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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by, and welcome to the Rocket Companies, Incorporated First Quarter 2021 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Sharon Ng. Please go ahead.

Sharon Ng
Vice President, Investor Relations, Rocket Cos., Inc.

Good afternoon, everyone, and thank you for joining us for Rocket Companies' earnings conference call, covering the first quarter of 2021. I'm Sharon Ng, the new Vice President of Investor Relations here at Rocket Companies. With us this afternoon are our CEO, Jay Farner; CFO, Julie Booth; and President and COO, Bob Walters.

Before I turn things over to Jay, let me quickly go over our disclaimers. On today's call, we will provide you with information regarding our first quarter 2021 performance as well as our financial outlook. This conference call includes forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from the expectations and assumptions we mention today. We encourage you to consider the risk factors contained in our SEC filings for a detailed discussion of these risks and uncertainties. We undertake no obligation to update these statements as a result of new information or further events, except as required by law.

This call is being broadcast online and is accessible on our Investor Relations website. A recording of the call will be available later today.

Our commentary today will also include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for our reported results can also be found in our earnings release issued earlier today as well as in our filings with the SEC.

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

Jay Farner

Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

Good afternoon and welcome to the Rocket Companies earnings call for the first quarter of 2021. We had an excellent start to the year. But before we dive into the details, I'd like to take a moment to recognize our team members for their efforts and results, many of whom are listening right now. Last month, Rocket Companies was named One of the Five Best Companies to Work for America by Fortune Magazine, joining other tech companies atop the list, including Salesforce and Cisco. This is the 18th year our company has appeared in Fortune's Best Workplaces List.

We are also proud of another recognition we recently received. Just a couple weeks ago, Forbes ranked Rocket Companies Number 3 on its list of the 500 Best Employers for Diversity in America. As a company, we are made better by having increased diversity in thought and experiences and have worked very hard to ensure that we're staying true to the DE&I promise we made our team members and our communities. I want to thank our team members again, not only for their support, but also the absolutely vital role they play in making our company one of the best, most diverse places to work in the nation.

Happy to engage team members paired with world-class technology and services leads to tremendous success. That's why I'm pleased to share that in the first quarter of 2021, Rocket Companies generated more than $100 billion in closed loan volume, resulting in over $2 billion in EBITDA. Equally impressive, this represents the sixth consecutive quarter that we have at least doubled our closed loan volume year-over-year.

On today's call, I'll provide an update on each of the pillars of the Rocket platform, technology, data, brand and the Rocket Cloud Force. I'll finish my remarks by diving into one of the biggest opportunities for Rocket Companies today, transforming the home-buying experience. Rocket Companies' core mission is to create certainty in life's most complex moments. As we all know, getting a mortgage or buying a car are historically painful experiences. At Rocket, we have spent decades focused on developing a platform that removes the friction and pain points in these complex transactions, creating transparency, certainty and confidence for our clients.

In the ever-changing economic environment, our centralized platform has the flexibility to address diverse client needs across multiple products from accessing to equity in their home to purchasing their next car. We can also meet clients where they are, either on a direct-to-consumer basis or through our B2B relationships with our professional partners, all executed on a scalable, tech-driven platform.

Further differentiating our company is the ability to excel through any environment. Our platform provides us extreme flexibility to shift and meet the needs of our client in any market. When rates are lower, our platform scales to help a large number of refinance clients. When we see rates rise, we're able to flex and drive value for our clients whose needs aren't rate sensitive, like those looking to buy a home, take cash out or who are managing a life situation. In the current environment, you will see us continue to invest in marketing and our Rocket Cloud Force.

While others in our space may pull away from the market, we remain focused on adding new clients to our platform with the knowledge that future transactions with the same client will drive incremental revenue with little to no marginal cost. This is all made possible because our Rocket platform drives unmatched client retention rates at 90-plus percent.

As we continue to expand our platform, creating certainty for clients in categories that have historically been challenging, the opportunity for Rocket Companies is gigantic. Consider this, when combined, real estate, automotive sales and financial services, all markets where we're helping to lead the way account for nearly one-third of the US GDP. They're all highly fragmented markets and digital transformation is still in the early innings. We continue to take market share in each one of these segments and believe we are well-positioned to win in the long run.

To lead in the largest and most complex markets, it requires developing proprietary technology to deliver a seamless digital experience. Today's consumers demand speed and efficiency, and the platform must be able to grow, pivot and flex at scale. We are seeing that in our business today.

On our last call, I mentioned Rocket Logic, our next-generation workflow engine. We created Rocket Logic with the belief that through rich data and machine learning, we could significantly reduce the amount of time it takes to originate and close a mortgage. As we've continued to grow our pilot program in the first quarter, I'm proud to say that Rocket Logic is performing at scale.

During the first quarter, Rocket Logic processed more than one-third of our loan volume. The improvements in efficiency and speed are clear. Overall turn times declined by more than 30% quarter-over-quarter in Q1. While Rocket Logic is already driving increased efficiency in our mortgage operations today, we're equally excited about the long-term opportunity to extend the underlying automation to all the complex transactions across our platform.

As we develop industry-leading technologies that create better outcomes for our clients, we are also continuing to improve and evolve how we leverage the tremendous insights we can glean from our centralized integrated data lake. This data lake and its 220 million consumer records is a strategic moat for the Rocket platform. Leveraging this resource in the first quarter, we significantly expanded our data marketplace, an internal API platform that allows our teams to develop new applications, run marketing campaigns and even build new business lines, all using common, trusted and secured data assets.

