

*Analyst, Barclays Capital, Inc.*

All right. I think we'll get started. Thank you, everybody, for joining. My name is Terry Ma. I cover consumer finance at Barclays, and I'm very pleased to have Brian Brown, CFO of Rocket here with me on stage. So, welcome, Brian.

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### Brian Nicholas Brown

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

Thanks, Terry. Appreciate you having me and looking forward to the conversation.

## QUESTION AND ANSWER SECTION

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

Yeah. So, maybe let's just start out with the market. So, the housing market has been very dynamic. The recovery has been probably more gradual than we anticipated at the beginning of the year. What do you see on the horizon and are you excited about the market opportunity ahead?

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Yeah. Thanks for the question. Yeah. In short, we are really excited. As everyone in this room knows, it's a big TAM regardless of how big the market is or where interest rates are. And Rocket has a very small percentage of that, hoping to be much bigger. But as we take a step back and kind of dive into housing in particular, what we see is a bit of a tale of two worlds right now. You have certain geographies where I would say, for the first time in a long time, we could say have flipped to a buyers' market. There's actually more inventory, there's more supply out there than there are buyers. We see that in geographies like Texas, for example, or Southern Florida, for example. So, that gets us really excited.

And then, of course, there's other geographies largely in the Midwest and other places where it's still more of a sellers' market and it's still really competitive. And then, of course, on all of our minds is where will interest rates go and how should we think about that? And if you think about Rocket and what we're trying to accomplish, the affordability aspect of the equation is something that we focus on immensely. And I'm sure Terry will get to it, but a couple of big acquisitions to talk about that we're hoping to put a dent in that affordability.

But as we look forward to the rest of this year and we talked about this even on our last earnings call, the pent-up demand for homebuying definitely exists. And when we look at our pipeline of consumers that are interested in buying homes and that are preapproved for homes, it remains at an all-time high for Rocket. So, what we really need is a little help from the market on the affordability front and particularly the inventory front to get these consumers in home. So, as we look forward to the second half of this year and even into next year, which most people think will be better than this year, we're very optimistic and excited.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

Got it. That's helpful. So, as the CFO of Rocket, just given how dynamic the environment is, how do you plan on investing and forecasting the business?

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Yeah. It's a great question. A couple of words come to mind. I think being flexible and being dynamic is how we think about our business and how we think about going into the annual planning process, both in the short term and the long term. From my seat, if I think about players in the mortgage space over time, generally, their strategy was as the TAM expands, maybe as rates are going down, the way they tried to capture that share was really through investing in human capital hiring, and we saw that, right? During the pandemic, Rocket included, but all the players in the space tried to hire loan officers and tried to capture some of that demand.

Fast forward to today, it's a much different playing field, at least if you're in my seat at Rocket where our sole focus, what I wake up every day and think about is how do I capture that upside of share gains both from just execution on our front, but also from the TAM hopefully expanding over the next couple of years. And that's really through investment in technology, it's through automation and it's through AI because everything we want to do is be able to plan for being very profitable in a trough market, but then being able to capture the upside of a larger TAM or more friendly interest rate environment, and doing that through operating leverage. So, keeping the fixed cost base at a level where we can be profitable when we go through a tough couple of years, which we have, but also being able to capture the upside. And there's really only one way, in my opinion, you're going to be able to do that, and that's through these technology investments, through AI and through automation.

So, we definitely – when we take a step back, we look over many sensitivities and we look over many different trajectories, but it's always with that profitability in any market in mind and leveraging our fixed costs.

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**Terry Ma**

*Analyst, Barclays Capital, Inc.*



Got it. So, one topic that's been in the headlines recently or over the past several years is home affordability. How do you see home affordability trending and what action is Rocket taking to address the issue?

