



## Rocket Companies Inc

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**Rick Shane:** Hi. I'm Rick Shane with J.P. Morgan. Please join me in welcoming Varun Krishna, CEO of Rocket.

Varun joined in 2023 and in that time has really embarked on a journey, taking Rocket from what we all saw as a mortgage company, to what I think is fairly described as a homeownership platform. Along the way, acquired Redfin, acquired Mr. Cooper, and most recently announced a new partnership with Compass.

Interestingly enough, Varun really does come to this from a technology background, having been a tech executive throughout his career. Personally, we are on the cusp of transformation in one of the most important sectors and one of the most important industries within financial services. Delighted to have Varun join us today. Thank you for being here.

**Varun Krishna:** Of course, my pleasure. Good to be here, Rick.

**Rick:** Look, three years ago you joined. A lot has changed not only in the industry but at Rocket. Walk us through the changes that you've implemented and where you see this is going.

**Varun:** I'll start by saying that Rocket is a very, very special company. I've been at a lot of companies through my career -- tech, consumer, fintech, enterprise, B2B --and it's a very special place. When I came to Rocket, there were a couple of key observations for me.

Having meandered a little bit around fintech through most of my career, I saw that homeownership in some ways is the last frontier of fintech. It's why you have a savings account. It's why you make payments. It's why you try to build your credit.

At some point, homeownership is the ultimate purpose. It's not a coincidence that it's the bedrock of the American dream. Rocket is one of the few companies that has the scale and the power to make a real difference. And so that's what attracted me to Rocket.

At the same time, when we think about the concept of TAM, total addressable market, housing itself is the largest TAM that there is. It's 20 percent of the GDP. Whether the mortgage market is up or down in any given year, it's still a trillion-dollar TAM. No player has more than low single digit percentage market share.

It's antiquated, and it's ripe for technological transformation. Those were the big reasons that I came to Rocket, and I've been having a blast since. [laughs] A big part of our strategy is to connect the pieces and to bet big on technology.

When you think about the different parts of homeownership, there is the front end of the funnel where consumers are searching for home, working with a realtor or mortgage broker. There is the middle part of the funnel where consumers go through the financing aspect. That's where most of the margin and profitability comes from.

Then there is the bottom part of the funnel, which is the servicing experience where you have lifetime value. In most typical consumer products, concepts like LTV to CAC ratios are very standard, but in housing, these things have not been recognized, understood, or implemented.

So that's been our strategy, is over the past two, two and a half years, we experimented with the top of the funnel with Rocket Homes. We experimented with our servicing book with a concept called recapture, where if we do a good job with servicing, we earn the right to generate repeat business.

This thesis was very sound for us, and it allowed us to make a pretty big bet on two big acquisitions. We did them very quickly, both public company deals, both back-to-back, and both done with all stock.

Which gives you a sense of just the commitment that both companies have to the shared future that we're building together now that they're a part of Rocket. The vision is simple. We want to connect these parts and build a super funnel. We want to turn Rocket into a platform and an ecosystem.

We can acquire clients from Redfin that are searching for homes. Redfin has 50 million consumers at the top of the funnel. We can provide financing and an integrated experience through the Rocket Mortgage flagship experience.

Then we can serve those clients for life in our servicing book and earn the right to generate new

business for them, whether it's new cash out refinance, rate and term refinance, home equity loan, or a new purchase. The vision is to create a self-sustaining ecosystem around housing, something that has never been done before.

Then the foundation of that is, obviously, technology. I mean, we've been a technology company for 40 years. We were the first to bring mortgages to the Internet. We were the first to put them on a mobile phone, and we are now the first to bring them into the realm of artificial intelligence. A lot has changed, but it's all in service to the client.

It's all about building an experience that's better and faster with lower rates and lower fees, and we're just executing.

**Rick:** You clearly are, and it really is interesting. I've followed the mortgage industry for close to 25 years. I remember when Dan moved everybody to Detroit and how transformational that was for the industry. It's a fascinating business because, to your point, the TAM is enormous. It's about roughly two trillion dollars a year. It is very profitable.

It is also incredibly fragmented, and it is incredibly fragmented for two reasons. I'd love to explore those two reasons and how you're addressing them. One is, historically, the business has scaled poorly. The second is that the business is incredibly cyclical. I'll share something with investors in the room.