Machine learning and AI continue to play an increasingly important role in our organization as well. Every single day, our systems make nearly 8.5 million automated decisions, helping to ensure we are running the business efficiently. Our talented team of nearly 300 data engineers and data scientists is expanding in 2021, including the most recent hiring of a new senior data science leader, who'll be heading up our Rocket Mortgage data intelligence team.

While we leverage data to drive client interaction, our company continues to find new and unique ways to reach clients and increase engagement with our brand. As we mentioned on our last call, we had the two top-rated ads in this year's Super Bowl. Those ads were instrumental in driving consumer interest, which led more than 60 million unique visitors to our digital properties in the first quarter, representing a 72% increase year-over-year.

Also, to help drive the recognition of our brand, we recently announced two important sponsorships. The first is a very special one to us as we look to uplift traditionally underrepresented communities. Rocket Pro TPO, our brand serving mortgage brokers, community banks and credit unions is proud to be sponsoring the Number 16 car in this year's Indianapolis 500.

What makes this unique is that the car is woman-owned, woman-driven and the majority of the pit crew are also women. We are passionate about this partnership and the extensions around it to raise awareness and excitement for how women are transforming industries, both in racing and financial services. This is particularly true in the mortgage broker space where we are seeing women enter and lead in what has traditionally been a very male-dominated field.

The other sponsorship is a PGA Tour superstar and 2020 Rocket Mortgage Classic Champion, Bryson DeChambeau. Anyone familiar with him knows he's a long hitter, an innovator and one of the best players on tour. Our sports partnerships do a great job of showcasing our brands to audiences who may not have seen us otherwise. Once those consumers visit our sites to learn more, our Rocket Cloud Force of more than 6,600 highly trained US based advisers step forward to ensure a seamless process.

Our Rocket Cloud Force continues to be a key differentiator in our business. Our team's ability to build rapport with accurate and timely assistance, complementing our unmatched online experience, allows us to deliver the high-touch expert experience our clients want, paired with the efficiency of our digital first process. The Rocket Cloud Force's impact extends well beyond mortgage transactions.

For example, the team members who make up the Rocket Cloud Force are proving instrumental in Rocket Auto's growth. Over the last year, Rocket Auto's Cloud Force has more than doubled. The increase in trained and trusted advisors was valuable in the first quarter, enabling the company to exceed $1 billion in its annual GMV run rate for the first time.

To aid in fueling Rocket Auto's explosive growth, I'm proud to announce that the company has just formed a strategic partnership with AutoFi, a leading software provider in the automotive retail industry. This new relationship paired with Rocket Auto's own proprietary platform will enable the company to facilitate a full automotive point of sale solution, including financing and insurance.

Today, AutoFi works with more than 2,000 dealer partners. This relationship is another step in continuing to accelerate Rocket Auto's growth by connecting with dealerships across the country to increase our access to inventory, which is critical in today's high demand auto market. When all the elements, technology, data, brand and our Rocket Cloud Force combined and worked together, it's a very powerful thing.

I want to close my remarks by spending a few minutes talking about our biggest opportunity in the market today, transforming the home-buying experience. It is clear that home purchase transactions represent the single largest growth opportunity for Rocket Companies today. We are in the hottest real estate market in more than a decade and demand is accelerating. March and April have been the strongest months of purchase application volume in our company's history.

The simple fact is that home buying process is extremely complicated. It involves multiple professionals, including real estate agents, title companies and local mortgage brokers. All of this complexity has led to homebuyers being one of the last transactions to make the move online. It has also created an extremely fragmented market where no company has been able to grab significant national market share. We were the second largest retail purchase lender in 2020, excluding the secondary market of correspondent lending, and that was with only low-single digit penetration in the purchase market.

Today, I am proud to announce that Rocket Mortgage has set a goal to become the number one retail home purchase lender in America over the next 24 months. Said differently, we are poised to transform the entire home buying experience. Only Rocket Companies can combine digital home search and our powerful Rocket Cloud Force with tens of thousands of relationships with real estate agents and Rocket Pro TPO brokers, while fully integrating mortgage, appraisal, title and digital closing.

Core to this growth strategy is Rocket Homes, our home search experience and real estate agent referral network. While others in the market have figured out how to display MLS listings online, we started with the most complicated and profitable steps in the home purchase process, the financing and the title work. From there, we built a full featured industry-leading home search product at Rocket Homes.

As we built nationwide coverage over the last year, traffic to Rocket Homes' real estate listings platform has increased substantially, growing over 300% year-over-year in the first quarter. Once consumers find their dream home, they are staying within the Rocket Homes ecosystem and connecting with a Rocket Homes partner agent. In fact, connections to Rocket Homes' agents were up 50% year-over-year in Q1.

Real estate agents play a critical role in the home buying process and we are providing powerful tools to help our agent partners in today's competitive market. Late last year, we launched Rocket Pro Insight, which allows any real estate agent to gain unprecedented access to their clients' mortgage, with the clients' permission, of course. This first-of-its-kind solution provides visibility, control and tools for real estate agents to present more competitive offers and close deals faster.

The number of real estate agents who've signed up for Rocket Pro Insight has more than tripled in just three months, with more than 45,000 agents using Rocket Pro Insight, up from 14,000 at the end of the year. Another new program that is quickly becoming a favorite of real estate agents and their clients is our overnight underwrite. This program guarantees that if a client submits their paperwork for a purchase application by 7:00 pm, they will receive a fully verified approval by morning.

