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Rocket Cos., Inc. (RKT)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Rocket Companies Incorporated Third Quarter 2021 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I'd now like to turn the conference over to Sharon Ng, Head of Investor Relations. Please go ahead.

Sharon Ng

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

Good afternoon, everyone, and thank you for joining us for Rocket Companies' earnings call, covering the third quarter of 2021. With us this afternoon are Rocket Companies' CEO, Jay Farner; and CFO, Julie Booth; and our President and COO, Bob Walters.

Before I turn things over to Jay, let me quickly go over our disclaimers. On today's call, we'll provide you with information regarding our third 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 the 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.

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This call is being broadcast online and is accessible on our IR 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 on 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

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

Good afternoon, and welcome to the Rocket Companies earnings call for the third quarter of 2021. Before we dive in, I want to take a moment to thank our Rocket Companies' team members, all 26,000 dedicated professionals whose passion drives the client service, innovation and entrepreneurial spirit that our company is known for. Thanks to them, we have become the platform that removes friction from life's most complex moments.

Our platform continues to execute at scale and grow across our businesses. Rocket Mortgage is the largest mortgage lender in America with industry-leading profitability. Our title and settlement services business, Amrock, is also the largest of its kind in the country.

Our emerging businesses also set new records in the quarter. Rocket Homes reached $2.3 billion in real estate transaction value and its current annualized run rate would place the company among the top 20 brokerages in the country.

Rocket Auto also reached a record $530 million in gross merchandise value in the quarter. The number of vehicle sales facilitated by Rocket Auto in the last 12 months would put the company in the top 10 of all used car dealers nationwide.

On today's call, I will highlight the flexibility of the Rocket platform to capture the growth ahead, including our strategy to revolutionize the home buying experience. I am also excited to touch on the new Mortgage as a Service opportunity we're launching in partnership with Salesforce.

Last quarter, we had excellent results with closed loan volume and gain-on-sale margin exceeding the top end of our guidance range. Rocket Mortgage delivered $88 billion in closed loan volume and Rocket Companies generated $3.2 billion in adjusted revenue and $1.6 billion in adjusted EBITDA.

On an adjusted EBITDA basis, we doubled the size of our business compared to 2019. Again, demonstrating the sheer power and scalability of the Rocket platform. We hit new records in both purchase and cash out refi volume in Q3.

We've also just recently announced a major partnership with Salesforce. Up to this point in time, we have used Rocket technology to process our own mortgage volume through both our Direct to Consumer and Partner Network channels. The Salesforce partnership will now open our mortgage technology and process to third-party financial institutions through the Salesforce Financial Services Cloud.

This new Mortgage as a Service model is a game changer for the industry and for Rocket. More than simply leveraging our technologies, these banks and credit unions will have Rocket integrated into the centralized

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workflow, making the process seamless and simple. The opportunity is massive. In 2020, the approximately 10,000 banks and credit unions originated over $1 trillion in mortgages. That represents nearly a third of the total market in the US.

We believe Mortgage as a Service represents a new model for financial institutions to partner with Rocket, paving the way for an even larger opportunity to provide consumer lending as a service, including mortgages, auto loans and personal loans. Expect to hear more about this partnership in the first half of 2022.

With multiple channels all operating at scale over a broad range of products, we have many levers to drive growth while optimizing gain on sale margins even in shifting markets. Our ability to pivot and scale is Rocket's key differentiator. In fact, in the third quarter, we saw strong growth in our Direct to Consumer channel, where our purchase initiatives continued to gain traction.

We will be allocating additional resources to further support this growth. More broadly, we've seen strength in products that aren't as interest rate sensitive.

In the third quarter, both purchase and cash out refinancing hit new company records, rising approximately 70% year-over-year. This growth is a direct result of Rocket's commitment to providing speed, certainty and choice to our clients, all of which are crucial in the ongoing inventory constrained, highly-competitive housing market.

Not only did we set a record for purchase volume in the third quarter with both our Direct to Consumer and Partner Channels achieving all-time highs, but by the end of September, we had already originated more purchase volume than any full year prior. This rapid growth in the purchase segment puts us well on our way to reaching our goal of becoming the number one retail purchase lender by 2023.

Helping drive our continued growth in the purchase category is our seamless end-to-end home buying ecosystem in partnership with Rocket Homes. Through our integrated platform, clients can find their next house on Rocket Homes' 50 state home listing search platform, secure an agent from the company's agent network, get financing through Rocket Mortgage, have Amrock conduct the title work and appraisal for them, and then after closing, have their mortgage serviced by Rocket Mortgage, all from one centralized platform.

Other key drivers helping us win in today's purchase market are industry-leading products like our overnight underwrite and a broad range of home buying and selling services. For instance, Rocket Homes offers the choice to sell your home through its on-staff agents, its 50-state network of real estate professionals or through its for sale by owner platform.

Additionally, we recently rolled out our Breaking Barriers program for our Rocket Pro TPO partners. These technology enhancements paired with programming to better connect real estate professionals and mortgage brokers are designed to give our partners the tools that they need to win today and well into the future.

As we look ahead to the next year, we expect our Rocket Mortgage business to achieve continued market share growth, exceeding 10% share in a purchase-heavy market. This is consistent with our track record of being opportunistic to grow share.