In a two-year window, cyclical compression of TAM, the market shrank by 60 percent. Find me anywhere, an industry that saw a 60 percent compression of TAM simply due to cyclical. Fine. We see that all the time from secular decline, but find me a real industry where you see 60 percent decline.

What I'd love to talk about is how you're changing both the scalability of the industry and, ultimately, how you address the cyclical. I'll throw out one buzz phrase for you to start the scalability conversation. Back in December, you said something on your earnings call that made everybody on my team, our heads jumped up.

You know what it was. You talked about infinite capacity. Talk about how you guys are approaching the scalability issue of mortgage and what this means long term?

**Varun:** Yeah, great question. Let's start with scalability. I think there are a couple of different components to what is, I would say, very unique about Rocket. The first thing is you have to

remember that this company didn't come out of nowhere. It's been around for a long time. A part of the scalability is just the investment in foundational infrastructure over many, many, many years.

Being able to do compliance and licensing in 50 states and 3,000 counties and parishes, that takes a long time. Being able to have the capital markets infrastructure to be able to hedge and price every single day and update pricing and rate sheets relative to margin. That's taken decades to build, so a lot of this predates me.

There is a foundational component of scalability that really is just a moat. To not overuse that word, because I know it's a bit of a cliché, but these are things that are going to be very difficult for an AI platform to disrupt.

Just because a capital markets infrastructure, a hedging relationship, the relationship with the government sponsored exchanges, Fannie, Freddie, Ginnie, the compliance infrastructure, the money movement infrastructure, there is no substitute for experience. That's one. The second thing that's really important is we've bet really, really big on technology. I'm sure we can talk about AI, but we...

**Rick:** I think we might. [laughs]

**Varun:** I suspect we will.

**Rick:** I think they have that somewhere on the sheet.

**Varun:** We had a goal to hit \$300 billion of capacity by the end of '27, and we are there now, almost a full two years early. A big part of that is just how we've implemented technology. We have dramatically increased that fixed capacity to \$300 billion, and we've had a reduction in our fixed costs, including headcount.

We have created an order of magnitude shift in capacity, and we've reduced headcount. The simple reason for that is we're betting on technology. I can give you a couple of examples.

Lead prospecting is one such example, where one of the reasons mortgage is hard is because there is a very complex sales motion around how you process leads, how you communicate with clients, how you process documents, especially in purchase where the sales motion can take place over many weeks or many months.

AI does that for us now. This is where the scale matters. Many companies will talk about AI, but these are real numbers that I'm sharing with you. We prospect via AI 32,000 leads a day. Pulling credit, maybe another example that used to be a manual process that required a person, sometimes multiple people, we pull credit 5,000 times a day automatically.

When we look at closed loans per team member that works in production, that's another example of a really key metric that we track, that's up 74 percent. We're closing 74 percent more closed loans per team member.

These are some examples of how we address the scalability challenge, but we do it very purely and very simply with technology.

To your second question...and I think that was around the cyclicalilty?

**Rick:** We'll get there. We'll circle back on cyclicalilty. I want to talk about that a little bit more.

**Varun:** Sure.

**Rick:** I want to explore the theme of scalability first.

Again, I got my first mortgage in 2000. The process was we took our tax returns, drove to Kinkos, photocopied our tax returns, FedEx'd them, and sent them to our mortgage lender. The big innovation back then was optical character recognition, that they didn't have to hand code 100 percent of our tax returns. They could code 50 or they could hand input 50 percent, but they could scan 50 percent.

I'd love to talk about scalability from two perspectives here. One is from the user perspective and also, again, how you guys are using AI tools, how your developers are using AI tools to do the equivalent of not hand-input photocopied tax returns.

**Varun:** The biggest one is, I would say, just investments in computer vision. What used to be OCR, optical character recognition, is now advanced to what's more generally known as computer vision.

The beautiful thing about computer vision is that unstructured data and structured data can be semantically analyzed, characterized, classified, extracted and applied. We can read through a

machine that same package of documents. We can extract meaning from those documents and we can apply them very simply to a loan or to an application.