Local mortgage brokers are another extremely important component of our purchase strategy. We continue to invest in the broker channel and have earmarked tens of millions of dollars in technology investment in 2021. Our continued innovation in the broker space is paying off. In March alone, Rocket Pro TPO signed up hundreds of new partners, marking one of the strongest months of partner growth in our company's history.

At Rocket Companies, we've built a flexible platform that can shift to the areas of greatest opportunity, including today's explosive real estate and automotive markets. These markets present an enormous opportunity for us to acquire clients to drive substantial lifetime value. Our ability to retain clients at a rate exceeding 90% is matched only by some of the best performing subscription business models in the world.

We will continue to operate this business with a focus on the long term based on the lifetime value of our clients with the knowledge that once added to our ecosystem, these clients will continue to add revenue in the months, years and decades to come. We are excited about the opportunities ahead of us in the second quarter and beyond as our team continues to deliver on technology and great service that helps us win today and long into the future.

With that, I'll turn things over to Julie. Julie?

Julie Booth

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

Thank you, Jay, and good afternoon, everyone. I'm pleased to report another quarter of strong financial results for Rocket Companies. In the first quarter of 2021, Rocket Companies generated $4 billion of adjusted revenue and $2.4 billion of adjusted EBITDA.

In discussing our results, I'll highlight some of our key priorities, including continuing to drive volume in today's strengthening economic environment, particularly from clients purchasing homes and cars as well as those accessing the equity in their homes. I will also share some detail on today's call around the investments we're making to transform the home buying experience, including continuing to grow our partner network.

Our first quarter results demonstrate continued growth and performance at scale. We generated $103.5 billion of closed loan volume in Q1, exceeding the high end of our guidance range and marking our sixth consecutive quarter with more than 100% year-over-year closed volume growth. We experienced strong growth across the Rocket Companies platform in Q1 with record gross merchandise value at Rocket Auto, record traffic to Rocket Homes and record title and settlement transactions at Amrock.

We continued to drive strong profitability in the quarter, with first quarter adjusted EBITDA of $2.4 billion and adjusted net income of $1.8 billion. These results reflect our ability to drive large scale volume on our platform very efficiently with limited incremental cost. Over the last 12 months, Rocket Companies generated $12.6 billion in adjusted EBITDA, demonstrating our ability to scale up and create truly substantial profitability in strong market environments.

As we enter the second quarter of 2021, we are seeing a strengthening economic environment. A key advantage of our platform business model is the ability to shift our resources to the area of greatest opportunity in any market environment. In our mortgage business, continuing to drive strong volume in 2021 will require addressing client needs that are less sensitive to interest rates. Demand for these products is driven by factors including, clients wanting to purchase a home, take cash out of their homes, reduce the terms on their mortgages, changes in their life situations, and the demand for investment properties.

Although rate and term refinancing activity was very high in 2020's low interest rate environment, Rocket has historically had a balanced mix of originations. For example, over the last four years including 2020, half of our cumulative volume was from these less rate sensitive products.

The strength of today's real estate environment provides multiple tailwinds for our business. With strong demand and limited inventory, home values recently reached record levels and are growing at the strongest pace in 15 years. Home values have increased nationwide at a double digit year-over-year pace in recent months, according to both the National Association of Realtors and the S&P CoreLogic Case-Shiller index. This trend translates directly into higher transaction values and revenue per unit for Rocket Mortgage and Rocket Homes.

With home values increasing, many homeowners are also taking advantage of the equity in their homes to consolidate debt or fund home improvements through cash-out mortgage refinancings. Freddie Mac recently reported that last year, American homeowners tapped into the most home equity in 14 years.

We are also seeing strong fundamental tailwinds at Rocket Auto, our automotive retail marketplace. Rocket Auto's year-over-year growth accelerated meaningfully into Q1 to over 60%. We achieved this growth despite inventory constraints from severe weather in the south, among other factors. Rocket Auto facilitated $360 million in gross merchandise value of automotive sales in Q1, passing the $1 billion annual GMV run rate for the first time. Leveraging our new relationship with AutoFi, we expect to further accelerate growth throughout the year as we continue to expand our inventory and onboard additional automotive retail partners. This sets Rocket Auto well on its way toward our stated goal of doubling automotive GMV in 2021.

Turning to the home buying opportunity specifically, as you heard from Jay, home purchase transactions represents a single largest growth opportunity for Rocket Companies today. In the first half of 2021, we are seeing strong acceleration in purchase activity at Rocket Mortgage. Q1 represented our strongest first quarter purchase volume in company history.

Momentum accelerated throughout the quarter, with March setting a record for purchase application volume, and strong performance carried into the second quarter, with April exceeding March, setting a new record as the single largest month for purchase application volume in company history. We expect continued strength into the spring home buying season and we are projecting record quarterly purchase volume in Q2.

Today, we shared our objective to become the number one retail purchase lender within the next two years. I'll provide some detail on the strategic initiatives and investments that will drive us to that goal. The investments we're making are focused in two primary areas, digital product development and our B2B partner relationships.

On the product development front, we are driving market-leading innovation to transform the digital home buying experience. As you heard from Jay, we continue to build out the Rocket Homes digital home search experience. We are seeing the benefits today with Rocket Homes' traffic doubling over the last six months and increasing more than 300% year-over-year in Q1.

We see significant opportunity to further deepen the integration between Rocket Homes and Rocket Mortgage, with Rocket Homes' content now being embedded throughout the home buying process. We're also delivering first-to-market solutions like Rocket Pro Insight, verified approval letters from Rocket Mortgage and overnight underwrite, all of which help our clients and partners compete in today's highly competitive real estate market.