For instance, in 2019, our company's mortgage originations accounted for roughly 6.5% of the market. In 2020, that grew to nearly 8.5%. With the fourth quarter guidance released earlier today, which Julie will walk through in more detail, we are well on pace to break 2020's strong origination record of $320 billion and end the year with 9.5% market share.

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As we look towards 2022, we will continue to invest in the rapid growth of our platform, delivering a unified client experience across mortgage, real estate, auto, personal loans and solar.

In our emerging businesses, we expect continued growth from Rocket Auto and Rocket Homes in 2022, on top of the records reached in 2021. We will also formally launch our solar program and continue to target new product categories to add to the Rocket platform, either organically or through acquisition.

Our platform has been built to capitalize on the vast data, proprietary technology, trusted brand and cloud force here at Rocket Companies. We find over decades these pillars of our platform are the foundation of our growth ahead.

With that, I'll turn things over to Julie to go deeper into the numbers. 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 as we continue to leverage our flexible platform, grow our business at scale and drive substantial profitability.

On today's call, I will reference some longer-term comparisons, particularly looking at our 2021 performance on a two-year basis relative to 2019 levels, given the unusual circumstances that shaped 2020.

Now, we'll get into the numbers. During the third quarter of 2021, Rocket Companies generated $3.2 billion of adjusted revenue, which is a 76% increase from Q3 2019. We had $1.6 billion of adjusted EBITDA in the quarter, more than doubling the results of Q3 2019, representing a 48% adjusted EBITDA margin.

We delivered net income of $1.4 billion, up 181% from Q3 2019 and adjusted net income of $1.1 billion, exceeding Q3 of 2019 by more than 2 times. Over that same period, our adjusted net income margin was 36% and adjusted earnings per share was $0.57 for the quarter. Rocket Mortgage generated $88 billion of closed loan origination volume during the quarter, up nearly 120% from $40 billion in Q3 2019.

Focusing on home purchase, our momentum has continued with Q3 purchase volume up more than 70% year-over-year, marking a new company record set in just the first nine months of the year. In fact, both our Direct to Consumer and Partner Network segment generated all-time highs for purchase volume during the quarter with our higher margin Direct to Consumer business having the strongest gain.

For the quarter, our rate lock gain on sale margin was 305 basis points, which was above the high end of our guidance range and substantially higher than most multichannel mortgage originators. Gain on sale margins improved quarter-over-quarter in both our Direct to Consumer and Partner Network segment.

Our emerging businesses continued to reach new record. At Rocket Homes, we generated record real estate transaction value of $2.3 billion during the quarter, closing more than 9,000 transactions. Our RocketHomes.com website continues to increase high-intent traffic and was up nearly 5 times year-over-year, with 2.4 million monthly average users during Q3.

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On a year-to-date basis, Rocket Auto's gross merchandise value, or GMV, has grown nearly 2.5 times year-over-year, as momentum for this business continues to grow as we expand inventory partners and with the launch of RocketAuto.com.

We are leveraging our platform and strong base of 2.5 million servicing clients as of the end of October to grow and ramp these emerging businesses.

The Rocket Companies flywheel is based on leveraging our profitability advantages to constantly reinvest in our business, driving continued growth and strengthening our competitive position. We see tremendous potential to drive sustainable and profitable market share gains in our core mortgage business.

We are also investing to grow beyond mortgage and leverage our platform to scale our newer real estate, auto, personal loans and solar businesses. This growth will come from continued investment in the pillars of our platform, particularly technology.

Fueled by our vast data lake aggregated through millions of client interactions, our technology drives speed and certainty to improve client experience, higher efficiency for our businesses and opens the door to new market opportunities. For example, Amrock completed its 1 millionth digital closing in September, cementing its leadership position in the eClosing market. Amrock's digital experience makes the closing process easier, faster and more accessible translating to a better client experience overall.

Cumulatively, our technology investments are driving meaningful change in our business. We expanded the rollout of Rocket Logic, which can now be used by substantially all of our Rocket Cloud Force. On a year-over-year basis, our turn times improved by more than 33% this quarter, extending the gap between us and others in the industry. This was achieved while generating a similar level of business with a substantially higher mix of purchase transactions, which historically take longer to close.

We're also leveraging our technology platform beyond our own four walls. As Jay mentioned, our recently announced Mortgage as a Service offering with Salesforce opens up a new opportunity for Rocket Mortgage to partner with medium and large-sized financial institutions that make up approximately a third of the mortgage market. Mortgage as a Service represents a large incremental opportunity for Rocket Mortgage to continue growing market share in the years ahead.

Increasing the lifetime value of our clients is another core component to our growth strategy. Our business is profitable on the first transaction with the client. We then maintain ongoing loan servicing relationships with 2.5 million clients representing over $530 billion in outstanding loan principal as of the end of October.

Mortgage servicing drives a recurring cash stream for Rocket Companies of $1.3 billion on an annual basis, which covers nearly a quarter of our annualized expenses. More importantly, with service unpaid principal balance up 30% in the past 12 months and net retention above 90%, we are positioned to continue to drive additional clients to our platform across both our Direct to Consumer and Partner Network channels.