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**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*



Yeah. Well, it's getting better. So, that's the good news. And that's more of a macro comment around the national scale. Going back to my previous comments, you do have to think about the individual geographies because I think it is a bit of two different things going on. But clearly, we've seen some help from interest rates over the past couple weeks and really even in the past couple of months. And like I said, there's a bunch of consumers that want to buy homes. They've been in a home for probably longer than they want. They've had life events, expansion of their family, things like that, and they really are out in market shopping. And I would say right now, we're right on this precipice of a 25-basis-point move-in rates or a slight decrease in HPI home prices gets people off the fence.

One of the biggest things I get asked about is how consumers think about the shopping for homes and the experience that they're going through. And one of the things I think about a lot and we find when we study our consumers is part of the challenge if you're shopping and you're a consumer and you've been in market for a long time trying to find a home, yes, no one wants high rates, people want lower mortgage payments, but what they really don't enjoy is they're changing and going up.

So you can imagine being in market, finding a home, one month; maybe not getting that home; coming back three months later, you found a home again and you go back to your company. In this case, you fill out your application on Rocket Mortgage and you're checking your affordability, and that's gone up, the amount you have to pay for a very similar priced home, where the home price has gone up. That's what really frustrates consumers.

So steady rates are better than rising rates and, of course, declining rates are better than both. And that's what we're starting to see, which gets us excited. But obviously, there's an inventory equation for that and a home price equation for that, that we're also seeing some relief. And so, we are very optimistic as we look forward. I think it will be gradual. We're not expecting a big bang or a major change, but we believe we are in a great place to capture that and grow our share with a little bit of help from the TAM, but really strong execution as well.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*



Got it. That's helpful color. Maybe we just switch gears to strategy and M&A. So Rocket announced the acquisitions of Redfin and Mr. Cooper. Maybe just for those who haven't been following this closely, what's the vision for Rocket plus Redfin plus Cooper?

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*



Yeah. Well, thanks for the question. Well, number one, just picking up where we left off, affordability, and helping to solve the consumers' problem. Because if you think about a consumer journey over the homebuying process, you're generally going to interact with three to four, maybe up to five separate companies. Most consumers today, as we know, start their search for a home online on a property like Redfin and the other players in the space. Then, you have to talk about a real estate agent or a brokerage. Then, you have to find financing through a mortgage company. Then, you have title and title insurance and homeowner's insurance, and you have all these different companies.

Now, the problem with this today is all of these different companies have different cost structures. They have overhead, they have to acquire clients, they have to have a customer acquisition vehicle, and they don't talk to each other. And the experience is completely different as you go through, moving from one entity to the other. And one of the things we – when our new CEO, two years in now, Varun Krishna came that we agreed on right away was, look, we have to solve the consumers' problem here. And what are the biggest problems that the consumer is facing? Well, one is that friction cutting across multiple different companies. That's a problem. But it's also the cost. Every one of those companies has to make revenue and cover fixed costs and deliver a profit.

And if you were in our shoes, we said, hey, if you think about a mortgage company – a traditional mortgage company, where, as it relates to the homebuying process, you think about what is every mortgage company trying to do? Well, they're trying to acquire clients that are in process of buying a home. And think about when traditionally do they try to acquire them? Well, traditionally, they try to acquire them right when they want to get preapproved for the home. The problem with that is every other mortgage company is trying to acquire that same client. Real estate brokerages are trying to acquire that same client. So from a financial perspective, what does that mean? Well, that means high cost of acquisition. The cost of acquisition is one of the biggest reasons most companies can't be successful in growing share in the purchase space.

So that's where – Terry, that's where you enter Redfin. We said all along, we have to meet the consumer much earlier in the process. If we're just like everyone else trying to find them right when they need to get preapproved, that's going to be an uphill battle. There's no question. It's going to be a costly battle. I think we're one of the best in the business at doing it, but there's a better way. And the better way is to start building that relationship with the client when they begin their journey, and they begin their journey today online and they begin their journey on properties like Redfin. Redfin has 50 million monthly active users, most of which are daily active users. Some of those people will buy a home this year. A lot of them won't, but they are engaged in this property, and this traffic is very, very valuable.