That's one very important investment. We believe that computer vision technology over the coming two to three years is going to be nearly perfect.

It used to be that when you do these OCR things -- and I did this a little bit in the tax world -- that there's always kind of some margin of error. What's interesting now is just the technology is so good because it uses lookalike modeling, comparative modeling, that it is able to process structured and unstructured data very, very easily.

That takes a lot of the guesswork out of the process for both the client as well as the loan officer, the processor, the underwriter, because you now move from just like having to scan documents or photocopy or find documents to actually sourcing them from digital places.

For example, with Rocket Money or with Rocket Loans or any of the other Rocket products, you have a financial identity. You wire up your accounts, so you don't really even have to do anything with your documents because they're automatically transferred via an application programming interface or an API. That part of it is really simple.

On the other side, we invest a lot in our document processing technology as well. The loan officer or the underwriter spends very little time deduping, picking out information, applying it to a loan, which are manual, expensive, time consuming and error prone.

This is just now the new way of working. What instead happens is the human-to-human connection becomes more important, and the drudgery of just shifting bits and bytes and atoms from point A to point B has sort of become automatic. This is a brave new world, the world of paper.

By the way, this extends all the way into the rest of the app experience as well. You can sign and notarize documents digitally. You can schedule closings remotely. You can tour homes virtually, right?

Essentially what we're seeing is a total digitization of every single aspect of the experience. What happened on a computer, now happens on a mobile phone. What happened on a mobile phone is now happening more implicitly with AI, so it's pretty exciting.

**Rick:** I didn't prep you for this question, so if you don't have a good answer, fair enough.

If we think about the time line, the application time line twenty years ago, five years ago, today, how much has the consumer experience improved in terms of how much more quickly do things happen?

**Varun:** I think it's improved by 95-plus percent. To give you an example, you can do a fully digital refinance application on Rocket, soup to nuts as a client without talking to a person, in less than thirty minutes. That's a brave new world.

The best part of it is, it's not just that you can do it from start to finish in thirty minutes. It's that there's no breaks.

What normally happens is -- and you know this -- is there's a workflow. You do something, information is transferred. You're waiting and wondering. Someone else has to do something, it comes back to you, then you take the next step.

What was a more asynchronous back and forth process that -- and by the way, it's not just that it's thirty minutes, it's thirty minutes in one sitting versus a couple of hours that are spread out over multiple days -- where there's notifications, waiting and wondering, one person is waiting for another person.

The best part of this is you can now do this 24/7, because with an experience like Chat, which consumers, by the way, prefer three to one, you can do it at three o'clock in the morning. You can do it on Saturday morning in your pajamas, right?

The beautiful thing about this technology is it's not just efficiency for efficiency sake, it's also just more delightful, it's more convenient, it's more simplified, and that's why more...and it's what more clients are preferring.

**Rick:** Just a little context. In May of 2020, we moved and we called the bank that we had worked with for two decades and said, "Hey, we're interested in getting a mortgage and we're looking at the closing documents and we're trying to..."

You said 30 minutes? This was a high-touch, high-service banking relationship that goes dated to twenty years, 2 decades. They asked us to aim for a thirty-day close. That 95 percent reduction actually is within 2 percent of my own personal experience, so...

**Varun:** Yeah.

**Rick:** Let's talk a little bit about the other part of the equation, which is we've talked about how you bring efficiency. How do you, again, 2021 mortgage market was 4.6, 4.7 trillion dollars, and there were 3.5 or 4 points of origination fees associated with that.

2024, it was 1.6 and there were maybe 2, 2.5 points of origination. Again, we're talking a swing of between \$100 billion revenue opportunity or more and a \$30 billion. You saw \$70 billion that you were competing with 1,000 other companies go away in two years, temporarily, but it went away for two years. That's a tough way to run a public company. How do you approach that?

**Varun:** This maybe goes a little bit back to your concept of cyclical. I'd say there's two things. I think the first thing is there's a saying that I love, which is "when the going gets tough, the tough get going." The nice thing about the mortgage market is that it's equally competitive for everyone. For smaller players or weaker players, what we think of is in general, we just outcompete.

When we see a tough market or when we see a growing market, we look at it as an opportunity to capitalize and to take share. There's a couple of things that we've done really that our acquisitions are focused around.