In addition to generating our clients organically, we acquired MSRs with an aggregate unpaid principal balance of $3.6 billion during the third quarter. This is in accordance with our growth strategy as we have found that our industry-leading retention rate positions us to generate attractive returns through select MSR portfolio acquisitions. We remain aggressive in pursuing this strategy and we'll continue to look for opportunities to deploy capital through these types of acquisitions.

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Looking ahead to Q4, the housing market remains active. Homeowners are sitting on the highest levels of home equity in history and the investments we have been making are gaining traction across the platform, especially with the progress we're making in purchase.

For the fourth quarter, we currently expect closed loan volume in the range of $75 billion to $80 billion, and rate lock volume between $71 billion and $78 billion. At the midpoint of our fourth quarter guided range, our full year 2021 closed loan origination volume would exceed $350 billion, exceeding the previous record of $320 billion achieved in 2020 by more than 10%.

Rocket Mortgage has a long-term track record of consistent market share gains. We have grown market share from 1% in 2009 to nearly 8.5% in 2020, 9.5% in 2021 and expect to reach more than 10% in 2022. We expect fourth quarter gain on sale margin to be in the range of 265 to 295 basis points. Regarding our expenses, we believe the run rate of operating expenses for the third quarter of 2021 is a good reference for the fourth quarter.

Turning to our balance sheet, liquidity and capital allocation. We exited the third quarter with $2.2 billion of cash on the balance sheet and an additional $2.9 billion of corporate cash used to self-fund loan originations for total available cash of $5.1 billion. Total liquidity stood at $8.6 billion as of September 30, including available cash plus undrawn lines of credit and undrawn MSR line.

Keep in mind, even with the record level of originations we generated in 2021, we need less than $1 billion of cash on hand to properly operate our business.

Our business is capital-light and our balance sheet is extremely strong. As we've said before, our capital priorities always start with proper capitalization and reinvesting in the business. With $5.1 billion of available cash, we have the opportunity to consider acquisitions, repurchase shares and return capital to shareholders via dividends as we've done in the past. For acquisitions, we look for bolt-on targets that would be additive to our platform by bringing new clients into our ecosystem, enhancing operational efficiencies or enhancing our product offerings.

During the third quarter, we increased the level at which we have bought back shares. Through the end of October, we have deployed $94 million to repurchase approximately 5.7 million shares. This is in addition to the special dividend of $1.11 per Class A common share, funded by an equity distribution of $2.2 billion that was paid in March. In total, we have returned $2.3 billion to all classes of shareholders during the year. We will deploy our capital in a strategic and disciplined manner to generate long-term shareholder value.

Before we turn the call back to the operator, I wanted to make you aware that we will be posting an investor presentation to the Events & Presentations section of our Investor Relations site by the end of the day. The investor presentation provides a general corporate overview of Rocket that we hope the investment community will find informative.

Also one small housekeeping item, previously, we used the terms funded loan volume and funded loan gain on sale margin. Since loans are considered sold when they are purchased by investors on the secondary market, we felt the terms sold loan volume and sold loan gain on sale margin align more closely with the definition and are the terms that we will use going forward. There's no change to the metrics we are reporting, only a change in the terminology.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Ryan Nash from Goldman Sachs. Please go ahead.

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

Q

Hey. Good evening, everyone.

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

A

Good evening.

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

A

Hey, Ron. Can you hear us? Is it working?

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

Q

Yeah. I just wanted to make sure I could hear you. Sorry about that.

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

A

Yeah. No worries.

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

Q

So you mentioned in the release, this was the strongest purchase loan quarter for closings ever. Jay, you set out a goal to be the number one retail purchase originator by 2023. And I believe at that time, you said something like $60 billion was the largest in 2020. So can you maybe just talk about how the initiative is progressing? And of that goal to be greater than 10% of originations for the industry next year, how much of this can be in market share gains can come from purchase?

And then just second, can you maybe just expand on the comment that you'll be allocating additional resources for this? Would that be in the form of buyer marketing or is that on the personnel side? Thanks. And I have a follow-up.

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

A

Okay. Well, good question here. Yeah, as I think both Julie and I referenced, Q3 was a record in both Direct to Consumer and our Partner Networks for purchase. And so it was a strong purchase quarter in general, but for us to see those records is a great indicator of our growth in that area.

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We're excited about 2022 because if we kind of look at where industry experts are projecting, they're talking about the continued growth. I'm seeing forecasts 8-plus percent. We're seeing median home prices estimated to be north of $435,000. And as home prices grow, of course, mortgage amounts grow. And you understand how our business works that is great for the unit economics of our business, more revenue generated on the same units that we're putting through the system. So just in general, the industry looks very strong.

Now speaking specifically to us, our full purchase ecosystem continues to grow. Our Rocket Homes platform, the home search experience, the number of visitors reaching that site is growing. Our agent network base is growing. Our centralized agent system is growing. The way that we're integrating home financing, the Rocket Mortgage component into all these experiences, is strengthening, the way that we're integrating title and settlement services. So we've been leading in all of these categories to make sure that not only do we provide an incredible experience, but we're able to make sure we're monetizing that experience as well.