So if I take a step back to answer your question, why Redfin and what's the vision? Well, it's building this relationship with consumers much earlier in the journey. So then, when they are ready, when they do find the home of their dreams, we're able to connect them with a Redfin realtor and we're able to do their financing through Rocket Mortgage at a much better cost of acquisition and a much better process that takes out a lot of friction with the client.

And on the Mr. Cooper side, if you think about Rocket's other challenge, for those of you that haven't spent a lot of time with us, one thing that's true is Rocket has the industry-leading recapture rate. And when I say recapture rate, for those of you that maybe don't follow us as closely, that means that when a client is serviced by Rocket Mortgage and they do their next mortgage, 83% of the time, they're going to do that mortgage with Rocket. And for some of you that don't spend a lot of time in the mortgage space, you might say, well, that sounds pretty good, but what if I told you the industry average is actually only 20% of the time that people come back to the same mortgage company that did their first loan the second time. So, we've completely flipped that model on its head and we've said, we are going to build a servicing experience that is much different. We're going to build it with the client in mind and we're going to build it as a marketing engine to build relationships with our clients and do their next mortgage.

So, if you were in our shoes, you would say, well, that sounds great, why don't you just go buy all the servicing that's out there? And we'd like to do that but the problem with servicing today is that there's a lot more demand than there is supply, and it's a very competitive market. There's many buyers and fewer people selling servicing because interest rates are higher and it provides a really nice cash flow. And frankly speaking, there will always just be people that don't want to sell to Rocket because we're so good at what we do.

So, that's where you enter Mr. Cooper into the equation. We always – when Varun got here and him and I started talking about this, we always knew that servicing acquisitions were something that would be a really good use of capital because if I have an 83% recapture rate and the industry has 20%, I should have the best return on that asset, and I should be able to acquire that asset and give my shareholders the best return. But we also knew it was going to be challenging to do that at scale. And we had participated in the bulk market for a long time, but just given the supply levels, it was going to be hard to grow. Enter Mr. Cooper into the equation. They are the single best servicer in the space. They're the largest servicer but they're one of the only servicers that have a proprietary servicing technology, and they do it best-in-class.

Now, they also happen to be the second best, at least from our estimation, of doing recapture. Theirs is about 50%. Rocket is 83%, and you kind of see people fall below that. So, that was also appealing. We had a very good cultural connection with Jay Bray and the Mr. Cooper team because we both put the client first, we were both client-centric, we both knew that recapture was the way to build servicing portfolios and generate the best returns. So if I just take a step back, it's – the Redfin helps on the purchase front, top of funnel, building relationships earlier. And I think on the Mr. Cooper side, probably a no brainer. But for us to acquire servicing, get a proprietary servicing system, do it at a really low cost, generate the best recapture, it's just a really good use of our capital.

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### Terry Ma

*Analyst, Barclays Capital, Inc.*

Q

That's great color. Maybe just update us on how the Redfin integration has been going and then just a mark-to-market on how the Mr. Cooper transaction approval process.

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### Brian Nicholas Brown

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Sure. So, I'll start with Redfin. I think the short story would be even better than expected. We talked about \$200 million of synergy value that we can – we believe we can realize through that acquisition. I think it really comes down to a couple of things. One is the, what I would call, the planning for the integration. And I'm really proud of what the team accomplished here because on day one, we closed that transaction on July 1, we had already had the brands combined and we had new creative developed. We also had brought the mortgage experience up into the Redfin app on day one.

So, one of the things that we – is going to be important to the success of the Redfin acquisition is making sure that we attach from people that are looking to buy a home with the real estate broker to the mortgage company. That hinges on that. And I'm happy to report that we have that already on day one. On day one, we were able to deliver clients from the Redfin property to Redfin agents and to Rocket Mortgage. And I would say equally as important, delivering it back from Rocket Mortgage to Redfin because the other thing that we've been seeing, we've talked a little bit about this is, if you think about the consumer journey today, it used to be the way you found homes was through interacting with realtors and getting MLS listings emailed to your Gmail account or whatever.