We can talk about technology all day, but we've obviously made a huge, huge investment in technology, \$500,000,000 over the past five years to build some of these infrastructure pieces so that we can capitalize on AI.

The other thing I think is important is, one, 70 percent of Rocket's revenue is now what we call less rate sensitive. It used to be a very different picture when Rocket primarily really focused on refi. Today, we are the largest servicer.

We have a big purchase business. We have a big business with Redfin. All of these represent revenue sources that don't depend as much on the rate environment. So that's like one.

The second thing that I would highlight is that we have a natural hedge inside of the company with origination and servicing working together. Servicing is a beautiful business because it gives you a pipeline of clients that you can refinance if and when rates move. It also creates an annuity that continues to fuel your business in a higher rate environment.

The other thing that Redfin and Mr. Cooper do for Rocket is that they provide us with a pipeline of clients. The other dynamic that is sort of inherent in the housing and mortgage space is that the acquisition cost to acquire a client for mortgage is extremely expensive. It's thousands and thousands of dollars.

If you have 50 million clients that use Redfin every single day to search for a home, high-quality clients, high-intent clients, you have a self-sustaining lead pipeline. If you have a servicing book with 10 million clients that we serve, that's one in six mortgages that you see every single month paying their property taxes, paying their mortgage, making their mortgage payments, paying for their ex gross, you have a self-sustaining ecosystem.

This is how we deal with cyclicalities because we have a natural hedge now within the company by having both the origination business and the servicing business that act as a self-reinforcing mechanism. The servicing business actually feeds the origination business through recapture, but it also sustains itself during high-rate environments as well.

The way we think about this is we're not waiting for rates to recover or not recover. We know that it applies significant pressure on our competitors, but we have created a very, very unique business model with a combination of Redfin, and Mr. Cooper, and Rocket working together, where we have self-created lead flow.

We have a self-created servicing book that we can recapture, and then we have the mortgage origination engine that sits in between it. Think of it as like just pieces and parts of an engine that we have assembled with a great degree of intentionality by just studying the patterns of what work with other consumer platforms.

Platforms that have created things like network effects. Platforms that leverage concepts like distribution. We're simply taking those patterns and applying them to the housing industry. We also, in some ways, and I am biased here, but...

**Rick:** It's OK.

**Varun:** we were very specific in which companies we wanted to buy. We didn't just want to buy a home search portal, we wanted the best home search portal. That's why we bought Redfin. We didn't just want to buy a servicer, we wanted the biggest, best, and highest-quality servicer. That's why we bought Mr. Cooper.

We wanted to do that because, one, the cultures of the different companies would integrate well. Then, two, it just would allow our ecosystem to be very unique and in some ways create a competitive advantage that would be impossible to replicate.

**Rick:** The intentionality comment really resonates with me. One thing I didn't mention, but you've mentioned a couple times, is Rocket Money. Again, I see how that fits in the mosaic. Worth mentioning, my daughter is a Rocket Money customer.

**Varun:** Oh, thank you.

**Rick:** I discovered when I was at your investor day a couple years ago, and she asked me to get a picture with the founder, which was super fun. [laughs] I also really recognize, and we've been very clear in print, of the strategic value of Mr. Cooper and the lead gen that that brings.

I think you said, in the most recent quarter, 50 percent of your Redfin activity was generated through existing leads or existing servicing book, which predominantly is Mr. Cooper. Can you talk a little bit about how that integration is going?

**Varun:** Yeah. I have been incredibly impressed by just how well it's going. I think part of it is, I have to give a lot of credit to our team because the thing about Rocket's culture that is unique is just there is a level of tenacity that when we set our direction, we just get after it, and we get after it tirelessly. This is a very complex integration.

You're talking about the largest servicing migration in the known history of the universe. [laughs] Millions and millions of clients, trillions of dollars of servicing. It's not been without its complexities.

I mean, just everything from the client experience to the technology behind moving the loans, to making sure that there's a good onboarding experience for clients as they move from one back end to another front end, or from a front end to a new back end. We have completed the biggest parts of the migration.

The other thing that we shared on our earnings call is we're on track to recognize the synergies from the Mr. Cooper acquisition a full year ahead of schedule. Those are two data points. The biggest data point that I would share, it's not where we are or where we have been, it's where we're going.