Our B2B relationships with professional partners form another important driver of our home purchase strategy. We've invested for several years to deepen our partnerships with real estate agents, tax professionals, mortgage brokers and insurance agents who service trusted touch points working with our clients on a daily basis, especially during the home buying process.

Partners are an important driver of our overall growth. Over the last 12 months, our partner network generated $142 billion of closed loan volume, representing growth of 7.5 times since 2018. Our partners drive incremental volume on the Rocket platform. They also help us capture more purchase transactions and contribute a higher purchase mix than overall company average.

The partner network also drives incremental profit dollars for our business. Gain on sale margins in this channel reflect the partial sharing of economics with our partners. Because partner revenue is incremental to our platform and requires limited direct costs, we are comfortable investing in partner network margins when we see strategic opportunities in the marketplace, while still driving incremental profit dollars to Rocket Companies.

We've made these investments successfully in the past, including when we initially ramped our partner network volume and we see similar opportunities today. As a reminder, we are in the early stages of ramping a new partnership with Morgan Stanley and E*Trade. In addition, we are seeing a significant opportunity today within the independent mortgage broker community. We are driving particularly strong growth among brokers as we extend Rocket Pro technology and the Rocket Pro TPO brand in this market.

We are investing in the mortgage broker channel and we are winning. Hundreds of broker partners joined our network during the first quarter and our partner volume has continued to be strong into the second quarter. As Jay outlined, we plan to invest tens of millions of dollars this year in technology to support our broker partners. Our near term priority in this channel is to drive volume and incremental profits.

Turning to our guidance, for the second quarter, we expect strong closed loan volume of between $82.5 billion and $87.5 billion and rate lock volume between $81.5 billion and $88.5 billion. Each of these metrics represents over 100% growth relative to the same period in 2019. We are encouraged by our ability to continue driving strong volume and we expect non-rate sensitive products to exceed 40% of our total volume in the second quarter, approaching our longer term historical averages.

We expect second quarter gain on sale margin between 2.65% and 2.95%. We expect second quarter gain on sale margin in our direct to consumer channel to remain above 400 basis points, consistent with our long term track record of superior margins in our direct to consumer channel. We expect partner network margins to be around 100 basis points. Margins in both channels are consistent with historical levels prior to 2020.

Our combined second quarter gain on sale margin guidance of between 2.65% and 2.95% reflects changes in channel and product mix, including continued strong growth in our partner network which drives attractive incremental profits.

I would like to make one note regarding comparisons to prior periods. 2020 was a highly unusual year as a result of the COVID-19 pandemic and record low interest rates. Rocket Companies delivered remarkable performance through this unprecedented period with $12.6 billion in adjusted EBITDA over the last 12 months. As an organization, we remain extremely focused on long term growth. As a result, you will hear us reference longer term comparisons, particularly comparing our performance in 2021 to 2019 levels, which we believe demonstrates our ability to grow through the economic cycle.

As Jay mentioned, increasing the lifetime value of our clients is a core component of our growth strategy. We will continue to increase the lifetime value of our clients as we expand our platform to address more and more of the important transactions in their lives.

We exited the first quarter with an extremely strong balance sheet. I'd like to draw your attention to the substantial cash resources that we have in the business today, which totaled $5.6 billion as of March 31. When considering our current ownership structure, this means we had $2.79 available cash per share at the end of Q1. Available cash includes $2.9 billion of cash on hand and an additional $2.7 billion of corporate cash used to self-fund loan originations, which could be transferred to funding facilities at our option.

Our total liquidity, which includes available cash plus undrawn lines of credit and undrawn MSR lines, stood at $8.7 billion at quarter end. As a reminder, our quarter end liquidity is after the special dividend we paid during the first quarter of $1.11 per Class A common share, funded by an equity distribution of $2.2 billion. We remain authorized to repurchase up to $1 billion of our shares.

With that, we are ready to turn it back to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We have our first question coming from the line of Arren Cyganovich with Citi. Your line is open. Hello? The line of Arren Cyganovich, your line is open. You may ask your question.

Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Sorry about that. I was muted [indiscernible] (00:30:19). The gain on sale margin guidance that you have coming down, I was wondering if you could talk a little bit about the trends that you're seeing both from the direct to consumer side and on the partner – channel partner network as well.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Absolutely. Thank you for the question. I know Julie talked about some of the gain on sale in her remarks, in particular how strong our direct to consumer gain on sale remains. As we think about Q1, one of the great things that's happened for our business is we saw the 10-year treasury go from 90 basis points, I think, up to a high at 170 basis points. So what was expected to take over a year or two to occur kind of all happened in about a 90-day period of time. So adjustments have to be made, but that's where our platform really kicks in.

And then as Julie touched on, we're almost back to where we traditionally have been where 50% of our originations are not rate sensitive. And so the acceleration in those things so quickly was incredibly exciting and we're watching our retention climb as well, north of 90%, now 91%. So you're going to see us be strategic around gain on sale and we talked about this a lot. The margins, although moving back to more historical averages, are incredibly strong. But what we think about is not just that margin for the first transaction, what we're thinking about is the lifetime value of every client that we acquire.

You hear us talk about the massive growth in Rocket Homes, Rocket Auto and as we continue to add additional fulfillment businesses to our platform, the value of that acquired client will continue to grow as well. So it's much like the discussions I think we had, Arren, back kind of during the IPO process when we were talking about setting a strategy over the course of two or three years, really arriving at what the true lifetime value of the client is and then continuing to execute on those strategies to bring those clients into our servicing book, so we can monetize them for years to come.