We talked about today it's on a search property, but if you're a mortgage company, you still get a lot of consumers that come to you well before they found a realtor, particularly in the younger demographics because they eventually have to know what they can afford, enter the mortgage calculators, enter the mortgage company, but sometimes talking to a physical realtor is the most scary thing a young person has to do. So, they will come to the mortgage company first. And the reason that's important for us is because we get a bunch of clients that show up without a realtor, and now we have really good realtors to connect to.

So, I would say better than expected on all fronts on the Redfin side. The key metric I would call out for you guys to pay attention to is the attach rate. Essentially, people that come to the Redfin site are interested in buying a home. Where do they get their financing? With Rocket. So, Redfin averaged on – averaged prior to the acquisition about 27% at the time, which is really good, by the way, attaching real estate to mortgage. And our goal is to get that up to 50%. And why do we think we can do that? Well, in certain geographies, Redfin is already, even pre-acquisition, above that, up to 60% in certain geographies. But the other reason that gives me personal conviction that we can do it is a couple of things. Redfin had a mortgage company, a small company before, and now they're part of Rocket. Rocket has a much wider suite of services and products to offer than their mortgage company. So, there should be an increase in attach just from that if you didn't know anything else.

But the other thing is Rocket has better pricing because we can do it at scale, we securitize. We're the largest lender in the United States, so we can offer those consumers and those brokers a better price. So, for those reasons, we have a bunch of conviction that we can get it to 50% and beyond. So, I would say, really well, things are going really well on the Redfin front. The two teams have been working excellent together. The cultures align very nicely, which as you know, is a big part of it.

On the Mr. Cooper side, the things I can talk about there is we still feel good about closing that transaction in the fourth quarter of this year. Lots of work streams and planning going on right as we speak, and our conviction level remains high.

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### Terry Ma

*Analyst, Barclays Capital, Inc.*

Q

Okay. So, on the Mr. Cooper deal, you recently received FHFA approval that came with safeguards of limiting market share of servicing to 20% with the GSEs. Maybe just some color on what's included in this 20% cap? And then what are the implications for kind of Rocket from an operational perspective going forward?

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### Brian Nicholas Brown

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Yeah. So, I'll take a step back just because for some of you, this might be nuanced if you don't follow mortgage, but there's several approvals that are required, and one of them is FHFA approval. FHFA is the regulator of Fannie and Freddie. We have received that approval to Terry's point. As part of the approval, they came out and

they said there's a 20% cap on the amount of servicing that can be owned. So, the first thing you should know is that this is not untypical. This is actually very standard. So, we've done mortgage acquisitions in our past and then Mr. Cooper has actually done even more, has grown through acquisitions. So, it's not uncommon for the regulator at the time of the acquisition to say, hey, we're going to put this cap.

And why did they do that? I mean, I'm sure there's a lot of reasons, but many companies grew, particularly independent banks and companies like us, through the financial crisis. And I don't think they did a great job integrating and actually bringing the companies together. Now, the GSEs and FHFA want to make sure you do that and they want to make sure they see that. So, that's number one. It's not uncommon. To your point, we're still working with FHFA to receive clarification on exactly what's included in that 20%. But what we can say is even if – I think, Terry, your question is, is subservicing included or is it just own servicing? Even if the subservicing is included, we're still very confident in our growth abilities there.

The biggest thing we talked about with the Mr. Cooper acquisition is this recapture number. So, if you're us, you're going to focus on growing the servicing that is, what I'll say, recapture a bull. And the best stuff to recapture is the stuff you own outright. There's no restrictions. You own the asset, you can recapture all of it. On the subservicing side, that's not always the case. Some of it can be recapturable. It just depends on your relationship with that counterparty. A big chunk of Mr. Cooper's subservice book is not recapturable. So while that's still interesting from us, it's accretive, you build it on scale, the stuff we really want to go after is the stuff we're able to recapture.

So if the 20% cap does end up including subservicing, we still feel really good about our synergy numbers. Yes, it will probably take a little portfolio rebalancing to make sure that we focus on more of the servicing that is recapturable, be it the own servicing and subservicing that is recapturable. And we're happy to rebalance a little bit and do that because, as you know, about half of the book that Mr. Cooper owns today is subservice. So there's plenty of rebalancing that can happen.