Where we're going is really a function of one thing, it's our organization and its culture. If your culture isn't there and the team isn't with you, it doesn't matter. I've learned this after years of leadership. It doesn't matter how intellectually correct you are. It doesn't matter whether you have the right strategy.

What really matters is that you have a team behind you that believes in where you're going, that believes in the company and is committed to its future. The reason I bring this up is because that is something that I do not take for granted, but I think that it is very much eroding into big tech companies right now.

Is more of a fear-based culture, more of worry about job longevity and things like that. It is a very, very real thing. We just did what we call our outlet, which is our quarterly basically a pulse survey where we gauge the engagement of the entire organization. This outlet was particularly important for us, because we were creating a new baseline with Redfin, with Mr. Cooper.

So, think about an organization that's grown by 60 percent. 60 percent new team members, there is about 10,000 people that are now part of Rocket. I was prepared for anything, because you can imagine going through an integration as two public companies coming together.

Our engagement was 82, which is up 2 points. It actually went up as a result of the integration. That gives me a lot of confidence. So it's not just that the integration is going well, it's that the organization believes in the future direction of the company, and they sit in solidarity with leadership.

That gives me a lot of confidence that it's not just that we have the right strategy, but we have the right team. When you put those two things together, I think that's where Rocket has separated itself and will continue to separate itself.

**Rick:** Look, one of the dynamic tensions here is that we get 35 minutes, and I would sit here and ask you questions about mortgage until tomorrow, happily, but we have an audience as well, and I should not be selfish. Oh, and right away, I got a couple questions. Those two, please.

**Audience Member:** Hey, Varun. Good to see you.

**Varun:** You too.

**Audience Member:** The implementation of all this technology definitely transforming the

industry, and I don't know exactly which comes first, the chicken or the egg, but of course you vertically integrate with the servicing. It's changed the business a lot.

I'm curious how we should really be thinking about the KPIs for the business. Because I'm not sure that just gain on sale is a good indicator. You have to do a lot more in the correspondence space, and that skews the numbers.

Just tell me what do you think that the industrial structure looks like a couple of years, and how should we think about approaching Rocket? It seems to me maybe we should just look it on some type of return on invested capital, and that should be growing over time or growing through the cycle.

**Varun:** Great question. I would say, first off, I do think you're right that the typical margin profile approach of looking at a mortgage company, Rocket is starting to look less and less like that. What I can share with you, candidly, is that here's how internally how we've decided to organize the entire company. We've decided to organize it around really four core KPI frameworks.

The first one is what we call grow. Grow is really simple. It's just are we growing the top of the funnel? Which means, are we introducing more client relationships to the Rocket Mortgage experience. Growth comes from Redfin, it comes from Mr. Cooper, but it's a self-sustaining growth pillar.

You can imagine some of the sub-KPIs around things like traffic generation, etc. Unique inventory would be another good one given our Compass partnership, which of course we can talk about.

The second one is very simply conversion. Conversion is the simple matter of when taking a prospect and turning it into a closed loan.

That is one of the more complex metrics, but essentially what that means is everything from getting through the sales motion successfully to getting high-intent leads through the pipeline to basically being able to close on time, so the entirety of the conversion funnel and obviously that going up into the right.

The third one is around efficiency. That's basically focused on what we think of as reducing the cost to originate a loan. If we become more efficient -- and this is through the use of technology, it's by removing some of the fixed costs, it's by increasing turn times, reducing the cost to originate a loan -- obviously drives more efficiency in the business.

The most important thing it does looking at the client is it allows us to deliver a lower cost experience in the form of lower rates and lower fees.

A good example of that today -- and this is the power of the Rocket ecosystem at work now -- is we just announced a brand new offering for Rocket ecosystem clients, and it goes up progressively.

If you are a client that uses Redfin to buy and list a home, you save a certain amount of money. If you are a client that use Redfin and Rocket Mortgage, you save more money. If you're a client from our servicing book who uses Redfin and Rocket, you save even more money up to \$20,000.

These are examples of where our efficiency and the cost to originate a loan and that low CAC that I'm talking about with our lead flow, all are working together. You can expect us to create more offerings like that.