In particular with real estate agents, we've rolled out our single point-of-contact process in the life of the loans, which is really important to them. We've given real estate agents tracking for appraisal and title work, which is very important to them. I think we're north of 55,000 agents now that are in our network. And so all of these components are working.

And then if you watch some of the advertising that we do, you'll notice that there's been a shift there driving purchase as well as cash out refinance. So all of the levers, and we've talked about this for call after call now, we're very fortunate that we've got so many distribution levers to pull. But in all those categories, we've just been leaning in to drive the purchase messaging, and that's giving us that growth.

And then of course, add on top of it, the strength that we're seeing in TPO and then this partnership that we're launching with Salesforce to reach nearly 10,000 banks or credit unions, that will give us additional reach into the purchase market.

So I just think Q3 is a great indicator of all the efforts that we're putting forward that we expect to continue moving forward.

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

Q

Got it. Thanks for all the color there. And Jay, you mentioned again the partnership with Salesforce. Can you maybe just expand on this Mortgage as a Service? How is it going to work? What will the economics look like relative to the more traditional mortgage business? And I think you mentioned these companies – companies originated $1 trillion of mortgage. What would be a successful penetration rate for Rocket and over what timeframe as you penetrate this partnership? Thanks.

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

A

Yeah. This is a great addition to our partnership network. So as you know, we've got these premier enterprise partners that we've been adding to our base. We started it with the Schwab that represents billions of dollars of closed loans for us on a yearly basis. We've got our API integrations with Mint in that platform, Credit Karma. But this is a new way for us to broaden that reach. And that's really, as you talked about, Mortgage as a Service to banks and credit unions. And if you look at these financial institutions, many of which are already using the Salesforce Financial Services Cloud, we're adding a Rocket technology to the CRM 360 View technology that they're already using.

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And it's hard for these financial institutions, on their own, to make the level of investment required to really be great at mortgage. And so they've got the relationships. They want to retain the relationships. They want to protect all of the other ways that they interact with these clients. And we know mortgage is a critical way to do this. Now we're giving them access to our brand, our tech, and that allows them to bring a great experience and allows us to gain that client that maybe otherwise would have worked with the bank or the credit union. As you referenced, that's $1 trillion or so worth of mortgage volume, and the home price increases continue as they're scheduled to, that will be growing.

When it comes to the economics and how we're going to really kind of penetrate this market, again, we're very fortunate because we're going to be working with Salesforce. And as a Salesforce client for many years, I can tell you that their sales force is incredible. And so they have great relationships with these financial institutions. They will be out as banks and credit unions think about either renewing contracts or adding Salesforce Financial Services Cloud to their platform, and we will be there in partnership with them now explaining this new feature that makes the cloud platform even stronger. And so it's really two great sales forces, no pun intended, teaming up to reach these banks and credit unions.

So on our own, I'm pretty confident in our business development team, but now combining with the Salesforce business development group, I think is very, very exciting. And then we are able to share the economics on the gain on sale with the banks and credit unions. And it's very similar to some of the other economics we've talked about in the past with these premier enterprise partners that we've already got on the platform. So really good economics for us.

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

Q

Great. Appreciate all the color, Jay.

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

A

Yeah.

Operator: The next question comes from Doug Harter from Credit Suisse. Please go ahead.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. I was hoping you could touch a little bit more about on your liquidity. Obviously, quite strong and well above $1 billion you said you needed. I guess can you just talk about how you think about the timing of potentially additional dividends or other returns of capital beyond the share repurchase you've done?

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

A

Yeah. I'll let Julie field that one.

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

A

Yeah, absolutely. As we continue to evaluate the amount of capital we have in the business, we do have quite a lot of capital, as you mentioned. We did a distribution earlier this year and we'll continue to think about that from

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time to time. So it may be something that we evaluate the capital levels that we've got and believe that we've got more than we need to continue to invest in the business, consider additional acquisition opportunities and all the things that we think are there for us to invest our capital in, and from time to time, we may do that.

The share repurchase program and something else that we have been active in as well and we'll continue to consider as well, but it's really going to kind of depend on how we assess the level of capital as we go forward into next year.

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

A

Maybe just to add on to that a bit. We've touched on this being strategic about the acquisitions that we might look at. As the market is shifting and changing, I think that presents increased opportunity for us there to be thoughtful but more aggressive in our approach. And I'd also say that, as Julie referenced, if we look at where the stock has been here recently, you've noticed our buybacks have increased and we're – we think the stock is a [ph] smart start (00:29:21) for us to do buybacks when we see the stock at that level.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

And then you mentioned that cash out refinances have been quite strong and record levels for you. I guess, how do you think about the opportunity in home equity loans or home equity interests or other ways to kind of help your customers kind of tap into that home equity as an opportunity?

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

A

Yeah, great question. I think if we look back about 24 months, there is somewhere just north of about $19 trillion of home equity in the country. Recently, that number that we've seen, I think, at the end of the second quarter was $24 trillion. So a huge increase in home equity. We referenced the home equity increases inside of our own servicing book. Of course, our retention rates there are excellent.