So our big focus and I'm really proud of the growth we had in Q1 compared to Q1 of 2020 and Q1 of 2019, over $100 billion of closed loan volume that's all coming into the top of the funnel and we'll monetize that over time. I'll let Julie maybe go just a bit more specifics, but really important to at least understand how we're thinking about that, which is, of course, it's profitable right now to bring those clients into our platform, but it's even more profitable than it looks on paper because of the lifetime value that we subscribe to each one of those clients. Julie?

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. I think it's important to take just a minute to break down our gain on sale margin guidance a bit further. So as I said, we are expecting overall gain on sale margins to be between 2.65% and 2.95% in the second quarter.

But to break this down by channel, we expect to see our direct to consumer margins above 400 basis points, which is consistent with our long term track record of consistent margins in this core DTC channel. And if you look back over time, you'll see that consistency in those margins. And then we're expecting partner network margins around 100 basis points and these levels are also roughly consistent with historical levels prior to 2020.

If we look at that quarter-over-quarter change in gain on sale margin guidance, it's really being driven kind of roughly by three equal factors. First of all is changes in loan pricing and particularly our investment to drive the growth in the partner network channel. The second thing is that we did see the primary, secondary spread compress at the end of Q1 and into Q2. And then the third factor that I'll mention is the channel and the product mix. And we're seeing an increase in the partner network in jumbo loans as a percentage of our total originations, both of which drives attractive incremental profit for us. So in looking at our second quarter guidance, overall, we feel very good about our ability to drive volume, which is more than double 2019 levels as we've said and gain on sale margins roughly consistent with historical levels.

Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. That's very helpful. And then I guess just secondly, on the Rocket Homes and the new initiative to be the number one purchase lender in two years, is this an investment that will drive any additional revenue streams through Rocket Homes or is it really just a focus on getting those customers right in the process of choosing their home?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Well, so we've been investing in this ecosystem for quite a few years now and the reason we've set the goal here in the next 24 months because all of those important components and the millions of dollars of tech spend are really starting to pay off. I know I touched on the fact that on our Rocket Homes platform, which is an incredibly robust MLS listings platform, we now are covering 49 to 50 states and I think we'll be into Hawaii in a matter of days or weeks. That growth year-over-year is up 300%, and that matters because what do you do with that. Well, it drives mortgage volume, but it's also driving real estate volume.

So our agent connections, taking those clients that are interested in finding homes and aligning them with an agent, that was up 50% year-over-year and we're making significant investments in that process and technology to keep accelerating that. So what does that do? Well, that allows us to capture revenue on the real estate side, on the mortgage side, on the titles side and so not only are you getting those additional revenue streams you just touched on, but it's also driving up conversion.

And especially in a market like we're experiencing right now where inventory is so light, we've got to make those connection points where a client comes in, top of the funnel, finds a house, gets connected with an agent, gets a verified approval, in our cases now we're offering our overnight underwrite, so the agent can write an offer, 6:00 pm on a Tuesday, they wake up Wednesday morning, they're fully approved. So our clients [indiscernible] (00:36:53) drive up those conversion rates and so we can grab that volume. And so that's additional volume we'll be adding to the platform as we continue to invest now in marketing all the purchase services that we've got.

And I know I mentioned this to the 45,000 agents we now have on the RHI platform that we built, the Rocket Pro Insights platform that our agents use. So all of those things kind of will bring additional revenue, but also increased conversion.

And then the last component I'll say to that and Julie is talking about the E*Trade partnership, we've referenced before our Realtor.com partnership. As that conversion rises, our ability to lean in and participate in the purchase, lead and advertising markets grows, because we can spend more than others can spend because our conversion rates are far greater than the industry average. So that's a virtuous kind of flywheel that we are building right now that will play a very important role here as we go through 2021 and into 2022.

Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Thanks.

Operator: We have our next question coming from the line of Ryan Nash with Goldman Sachs. Your line is open.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good afternoon, guys.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Hey, Ryan.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

So I wanted to follow-up on a question that Arren asked on gain on sale margins. Do you foresee that we're at the bottom by channel? I know others have talked about industry underpricing loans. So can you maybe just talk about that combined with the competitive dynamics, what's going on in the wholesale channel that's causing these competitive pressures? And Jay, how do you think about long term customer lifetime value versus trading off with some of the near term economics?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Yeah, okay, so a few questions there. Maybe I'll start with the margin piece and Julie you can jump in here, too. But, look, we're kind of back to some of the historical longer term margins that we've experienced, which on our platform are still very profitable, number one, in the first transaction. But again, to some of the other comments that I made, it's also the additional or the lifetime value.

Now, there's been some changes in particular in the broker market that I think are very interesting. Our focus here is to solve the problem of our client. If a client needs to buy a house, how can we develop technology and service to assist them? If a broker wants to grow their business, how can we provide technology, marketing, et cetera, to assist them? Others have kind of focused on solving their own problems, I think, versus the brokers' problems.

It's interesting what's happened because through that our partnership with the brokers that we got in that part of our partnership channel has strengthened. So the volumes that they're setting us are increasing. And so if you think about the lifetime value, certainly in the direct to consumer channel, that's well understood. But in the broker channel, you might say to yourself, well, each time a loan comes in that broker is thinking, hey, where should I send it? But as choice gets eliminated and our partnership with that broker gets stronger, our ability to monetize and work with that broker partner in the years to come to drive more lifetime value from those relationships increases as well.