And the last thing I think is just an important note, and we laid this out in our investor deck, going back to that recapture assumption, which provides a really interesting revenue opportunity, we said when we disclosed our synergy number that that was based on rates at that point in time. That's all you know when we close the deal. Rates have cooperated more than that since now, which should theoretically lead to higher revenue opportunity because more clients are in the money. So in our investor deck, we pointed out what that could look like at a couple different rate environments on that revenue synergy, and I can just say it's a pretty exciting opportunity. So regardless of how it shakes out, we're happy to confirm the synergy numbers that we laid out. And again, I think if rates cooperate, there's more upside there.

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### Terry Ma

*Analyst, Barclays Capital, Inc.*

Q

Got it. That's super helpful. Maybe just staying on the topic of synergies, can you maybe just talk about the synergies you expect from both deals and kind of when you expect them to be realized?

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### Brian Nicholas Brown

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

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Sure. Both of them, we said within two years of the close dates is when we expect them to be fully realized. Just going back to my comments on Redfin, I'd say better than expected so far, happy to report. And we've already closed that. And so, now, we can really focus on the integration side. Mr. Cooper, obviously, we have to close it probably before I can comment on it more. But I think, look, there's – we talked about the Redfin side, so I won't belabor it, but this mortgage attach, this lowering of CAC by finding consumers early, it remains a really exciting opportunity.

Of course, there's the regular cost side of it, too, and we obviously take that very seriously. There's the duplication of public company costs and G&A functions, which we're working through. And then, remember, one thing people forget is Rocket had a search property on their own right prior to the Redfin acquisition. So there's really good synergy value there, just eliminating those duplication efforts. The Redfin will be Rocket's search property of the future.

And then, on Mr. Cooper side, we talked about the recapture side on the revenue and how that can get really exciting. We said all along, we're not planning on immediately taking the Mr. Cooper 50% recapture rate and getting it all the way up to the Rocket 83%; over time, maybe, but in our underwriting case. But we do have strong conviction in taking it up from the 50% to, let's say, 65%. And the reason we have that conviction is because obviously that's Rocket's bread and butter, but Rocket has been very successful in two things. One, it has a big, recognizable brand, which helps drive consumer behavior. It's trusted, consumers are confident in working with Rocket and the process. But also, while Rocket will use Mr. Cooper's servicing technology, no doubt about that, Rocket has built some really good digital experiences around the servicing process, going back to my earlier thoughts around CRM and digital marketing. So we're very confident in getting that up to 65%.

And then, on the Mr. Cooper side, there's really material cost savings, too, just because, look, we're both big servicers, we're both big originators of mortgage. So you would expect duplication that needs to come out of the system, that we both are using two origination systems, two servicing systems, two similar functions. So I think on the cost side, it's also very exciting to take some of that out and reinvest some of that capital.

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### Terry Ma

*Analyst, Barclays Capital, Inc.*

Q

Got it. So it's been, roughly, a year since your Investor Day. There, you provided some medium-term goalposts of reaching 8% market share for purchase, 20% market share for refi. Maybe just update us on where you are today and how you feel about the path to get there. And then, just longer term, maybe just talk about how COOP and Redfin help you advance toward these goals.

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### Brian Nicholas Brown

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Yeah. Thank you. So I think, look, we're well on track. We feel really good about achieving those goals and, hopefully, beating those goals. The market is, as we talked about on the affordability front, I think is very close to flipping over. And when I think about our opportunity in the space that we operate and I think about the competitive landscape, which I don't take lightly because it's still a very fragmented market. But the things that get me really excited are the investments that we've made up to this point. It's very hard to think of another player in this space that has a big consumer-facing brand, number one.