And so the first approach with interest rates the way that they're at is to make sure that we are messaging with marketing and branding and digital advertising, performance marketing to continue to see increase in cash out transactions. It makes a lot of sense for our client base to be vigilant when we look at ways we can assist our servicing book to help those clients with cash out. Many of those clients will reach out to us thinking about purchasing. But with I think about 2, 2.5 maybe months worth of inventory out there, in many cases, that conversation changes from buying a new home to renovating their existing home, another opportunity for us to assist them with cash out.

And then of course, we've got Rocket Loans. And we talked a lot recently about Rocket Loans and how we're leveraging that technology as we expand solar. But the primary purpose of initially rolling out Rocket Loans was to deliver a 24 to 48 hours experience for our client base to tap into available money that's not a home equity line product today, but it just speaks to how we're able to leverage that technology in the future, pivoted it to use the same technology for solar. And we have the opportunity to take that same technology, speed and certainty that we could bring to the table for home equity lines or those sorts of things in the future if we think that that's advantageous. Right now, a cash out refinance really is the product that makes the most sense for our client base.

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Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you, Jay.

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

A

Yeah.

Operator: In the interest of time, please limit yourself to one question. Our next question comes from Arren Cyganovich from Citi. Please go ahead.

Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Thanks. I was hoping you could talk a little bit about the competitive dynamics you're seeing in your TPO or broker segment? The gain on sale declined to a fairly low level there. Just talk about the dynamics that are happening there.

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

A

Yeah. When we look at our TPO business, if we can go back about four or five months, we had about 36% wallet share. So of the partners that we were working with, we were getting just north of one out of every three loans that they originated. If we now look where we were in the third quarter, that's north of 50%. So we're really excited about how those partners are committing to working with Rocket. In addition, when we look at just overall market share, we're up 2 or 3 percentage points from where we were here just a few months back or a few quarters back, I should say.

So our growth in that market continues. We just recently announced our most recent offering to our partner base here. We've launched our new client portal, many enhancements that they've been asking for. We launched our Broker Connect program. So we're introducing our broker partners to our real estate partners, so they can continue to develop business together across the United States of America.

We rolled out Rocket Connect to all of our brokers, a streamlined way for them to communicate directly with our operations folks, guaranteeing a 2-hour or less turn time, which we think is leading in the industry.

So as you can tell, we are fully committed to making sure that we're the premier provider of these services to our TPO partners. And that's really, again, if we go back to the platform – and we talked in our prepared remarks about how we're leaning into Direct to Consumer, because we have that ability to market the cash out refinance, market to purchase and grow there. But I think we're also uniquely positioned to continue to invest in the TPO business because of how well diversified our entire business is. And so I really look at that as an opportunity as it becomes more challenging for [ph] more model aligned (00:34:07) mortgage businesses to do that, an opportunity for us to continue to invest, win over the broker community, increase wallet share and set ourselves up for even more profitable business here in the future.

So we're full steam ahead in that business. Very happy with the partners we've got and how the business is performing. And again, we always take a long view as we build these things and nothing different with our TPO partners here.

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Arren Cyganovich
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you.

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

A

Yeah.

Operator: Our next question comes from James Faucette from Morgan Stanley. Please go ahead.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. I want to follow up quickly on specifically the gain on sale aspect is that this quarter in the – or that is the September quarter was better than it had been in the June quarter and certainly better than had been modeled. But your outlook seems to imply that it should come back in the December quarter. Can you talk a little bit about kind of the – specifically the dynamics that you see moving that around? And maybe more importantly, where do you see that kind of stabilizing if and when as we go into 2022? Thanks.

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

A

Yeah, sure. I can take that question. And as we look at our gain on sale margin in the third quarter, it was 305 basis points, which was up 27 basis points from the Q2 margin of 278 basis points. As you mentioned, our margin was also 5 basis points above the top end of our guided range. And the largest driver of that outperformance in the third quarter was due to the FHFA's removal of the 50 basis point average to market fee on refinanced loan. So that had about a 10 basis point impact on the margin. And that is part of the reason when we look at margins heading into Q4, we're seeing them lower than Q3.

There's always going to be variances in margins from quarter-to-quarter and we saw just a bit of compression in the primary secondary spread in October compared to last quarter. But based on what we're seeing today and taking into account everything we know so far this quarter, we're seeing margins a bit lower than Q3 right now, but we do feel good about the range where we are guiding for this quarter, which is 265 to 295 basis points. And that guidance is fairly consistent with where we've been for the past couple of quarters as well.

As Jay mentioned, we've seen records in our cash out and purchase transactions. And as the equity continues to grow that homeowners have, we continue to grow our market share and are looking to continue to do that into next year as well.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

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

A

Yeah.

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Operator: The next question comes from Brock Vandervliet from UBS. Please go ahead.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

Great. Thanks for the question. Just in general, Jay, I feel like investors in the space are kind of collectively holding their breath, seeing both current performance, which is very good, but also worried about what next year may bring looking at things like the MBA forecast and such.

Do you – how should we feel about next year in terms of things like Salesforce, the cash out refi opportunity provide you real shock absorbers where the volume forecast that we see from some of these macro providers is really irrelevant because you can kind of make up the difference? Or is that something we should really be focused on because it's a big market and you're a big player and you're going to kind of move with the broader market? How should we think about that?