So we're excited about what we're seeing in the broker channel. We're really excited about what we're seeing in the direct to consumer channel. And so we spend our time thinking about the lifetime value more than probably the day-to-day margin that we might experience on the first loan. And I know I referenced this before, but I'm going to say it again. I think we saw growth in Auto up 60% to 65% from Q1 of last year to Q1 of this year and that's with very tight inventory, right. We're in a very unique spot. I mean, there's an article every day written about how there's no auto inventory, yet we're growing. We saw growth in the homes channel. We're seeing growth in our loans channel. So all of that has to be factored into our LTV decision and we're going to keep doing that because once we capture that base and we continue to add these fulfillment engines to the bottom of our funnel, we're fully building out the platform that we've been on a mission to build out for years here.

So doesn't mean – and this is where Julie will jump in, it doesn't mean we won't be thoughtful about the margin day-to-day and I think that's evidenced by where we are right now. We're north of 400 basis points on our DTC. But it's critical that we think about the future and where we're headed and the millions of clients we're adding to our platform and how they're going to stay with us. I mean that's the long game that we're playing.

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. And just to add to that, if we look at our direct to consumer margins over time, as I said, they do tend to really be more consistent and we've seen that quarter-over-quarter here as we look back. There may be some times when it is just slightly lower than that, but you'll see it certainly hold around that and opportunities like we just saw in 2020 here present a great opportunity for us to take some additional margin.

And then on the partner network side of things, we're really going to be strategic there. We're going to be thoughtful about growing that business long term and may be some opportunities to take advantage of potentially leading into that margin, and we'll think about that from time to time. But we are going to be thoughtful about the near term. But like Jay said, absolutely focused on that long term value of those clients that we're acquiring.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then I'll ask my follow ups together. So first, Jay, you referenced a couple of times that 50% of the originations are not rate sensitive. Can you maybe flesh out for us how much of that is purchase versus cash out refi and what else may be included in that so we can understand what some of those pieces are?

And then second, you talked a lot upfront about leveraging the ecosystem to drive growth in all of these new channels that you're developing. Can you maybe just talk about your vision for how you see these scaling over the coming years, what it can mean for the growth of your company and just how the investments that you're making in tech are better positioning you versus other players in the industry? Thanks.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Yeah, absolutely. So I don't think we break down the specifics here, but I'll give you some context. I know we talk about debt consolidation all the time that really falls into two buckets and we're watching this increase substantially as we get into 2021. I mean spending, as we all know, is very strong in a variety of areas and that's causing debt to be accumulated. Credit card debt, second mortgage debt, home equity line debt, all things that we can consolidate, we were talking about the rise in home prices, it's created a scarcity in terms of homes available, but it's also created one of the greatest increases in home equity we've seen like 15 or 20 years.

So it's a really strong positive combination for us. I think we're very well positioned, and this goes back to our data science team. We have 220 million records. We talk to millions of people a month, understanding their debt load. We can model out where they were a year ago and then also model out where they will be in the future, creating all kinds of opportunity to balance out the equity in their home, with the debt that they're building and we can consolidate that. That's a huge piece of our business. We've been executing on that for years. And as Julie referenced, really seeing that come back to kind of levels that it had been at in years prior.

We called out purchase because we're the second largest retail purchase lender in the country. So you can kind of use those numbers to triangulate where we're at and we're going to number one. So it plays an important role. And I already touched on this, how are we going to get to number one? Well, we're combining all of these disparate experiences from MLS, to realtors, to mortgage brokers, to title, to appraisal, all of this hard work we've been doing on this tech platform behind the scenes is really starting to come together.

The other exciting part, I know I touched on this, is now taking all of that data and merging it together. So we can watch and learn every step of the process, what is happening to that client, where are the fall off points, where can we increase conversion, how do we modify our process. So that's the tech platform. And the tech platform is in the early innings compared to where it will eventually be with that data sharing across all of these different fulfillment businesses we're building.

Here's our mission. At the end of the day, we should be able to look out at every American and target market or have a specific message and specific value to every single American about how we can help them, either improve on their home, save money in some way, shape or form, buy a car, or help them with the real estate transaction. And when you put those things together, that's 30% of the US GDP that we're talking about here. So that's our vision. That's the platform we're building to play a major role in almost a third of the GDP here in the United States of America. And those are all the critical pieces that we've been building for years under kind of the hood.

And I think this AutoFi partnership is really critical because it's an important component. We've added to really grow that inventory and our reach into different dealerships, is that auto business that we're building is far different than almost anybody else. We're really just connecting and conducting the sale [indiscernible] (00:46:37) financing between dealer and consumer. And so we can really be the marketplace. So I'm excited about that as well.

So I'm not sure I've answered all of your questions, but that's the vision of where we're headed here. And the last thing I'll say is all surrounded or wrapped in a multibillion dollar brand that has the highest client service ratings in the country. So we don't have to convince people what Rocket is all about. They know that it's a high quality experience. And so as we add these additional services, we believe that the conversion rates will be quite high because people are already conditioned to jump in and take advantage of those services.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for all the color, Jay.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

You bet.

Operator: We have our next question coming from the line of Doug Harter with Credit Suisse. Your line is open.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Julie, you highlighted the strong liquidity cash position that you currently have. Can you just talk about, I guess, how you're thinking of what the level that you need to hold and where you would be thinking about future potential return of capital, given future cash flow?