It's very hard to think of a competitor in this space that's invested so much in technology and AI and has a proprietary loan origination system. In fact, just on an aside, we were kind of going through this thinking about who competitors use from a loan origination system, and most of it is outsourced technology. And there's nothing wrong with that but it's in Rocket's blood to create good proprietary technology where it makes sense, and where it makes sense is doing the origination process and taking out waste and making it more efficient and making it more consumer-friendly to make sure you're offering fair prices. So, if I think about just how far ahead I believe we are on that front, I believe it's very, very far from where the competitor standpoint are.

And then servicing, and I'll tag in Mr. Cooper here in just a second. But if you think about this sort of generic cost of acquisition problem that most companies face in this space, servicing is such a good solve for that, right? It's

the only space I've ever operated in where most of the time your client leaves you, most of the time they go find someone else after they use you. And obviously, Rocket's flipped that on its head, and that's great from a consumer experience. But for us, financial people in the room, that translates to much lower CAC. And if I take out that CAC aspect of those unit economics, man, the world is truly my oyster because that's one of the biggest prohibitors from just growing share and doing it profitably.

So, we really like where we stand. I think on the acquisition front that these are accelerants, and I probably should have said that earlier. But we get asked a lot about these and appropriately so from folks like yourself, Terry. And these were things if you had a chance to listen in on that Investor Day, we talked about growing search. We talked about it. We talked about meeting consumers earlier in the process. We talked about growing servicing and how we were going to do it either through M&A or bulk acquisitions. So, this is doing – this is increasing our say-do ratio and doing what we say we'll do. Those goals were obviously set prior to the acquisitions. We haven't come out with new ones yet, but I would expect these to be accelerants.

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**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

Got it. Maybe just to round out the discussion on strategy, can you maybe remind us what role Rocket's other business lines like Rocket Money kind of serve? How they build upon Rocket's business model and franchise?

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**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Yeah. There's really probably two others that are worth talking about, and they both are still squarely in the homeownership platform or the homeownership journey. One you mentioned, Terry, which is Rocket Money. So, Rocket Money has close to 5 million subscribers. And if you haven't had a chance to use the app, it's really cool. I suggest you do. It's fun. The demographics are generally skew a little bit younger, but it does all of the things from identifying your subscriptions, to canceling your subscriptions, to saving you money, credit, budgeting, all the things.

And why is that interesting to us? Well, it's interesting to us for a couple of reasons. One, as I said, it skews a bit younger, but eventually these folks will be homeowners and homebuyers. So, exciting. The second thing is we give this tool to our service clients. And the beauty of servicing is you get a chance to interact with your clients at a minimum monthly when they make their payment, but usually more frequently than that, through escrow analysis and other things. But add Rocket Money on top of that, it's just one more reason they get to interact with your brand. They get to see us in action in the touch points or generally speaking, more frequent than just the traditional servicing transaction. And we said this publicly, but I think it's been almost four years since we closed that acquisition and it's definitely even outperformed our original models on growth trajectory. And we mentioned that earlier late last year or earlier this year, they've now turned the corner and they're generating profitable EBITDA, too, which is exciting to see.

The other one that's probably just worth mentioning is we do have Rocket Loans, which is a personal loan company. And in a very similar vein, our goal isn't necessarily going out and competing in new client acquisition on the personal loan front that we have done a little bit of that when it makes sense. But if you think about the servicing portfolio and just being where we are today in terms of where mortgage rates are and some people just kind of locked in at a lower rate but still need to tap in to financing to make home improvements or consolidate debt, it's just a very low cost of acquisition proposition on our own servicing book. So, we have a proprietary underwriting engine that we've built there. We think it performs very well. And in fact, we just did our first inaugural securitization just last month, which went very successfully.

So, to be clear, these are all off balance sheet type products. We're not looking to use our balance sheet to lend unless it's just temporary to get us to securitization. But if we have this option to serve, we know that about 30% of our service clients today have personal loans with someone that's not Rocket, and keeping them in the Rocket ecosystem is an important value proposition for us.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

Got it. That's helpful. Maybe just to switch gears to technology. Rocket has been known for its technology, and more recently, AI. Are we in a AI hype cycle, for lack of a better term? And what business value do you see from AI thus far and what changes can we expect over the next few years?