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

A

Yeah. You're touching on our life work here at Rocket Companies. So when I started 26 years ago, I was very aware of market conditions and market changes and how that could impact our mortgage company's volume. And so we have, especially over the last 10 years, been incredibly focused on diversifying and controlling the outcome of our business. We started with building an incredibly strong brand, an incredibly strong marketing team, over 300 people now, very focused on digital and performance marketing. As you know, we invest over $1 billion a year there through our Direct to Consumer space.

When you think about an increase of $5 trillion in equity and you also think about our ability to do cash out transactions, I think we've touched on in the past between cash out and purchase how we're well north of 50% of our overall origination volume, I think we excel in that area. So I look at that as a massive opportunity going into 2022.

The growth of our purchase segment setting records in Q3, certainly in Q4, because of timing and the holidays, someone being interested in a purchase and actually closing on a home can vary a bit. But when I think longer term, going into Q1 and Q2 and all of 2022, as we're talking about continued increase in home value and demand with purchase, I feel very good about that.

And so the market may shrink a bit, it may not. I think it's hard to say. But what I know is that between all of these categories, the Salesforce, the partnerships, all the things that we're investing in TPO, the Direct to Consumer, our business has the ability to pivot and shift, maximizing the capacity that we've built, bringing a great experience to our client, and that's our mission.

Our mission is to continue to build out a platform where we guide the growth of the organization. So the last thing I'll say, it is market share. That's why we're projecting to go north of 10% market share. We've consistently been growing market share regardless of the size of the pie through all of these vehicles I've just discussed. And that's what we anticipate that we'll do in 2022.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

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Okay. And as a follow-up, if you could just kind of describe the ground game now in terms of the partner network specifically, you're growing that network. How are the competitive dynamics there as you seek to add more weight?

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

A

Well, when you think about the ability for our partners to tie into the digital experiences we create, the APIs that we've created, the financial institutions like a Morgan Stanley or a Charles Schwab or a MassMutual, I really feel strongly that if a financial institution wants to partner with someone that can deliver incredible client service and has a highly respected brand, we are the choice for them, really the only choice for them.

And so that partner business will continue to serve us very, very well. When you think about our broker partners, we're bringing incredible value to them. We've got our folks traveling the country now, setting up these connects, aligning the real estate agent partners we've got with the broker partners, strengthening their relationships there. We've got the technology to ensure that our brokers can perform. We've got the brand that they can leverage. We're really turning all of the assets of this organization and offering them to anyone that would like to partner, whether it be a bank, a credit union, an insurance agent, a financial planner, a mortgage broker.

And so that partner channel is one of the main components of the future of our business. And so it's exciting to see its growth and I imagine its growth will continue.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

Got it. Okay. Thanks for the questions.

Operator: Our next question comes from Ivy Zelman from Zelman & Associates. Please go ahead.

Ivy Lynne Zelman
Analyst, Zelman Partners LLC

Q

Thanks guys for taking my questions and nice quarter. When you look at the partner business and just overall, the continued growth outside of mortgage and assuming repurchase and thinking about the cyclicality of those businesses, if you had your crystal ball, Jay, and you think about five years from now, taking arguably businesses that are less cyclical, can you see the majority of earnings being more likely to come from a non-mortgage-related business? Is that sort of over time? I know that's what you've been attempting to do, but is that – is there a way to quantify that for us? And then just a follow-up is what's your basis or definition of market share? What are you using for determining your 10% that you expect to realize?

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

A

Well, to think about your first question, I think it starts with servicing because I think a lot of people will view servicing as this asset and what would its value be if you were to sell it. When we think about servicing, we think about the reoccurring payments that we receive on a monthly basis as we strengthen the relationship and market to that client, and then are able to offer additional services to the client.

And so mortgage for a pretty significant portion of time, I'm not going to speculate how many months or years, but it'll still represent a big chunk of our revenue, of course, because there's not that many products out there that give you the opportunity to generate $6,000 or $7,000 or $8,000 per unit.

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But when Julie talks about the growth, I'm not aware of another real estate or auto sales organization that's growing at the rate that we're growing. And I think that speaks to the scalability of the platform. I think it speaks to the brand and how consumers, once they're with Rocket, really value the relationship. And so we'll continue to see those businesses grow.

I guess any – everyone will have to make their own determination as to what is a meaningful percentage of revenue. Is that 5% of revenue? Is that 10% of revenue? Our mission, though, is to continue to add these services and allow the lifetime value of the client and the reoccurring revenue of that client over an extended period of time to really be the measure.

When I talk to the company, we don't talk any more – of course, we're looking at units closed and volume, but what we're really talking about are the number of users on our platform, right? How many millions of people do we talk to each month? How many millions of people do we have on the servicing platform? And that's a shift I think from the traditional mortgage industry, but you've got to make that shift because that's really how we're thinking about it. If we have the ability to reach a 5 million, 10 million, 15 million, 20 million Americans a year and understand their finances, understand their credit, understand their property, then you start thinking of the power of that relationship and that becomes more meaningful over the long run than a closed loan. And so that's the lens that we're really starting to view our business through is how many users that we're putting on the platform.