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah, I sure can. Thanks for the question. And we do have substantial liquidity as I mentioned in the business today. And as we think about the level in the business, really we're going to be looking at first and foremost, as I know I've mentioned before, investing back in the business is going to be the first place that we're going to look to deploy that capital. So whether that comes from the investments that we're making either in brand or whether we're making that in technology, or potentially acquisitions that maybe of interest to us as we continue to look for those things that are additive to our business, either to our tech platform, our reach and that is something that we'll continue to look at.

And then if that is not something that we see in the near term as we look out here, we will potentially look to return some capital to shareholders either through doing a dividend like we had done here or potentially through a share buyback. So that's kind of the way we're going to keep looking at how we manage our cash as we go forward here.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

And I guess if you could just – while volumes are remaining kind of elevated, they are kind of down sequentially next quarter, just what does that do to kind of liquidity need to kind of run the business?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

I'll jump in on the volume question. I know when we are thinking about where we came out of Q1, over $100 billion, the guidance we provided for Q2, keeping in mind that we've got thousands and thousands of approved homebuyers. And so hopefully, as more inventory opens up, that will accelerate some of the purchase transactions that are kind of currently in waiting mode. But we feel very good about where we are in Q2 and looking forward into the future and seeing volumes in a very similar range. So I know we had a huge year last year. I expect to have a very good year this year from a volume perspective. And so if you can keep that in mind as you think about our capital needs here as we get through the rest of the year. Julie?

Julie Booth
Chief Financial Officer & Treasurer, Rocket Cos., Inc.

A

Yeah. As we continue to generate cash flow, we're going to be thinking about those same investments that we can make and it really doesn't change the decision here as we go forward. We'll continue to manage our capital in the same way we've been thinking about it and expect to continue the strong cash flow here in the second quarter.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thank you.

Operator: We have our next question coming from the line of Dennis McGill with Zelman. Your line is open.

Dennis Patrick McGill
Analyst, Zelman & Associates
Q

Hi. Thank you for taking my question. Exciting to hear all the different opportunities you have ahead of you on the purchase side. I just wanted to tie back to maybe the data that we're looking at for 2020 would imply that there was a little bit of share loss in the purchase channel and I was wondering if that is a good example of last year being a year where the profitability was most attractive in the refi side and a good example of where you can shift product mix and go after the more profitable part of the business? And then thinking about that moving forward, if purchase is more attractive area that's where you can lean, so is that the right way to think about the fluctuation that you might see year-to-year versus smoothing that out over a multiple year period?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.
A

I think there's probably two ways to view that. I think you're right. The flexibility of our platform really allows us to move to the most profitable loan that we'll bring in. And again, as we touched on, not only the first time around, but thinking about the lifetime value of that client. And so you'll keep watching and seeing us do that.

Also, considering the investments that we are making long term in purchase now, as we've touched on Rocket Homes, we've touched on the listing site, we've touched on the reator network, I know in calls past I've talked about providing other opportunities for sellers and buyers through for sale by owner and other projects that we're working on. The insights network that we're building that now has 45,000-plus real estate agents on that, the technology that we're investing there to give them the visibility, the communication, the transparency into the loan, all of those are significant investments into purchase. And so although we will keep adjusting the levers to make sure we're maximizing our opportunity, I think you'll see us keep the accelerator pedal on purchase as well because we're making substantial investments now to continue to see that channel grow.

Dennis Patrick McGill
Analyst, Zelman & Associates
Q

Okay. That makes sense. And then a separate question as it relates to some of the changes by the agencies on second home investment home limitation, can you just maybe share any impact you're seeing in the market from that and if there's any non-agency channels opening up for sales of those loans?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.
A

Yeah, so great question. There's been a few adjustments here in the last month or so. I think we're in a great position, and Bob Walters can touch on this, I think the first big example of this was our smart jumbo that we rolled out about 30 or 45 days ago and the securitization there. And so our capital markets group is incredibly sophisticated. Their ability to execute on those securitizations has also given us this opportunity to move forward into other products, whether they be second home or vacation homes or other things where the agencies may be putting limits, we can jump in and continue to grow those channels with high quality products and deliver them in the secondary market.

Bob, I don't know if you have additional comments.

Robert D. Walters
President & Chief Operating Officer, Rocket Cos., Inc.

A

Yeah. We've seen the changes the agency has made around investment property, second homes, its disrupted a number of players in the markets, we got ahead of that. And I think to Jay's point, our ability to securitize off our own shelf gives us a lot of latitude and flexibility in that area. So that's not disrupted us from a volume standpoint. In fact, we've had some opportunities to take advantage of that.

Dennis Patrick McGill
Analyst, Zelman & Associates

Q

Appreciate it. Good to hear. Thanks guys. Good luck.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Yeah. Thank you.

Operator: We have our next question coming from the line of Mark DeVries with Barclays. Your line is open.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Yeah. Thank you. Historically, originators with a more centralized model have struggled to have too deep of a penetration in the purchase market. But you guys have created a pretty interesting ecosystem that may just crack the nut. The question I have is how are you managing kind of the gray area of RESPA risk that kind of sits between the different linkages in that ecosystem you're creating?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Well, obviously, these companies are separate companies and I can tell you they've got a team of attorneys ensuring that everything that we do is at a proper arm's length transaction. As you can think about it and I'm not going to go into a RESPA educational seminar here, but our clients have choice every step of the manner, or every step of the way. Now, with all the services we provide and the technology we provide, it's understandable that their choice is to work with a company that can bring all of these things together. But we feel very good about the footing that we're on in terms of understanding RESPA and our ability to navigate that while growing this channel.