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

Would it be weird if I said yes?

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

No.

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

No. I think I'm sure you guys get a lot of folks up here that talk to you about AI and rightfully so. And I'm sure in every business, there's investments being made and hopefully returns being generated. But I think if you take a step back in our space, why do I feel like it's so ripe for disruption in our business? A couple of reasons. One, for those of you that have followed mortgage and finance, it's traditionally been a process orientated human capital business. Going back to my earlier remarks, how did most companies grow? It was who could grow loan officers fast enough or who could grow underwriters fast enough? Get them – there's not like a just bank of underwriters out there that you call and say, I need five of them, right? You have to train them. You have to get them. And we've been very successful in that, but it's been a very human capital-intensive business.

The other thing I think is worth pointing out is think about at its core, what is a mortgage company doing? They're essentially collecting consumer data. They're organizing this data and then they're delivering it to eventually MBS or mortgage-backed securities but through GSE standards or guides. And these GSE guides are available, they're printed, they're public material that you could go find. So, when we think about why this space is ripe for that disruption, it's just that it's like an open book test because you know what you have to deliver, but you have to get the clients' information in that format that you can deliver.

So, you didn't ask this question, Terry, but I get asked it sometimes, so I'll answer it here. Well, then why couldn't anyone do it or why couldn't a start-up in a garage do it? And I suppose they could but the major factor that would limit them being able to do that is the historical data, the proprietary data. Because even though I said it's an open book test, which is true, it's very opaque and it's not easy to interpret. And the interpretations usually come from the historical delivery of these loans. So it usually comes from doing hundreds of thousands, in our case, millions of loans and delivering those loans to the GSEs. And then, both of you, the lender, the GSE, the bondholder watching the performance of those loans, and those little nuances matter. What you approve or what you make an exception or what you don't approve needs to be based on some relevant historical experience. And I'd argue Rocket has more of that than anyone else.

So it takes two things. It takes, one, the process is just ripe for automation, and we've been investing in that for many years before AI even existed. That was a principle of our Founder and Chairman, Dan Gilbert, before it was cool to talk about. Two, I would think you'd have a really hard time realizing those benefits with some outsourced systems. So the proprietary nature of our systems, I think, is a huge advantage. But three, that historical and proprietary data that has built a robust history really, really matters.

And the last thing I'll say about that in the mortgage space, if you were in my seat that you think about is, today, no matter what changes, there's still two required roles on every single mortgage: there's a licensed loan officer and there's a certified or licensed underwriter, depending on the state. So those two human beings that are licensed still have to sign off on every mortgage underwritten to a GSE in the United States.

And so, what we obsess over is how to make those roles more efficient because those roles are the pinch points, right? That's the capacity that you can unlock through automation, through technology investment and through AI. So just to take a simple example, if you think about what does a loan officer do today? Well, of course, many of our engagements are digital, in chat and through the website and text message and even e-mail still to some extent, some of them are still on the phone. So to the extent that I can free up that loan officer's time to focus on the important parts about their job, which is, one, talking to clients that are actually qualified to get the mortgage, right? It doesn't do much good if they're spending a lot of time on unqualified clients. Even though that information is valuable to me and I want to save it because that client might become qualified, it's not a good use of those human beings' time. So making sure they spend their time in the clients that are qualified and can close.

The second thing is focusing on what they do best, because whether it's a digital experience or whether it's on the phone or whether it's through some other median, what really good loan officers or, as we call them, mortgage bankers do good is they really understand the client situation. They show human connections like empathy and sympathy and they get to know the client. And even today, even if it's through a digital experience, I promise you, if you're interacting with someone who does that well versus someone who doesn't, regardless of the price of the mortgage, you are more likely to go with someone who understands your situation and "gets you."

So the more time I can free up so they can focus on those. So for example, we've launched new AI technology that while a mortgage banker is on the phone talking to a client, the AI is transcribing the call and it's doing a couple things. One, it's populating the mortgage application live. Right there on the spot, the mortgage banker, as it's said by the client, where do you work at? I work at General Motors. How much money do you make? \$120,000. Where do you keep your 401(k)? I keep my 401(k) at Fidelity. This is all required information that we have to collect on behalf of these GSEs to deliver this mortgage. It's doing that all seamlessly.