In regards to your other question about when we think about market share, and I'll turn to Julie here, but I think if we look at the overall closed loan market and divide our – the closings we have into that.

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

A

Yeah. Historically, we have looked at the MBA market share. But as we look forward, we're talking about whenever the market is that we're seeing in 2022, we expect to be 10% of that. So it's something that's historically. That's the way we have looked at the numbers that we've reported when we're talking about market share. But it's not specific going forward to [ph] your (00:46:26) particular market. We don't know what that [indiscernible] (00:46:27)

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

A

Yeah. As you know, there are many different indexes out there. And so we'll look at MBA, [ph] the old (00:46:34) published numbers as well. And so it varies a bit depending who's putting out the number.

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

A

We know we continue to grow market share. So when we talk about that based on what we have done over the past several years here and continuing into that growth is what's going to, we believe, drive that share.

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

A

Yeah, yeah. I think when we talk about 10% or north, I believe we're kind of looking at where the MBA is looking for 2022 and where we'll be at.

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Ivy Lynne Zelman
Analyst, Zelman Partners LLC

Q

Got it. Well, thank you very much and good luck, guys.

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

A

Thank you.

Operator: The next question comes from Mark DeVries from Barclays. Please go ahead.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Thanks. I had a question about expenses, Julie, if I heard you right, I think you indicated 4Q – or the 3Q run rate was a good indication of what we should expect for 4Q. I think you're guiding down though for a sequential quarter decline in your closed loan volume. Is there anything from an investment perspective or anything else worth calling out and that's going to keep expenses at the 3Q level?

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

A

Yeah. Thanks for that question, good question. And we do expect that expenses in Q4 will be similar to what we saw in Q3. We do think that's a good run rate for forecasting and estimating next quarter.

Our production expenses will be down a bit this quarter. That's offset by a few things. Increased expenses on the industry, for example, so that will offset some of those decreases. But some of the other things that happened in Q4 are 6,000 bankers that we have. We licensed them during the fourth quarter every year. So that cost is going to hit in the fourth quarter. We'll have additional bond interest expense as compared to the prior quarter because we did issue new bonds at the beginning of October this year. So that will impact Q4. We might see a slight increase in the performance marketing this quarter. Jay mentioned that. Also, the head count that we added last quarter in Q3 will have a full quarters of expenses here in the fourth quarter as well. So that's going to contribute to a slight increase. But -

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

A

That's right. And Julie, this is just in because we're doing this live. To answer Ivy's question, we take Fannie, Freddie, MBA and [ph] her (00:48:54) average those to kind of think of what the overall market is.

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

A

As we look forward, right. That's right.

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

A

And then – right, we're talking about 10% on that average.

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Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay, thank you.

Operator: The next question comes for Mihir Bhatia from Bank of America. Please go ahead.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking my question. Just wanted to maybe just go back to the Salesforce discussion for a second. Maybe just talk about that a little bit more. Really, what I'm trying to understand is who are you competing with there? What is it – like it sounds like you're going to be sharing the gain on sale revenue. So it sounds like more like what you have in your Partner Network currently? Is that the right way of thinking of it? You're effectively white labeling your technology for those people through the Salesforce cloud? Just trying to understand a little bit more on this.

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

A

Yeah. Well, so good question here. Some of these financial institutions currently have their own small mortgage origination capabilities. Some don't participate in mortgage at all right now. But we're really plugging directly into the Salesforce Financial Services Cloud. So if you think about an originator at a bank or credit union, and they're using that to understand their client base, work with their client base, the data about that client is in that CRM system. They'll now have access to tap in directly to Rocket. They won't be white label. We're using our brand. Again, we've invested billions and millions of dollars and created an incredible experience so people want that brand. They want to be able to say to their consumer, hey, look, you're actually able to get a rocket mortgage with my help.

In some cases, the bank may continue to have a licensed originator who is performing some of those duties. In other cases, we may provide some assistance there and also have a license originator at our end support theirs. So we're able to pivot a bit based on how much the bank wants to be doing. And then, of course, our technology, our services, all of those things will process underwrite and close the loan. And when I talk about partnership, and Julie talked about this in the past, I would really think of this similar to like a Charles Schwab or some of the other, what we call premier partners, that we've got, Mint. And I know Julie's referenced, these are more similar to our retail margins from that perspective.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Understood. Thank you. If I could just ask a quick follow-up on the New York legislation on CRA requirements applying to non-banks, would that have any impact on your business? Maybe just talk about that. Thank you.

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

A

Well, I'll turn it over to Bob Walters, who happens to be here with us. He's our Chief Operating Officer and also an expert in capital markets.

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

A

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Sure. I think the answer to that is no. I don't think that that's going to have any substantial impact on our business.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Okay. Thank you.

Operator: The next question comes from Kevin Barker from Piper Sandler. Please go ahead.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

Good afternoon. And thanks for taking my question. Just a follow-up on some of the Salesforce comments. Can you give us an idea of what your target institution would utilize this type of product, whether it's the size of the bank or the credit union?

And then do you see the potential for some of this offering to potentially maybe call some incremental cannibalization, but ultimately maybe further growth over time? Just trying to understand the dynamics between having – offering your service to institutions that already provide origination capacity to their customer base.