Then the last. Grow, convert, reduce, and then the last KPI that I would highlight is recapture. Recapture is simply our ability to harvest our servicing book to generate a lifetime value for our clients.

Think of it as very simply our ability to target that massive servicing book, deliver automatic refinance experience, deliver a new purchase experience. Even things like personal loans, home equity loans, cash out refinance, and how do we continue to drive that recapture rate higher?

Those are kind of the four top level KPIs that we use to run the company, and I thought it would be helpful just to share that with you.

**Audience Member:** [inaudible] .

**Audience Member:** What would that mean for the return on invested capital if we're now looking at just gain on sale, and we certainly don't want to just look at earnings because you can buy that [inaudible].

**Varun:** I think it would just come down to EBITDA growth and margin expansion.

**Audience Member:** What about capital intensity?

**Varun:** Our capital allocation principles are pretty simple. Our first goal is to invest in the business. Our second is to pursue organic and inorganic. The third is to return capital to our shareholders. We follow those principles.

**Rick:** Thank you. I saw one more. Yep.

**Audience Member:** Thanks. Two quick ones.

Could you touch on the Compass relationship and what your expectations are there, strategic rationale?

Where does any blockchain technology fit on the roadmap?

**Varun:** Good questions. I'll start with Compass. Part of it, this relationship, which is very exciting, is there's a lot of change happening in the industry right now. I'm sure those of you that are following this part of the funnel, every day there's a news cycle that's breaking news.

Fundamentally, this is all about tackling affordability. One of the ways that we believe you tackle affordability is to create more inventory.

The Compass relationship has three components to it. The first one is private exclusive and "coming soon" inventory. Compass has a vast repository of unique listings that are not available anywhere else, and it's bringing those listings to the market on Redfin as the exclusive home search portal. That's part one.

A quick data point on that is we have about 10,000 listings now with the partnership with Compass that are unique to Redfin that are only available on Redfin. We expect that number to go up significantly as Compass obviously continues to integrate with the Anywhere platform, which is what they've acquired.

The second one is a lead flow relationship to really shift the economics of Redfin and Rocket to make them more profitable and more successful. Today, Rocket, Redfin, and Mr. Cooper are a lead generation pipeline.

Today, we happen to consume most of those leads ourselves, but we're not in really the real estate business, right? With Compass, there's a virtuous cycle where we have a lead flow relationship with them. Those are leads that come from Redfin, Rocket Mortgage and Mr. Cooper.

Think of it as someone that has sort of the financing or the home search figured out, but they don't have an agent, which is a very common use case. A quick data point on that, we've delivered about 30,000 leads to Compass successfully to date, and we expect that to go up as well.

The third one, which I'm particularly excited about, is a mortgage partnership with Compass as well. What's unique about Compass is they have a vast distribution network of about a quarter million agents in the US, so that's 250,000 agents. These are high-producing agents, high-quality agents, and they all use a proprietary technology platform that Compass has built.

We are taking the Rocket Mortgage platform and we are going to be plugging that into the Compass experience. Very similar to what we do with Redfin, we will have exclusive products, we will have exclusive bundles, exclusive pricing, we will have dedicated turn times, we will have a better workflow

We will allow the Rocket Mortgage platform to breathe inside of the Compass platform and to be kind of a premier offering for the Compass agent network.

There's three different points of distribution, and really what it's focused on is just how we can create better offering for clients, lower rates, lower fees, less friction. Compass is the best in the business when it comes to real estate, and this is just how we're going after that.

In terms of blockchain, I would say first off, we do implement blockchain in a few different parts of our organization. Our account process would be one. I would say the money movement processes would be another.

It's still kind of early, so I wouldn't say that we have broad-scale implementation in many, many different places, but it is an area that we're continuing to experiment. Those are two places that I know we have implementations.

**Rick:** When you stuck the landing, you got three seconds left. We'll count it down together. We're out of time.

**Varun:** All right.

**Rick:** Varun, thank you very much. Thank you all for joining us. I know we had one other

question from the room. Hopefully, you guys can catch up.

[applause]

**Varun:** I'll take it after.

**Rick:** Yeah, terrific. Thank you.

**Varun:** Thank you.



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