And also, to your other comment about centralized lenders and their ability to crack the nut here, look, if you really think about this, real estate agents want certainty, right. They've worked hard, they want a loan to get closed. And so I don't believe that it's about the location of the lender. I believe it's about the certainty the lender can provide. With our thousands and thousands of third party brokers out there, if the agent is best suited to have somebody who can walk right in their office, we've got that broker partner for them, we publish that broker on our website, we provide great technology to that broker and we're happy to have the agent work that way.

If the agent prefers to work with us in our centralized Rocket Mortgage platform, that's great, too. And that's why we're making such a large investment in the communication, in the visibility, in the transparency, in the overnight underwrite, all of the things that bring certainty to those agents so they can have confidence that we're closing those loans. And that's probably the second largest purchase lender in the country and growing.

So I don't think it's centralized or decentralized. I think it's just are you – and I will go back to that comment I made, do you understand the problem and are you solving that problem for your client, whether it's the broker or the agent or the end consumer and that's the mission that we're on. That's why our product strategy team is now hundreds deep working these hard problems each and every day to make sure that we're delivering where others don't.

And the last thing I'll make a comment on that, that's exactly why we take this long term view. Rates are going to go up, rates are going to go down. Probably in December, nobody had said to themselves like I bet you the 10-year treasury is going from 90 basis points to 170 basis points. But it did. You cannot get distracted on the day to day movements of the 10-year treasury note. You have to have your plan of how you're going to grow market share over the years by bringing real value to your consumer, whether that be the broker, the agent, the client and you've got to execute on that plan. And so that's exactly what we're doing, that's what we'll continue to do and I think the proof has been over the course of many decades, staying that course will mean that we can honor that commitment of being the largest purchase owner in the country here in the next 24 months.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. That's helpful. And do you ever see a role in M&A in terms of adding any kind of local retail presence or do you think that through the combination of your broker partners and your centralized model that you can serve the entire market?

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

We're very active in the M&A space. We're always looking for bolt on opportunities and those types of things that can help us grow our platform. And I use the word platform in an important manner. As you probably sense from my previous comments, the real mission is what's best for the consumer, what does the consumer want, what experience can we provide them that gives them the most certainty in that transaction. Any transaction with friction, home buying is one that we're very deep into, but now we're getting into auto, personal loans, how do we remove that friction. And so if there's an acquisition that fits into our platform that solves a problem for the consumer that currently in our current model we can't solve, then that would be an acquisition that we would be looking at. We're almost – and I said this before, almost kind of origination agnostic. It's whatever is best for the consumer that's what we will do to bring them into our platform, get the lifetime value of that consumer and make sure they have a great experience.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay, great. Thank you.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

You bet.

Operator: We have time for one more question. The last question is coming from Mihir Bhatia with Bank of America. Your line is open.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Hi. Good afternoon. Thank you for taking my question. First, I just wanted to check, in terms of the volume guidance for next quarter, it's down quarter-over-quarter and I think I heard you say April was a record [indiscernible] (00:59:24) application volume quarter. So I'm just trying to like help square that. Do you expect like a meaningful slowdown in May and June or maybe I misheard something in that.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

I think what we were referencing is that over the first quarter, we've had substantial purchase application volume and so we have thousands of clients today that are approved and they're out looking for homes. Our guidance reflects our current application volume and some of the inventory constraints that exist in the market today. And what I also was referencing is that if you look at kind of the guidance that Julie provided and we feel great about where that's at not only for the second quarter but as we think about the future, that guidance kind of tees us up for what should be an outstanding year on the heels of what has been record purchase volume in the first quarter. We didn't talk about the second quarter, but in the first quarter, it was most purchase application volume that we've ever had as a company.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Understood. Okay, that makes sense. And then one other question I wanted to ask, you got some interesting stats on Rocket Auto and what I wanted to understand a little bit more about that business, how much of that is this related to existing mortgage customers, is it all of it, because I guess what I'm trying to understand a little bit more of is, this lifetime value metric that we've talked about a few times and you all have highlighted. Where can we see that in terms of like the cross sell statistics or anything you can share there? Thank you.

Jay Farner
Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

A

Yeah. I'll directionally talk about it because it's very exciting. So as we started this business, we did not focus on our client base initially. We certainly did market research to determine our client base's propensity to purchase, understand that what we believe the conversion rates will be with our client base, but the vast majority of cars that we're selling now, which we're setting records each and every month, are not clients from the Rocket Mortgage platform. They're actually lower converting leads.

And there's a reason that we've done that. We wanted to construct a business that had all of the appropriate profitability metrics before really leaning into our client base. So we've tested that enough to understand the conversion rates and what it will mean for that business as we open up our client base, but we've just started to scratch the scratch of the surface in terms of really marketing to our client base. That's why we're adding additional inventory and we talked about the AutoFi, it's critical if we're going to open that up and generate more leads flow that we have a more robust inventory platform so we can really provide the services that our clients deserve. So we're kind of moving from phase one to phase two, which will increase all positive things that we'll be adding here in phase two, but excellent question.

Operator: Thank you. There are no further questions at this time. Turning it over to the presenters for closing remarks.

Sharon Ng

Vice President, Investor Relations, Rocket Cos., Inc.

All right. Well, we sure appreciate everyone joining us today and thank you to all of our team members out there listening today. Certainly appreciate everything that you are doing. And I hope everyone has a great rest of the evening and take care.

Jay Farner

Chief Executive Officer & Vice Chairman, Rocket Cos., Inc.

Good bye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.