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

A

Yeah. Well, in that situation, obviously, we'll be gaining clients that currently don't work with us. There's always a little bit of segment overlap. But as we study the market, the consumer that comes to us directly online is a different consumer than the person who chooses to work with a local mortgage broker who's typically a different consumer who chooses to work with their bank or credit union. So this gives us access to a consumer that we may not be reaching day in and day out. So it's really additive from that respect.

I also think it's important, we're starting with mortgage here. But as we think about building out our platform, there are other services that financial institutions have already signaled that they may have additional interest in. Very rarely, when you go to your bank or credit union and learn that they're thinking about helping their clients, green their home with solar. And so this is a way for us to help them strengthen their relationship with their client base, but also a starting place for us that could possibly expand into other products and services here in the future.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

Okay, great. And then just a follow-up. Is this purely fee revenue that will be generated or will you be utilizing your balance sheet at all in providing these services?

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

A

Go ahead, Julie.

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

A

Yeah. We will look to do this in the same way that we originate with our partners today. So it will be financed with either our own cash [indiscernible] (00:54:25) as we do the rest of our business and sold into the secondary market.

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

A

Correct.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

Thank you for taking my questions.

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

A

Yeah.

Operator: The next question comes from Ryan Carr from Jefferies. Please go ahead.

Ryan L. Carr
Analyst, Jefferies LLC

Q

Hey. Good afternoon, guys. And congratulations on the great results this quarter. You've done a great job leveraging the broad platform and ecosystem to enhance the flywheel effect and expand your purchase capabilities, particularly on Rocket Homes and your iBuying program. I'm curious to hear about how this, combined with your other service offerings, has helped to bolster your leadership and purchase, particularly this quarter? And then given the recent incidents with Zillow, how do you plan to continue to take advantage of the dislocation?

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

A

Yeah, very good question. So our mission here with Rocket Homes and with ForSaleByOwner.com and with our centralized realtor group and our network of real estate agents is really to make sure that we have an offering for anyone who's thinking about buying or selling a home. That approach really gives us the ability to help all of the clients that may be reaching out to us. One of the components that we've added here recently, as we touched I think on our last earnings call, we were just starting to do some testing is iBuyer. And for us, the iBuyer program, in particular, will allow a client who may otherwise have a contingency on their approval, meaning they have to sell their existing home before they buy their next home to remove that contingency. And that's important in a competitive marketplace because if you're going up against somebody who doesn't have a mortgage – a sale contingency or is paying cash, then you need that flexibility.

Our decision, as you know, with iBuying was to partner with other – with actual iBuyers. So as Julie has talked about all the time, we have a very capital-light structure here, which means that we're not in the business of purchasing real estate. And so the model that we have built is to start bringing on multiple iBuyers who seem to have expertise in certain areas across the country, provide that as a service, one of many to our clients if that will help them buy their new home and then allow that third-party to actually be there if they do require in iBuying.

In many cases, actually, what we're finding is that someone uses that as a backup plan, but quite honestly, list their home through one of the many ways that I've just described on Rocket Homes and actually sells the home before needing to close on the other homes. So it's a nice thing to have as a backstop, but in today's real estate market, it's not something that's require much of the time.

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Ryan L. Carr
Analyst, Jefferies LLC

Q

Got it. Thank you. And as a follow-up, Rocket Auto is now online. How has the rollout been so far? And what are the early signs of the potential cross-sell opportunities you've identified with the rollout in place?

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

A

Yeah. Well, I think we probably touched on this here on a few different calls. As we continue to help our clients understand their finances, help them save money, we're having discussions about their largest bills, and of course, the auto comes up, and so the vast data lake that we've got here, along with a servicing platform that allows us to communicate with the clients on a monthly basis really gives us the opportunity to start creating a very high-quality auto lead that we can then use to support Rocket Auto, a bit different than maybe the type of lead you could think of that would be generated from an Autotrader.com or a Cars.com or something of that nature. We've already got the relationship with the client. We've also got a significant amount of data.

And as we see, and we'll figure out if it's the second part of 2022 or as we get into 2023, it's hard to say, but eventually, there'll be more inventory that is out there. And as there's more inventory on dealer lots, I think we'll see even increased desire from our dealer partners to have us assist in driving sales. And so Julie touched on the growth that we've seen from Rocket Auto this year. And what I would argue might be the one of the most challenging years for this business because it's very rare that you would go to a dealer today and ask them if they're having trouble selling cars, yet they're calling us and wanting to jump on our platform in a more normalized market where they can use that additional support, we get even more excited about the opportunity for that business to continue to grow.

Ryan L. Carr
Analyst, Jefferies LLC

Q

Thanks very much and congrats again on a great quarter.

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

A

Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Jay Farner for any closing remarks.

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

Well, thank you, everyone, for joining the call here today. As I started out the call, I couldn't be prouder of our entire team and the incredible work that they have done through the first three quarters of this year. And we're excited about finishing up 2021 and heading on to 2022 where we will work hard to go 10% or north of market share and keep growing out our entire platform. And we'll see you on the next call. Thank you.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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