Now, 10 years ago, that was on a notepad on paper that they had to take in a keyboard. Five years ago, they were typing it along as they went. Today, they're not touching a keyboard. So what does that do? It allows them to focus on the most important part of their job, which is that sales technique and working with the client.

And I could go on, but even on the underwriting piece, if you think about an underwriter who still has to sign off on every single loan, 10 years ago, they got a paper file and they were flipping it and they had a red pen. And if something didn't check out, they send it back to a mortgage banker to go follow up with the client. Five years ago, those files became digital and we were using, which now sounds like outdated technology, OCR. Today, not only are they getting a digital file, but they're only looking at exceptions. The AI can tell you this is in the right order. I verified that 401(k) was with Fidelity. I checked their income against Plaid and a source in their bank account. All done. Check, check, check. These two things I couldn't figure out. Go figure them out. But you could imagine in one year from now, maybe less, that it's solving those exceptions.

So right now, we got it to a place where the underwriters are just focusing on these exceptions. And the thing that we get up every day and think about is how to limit those exceptions, what are the major exceptions that still take time from the underwriter that the technology could do. So listen, we just think that we're well ahead of the game, but we also think it's just such an exciting time to be alive and in this space because this process is ripe for disruption and we think we're in the best place to do it, frankly.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

Okay. Great. Few minutes left. I'm going to pause and queue up the two audience response questions that we have, and you can all just use the controls in front of you. First question relative to Fannie, an MBA forecast for total originations of \$1.9 trillion in 2025 and \$2.3 trillion in 2026. Do you expect 2026 total mortgage originations of – pretty evenly split between \$2.1 trillion and \$2.2 trillion, that's 27%, and then \$2.2 trillion to \$2.3 trillion? Then second question, over the next year, would you expect your position at Rocket to one, increase; two, decrease; or three, stay the same?

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

You didn't tell me about this, Terry.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

58% increase, 6% decrease, 36% stay the same. It's pretty bullish.

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

I'll take that.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

We probably have like one or two minutes left, so I'll just – it's good.

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

A

If you said decrease, you have to stay for 45 minutes more.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Q

Yeah. So, I'll open up the floor to Q&A, if there is any. We have one question back there.

Q

Yeah. So, over the next few years, how do you see blockchain on the origination of mortgages and securitization affecting the business? Will it lead to higher gain on sale, lower gain on sale? The overall operating margins of the business, does it reduce its commodity? Does it reduce costs across the board and everybody's profitability goes down, stays the same? Could you comment on that?

A

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

Yeah. It's a really good question. I think – and I'm glad you asked it, too, because one of the questions we get asked is we measure our revenue in something called the gain on sale margin. And that gain on sale margin includes a lot of things, but one of it is the secondary market gains that you get through securitizations. So, I get a question a lot of times like why is Rocket so much better than everyone else. Are you charging the consumer more money, which is obviously not the case. Our rates are very, very competitive, but it's because we do well on that secondary aspect of it. One, because the loans perform really well. Two, because we can create really diversified pools because we originate – we're the biggest lender originator in all 50 states.

So, to the extent that this works and you can use blockchain to take cost out of the securitization system means that you should be more effective on the back end. If I think about who should benefit from that the most, I think it's people like us that are the biggest securitizers in general. Is that number extremely material and enough to move the needle? I would say, around the fringes, it is because it still is a big cost of doing business. I think Rocket has one of the best opportunities to benefit from it because of our scale and just the size and number of securitizations we're doing.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

I think we're out of time right now. So, thank you, everyone, for joining.

**Brian Nicholas Brown**

*Chief Financial Officer & Treasurer, Rocket Cos., Inc.*

Thanks, everyone.

**Terry Ma**

*Analyst, Barclays Capital, Inc.*

Thanks, Brian.

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