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Rocket Cos., Inc. (RKT)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is David, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Rocket Companies, Inc. First Quarter 2023 Earnings Call. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Sharon Ng, Head of Investor Relations. You may begin your conference.

Sharon Ng

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

Good afternoon, everyone, and thank you for joining us for Rocket Companies' earnings call covering the first quarter 2023. With us this afternoon are Rocket Companies CEO, Jay Farner; our current Director and future Interim CEO, Bill Emerson; our President and COO, Bob Walters; and our Chief Financial Officer, Brian Brown.

Earlier today, we issued our first quarter earnings release, which is available on our website at rocketcompanies.com under Investor Info. Also available on our website is an investor presentation.

Before I turn things over to Jay, let me quickly go over our disclaimers. On today's call, we provide you with information regarding our first quarter of 2023 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

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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 posted 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, Rocket Cos., Inc.

Thanks, Sharon. Good afternoon and welcome to the Rocket Companies earnings call for the first quarter of 2023. I'm joined today by Bill Emerson, who'll be stepping in as Rocket's Interim CEO on June 1. Bill has been diving into the business over the last few months and he'll be sharing some of his thoughts in just a moment.

I'd like to begin with some thoughts on the market. We're encouraged by the fact that consumer demand for homes is robust and we're seeing a healthy purchase pipeline as we enter the spring home buying season.

From March to April of this year, purchase approval letters are up 11% and are also trending much higher from March to April this year compared to the same timeframe last year. We believe that the increases we're seeing in this very important metric is primarily attributable to the investments we've made in the client and real estate agent purchase experience, and innovative consumer-focused solutions, such as BUY+, which we'll talk more about in a few minutes.

That said, we're still seeing challenges in home inventory levels and existing home sales have declined to levels not seen since 2008. We'll need home inventory levels to cooperate in order to have a successful home buying season.

Over the past several quarters, we've seen a consistent upward trend in our Net Promoter Score for both clients and real estate agents. In fact, in the first quarter of this year, our purchase NPS reached an all-time high of 75 for retail clients and 53 for real estate agents, meaning clients and agents highly recommend Rocket as a lender. An NPS score above 50 is generally considered excellent. So, we're excited that the investments that we've made in technology and data as well as our continuous process improvements have led to these high marks and the positive trend that we're experiencing.

With this backdrop, we reported a strong first quarter. Adjusted revenue came in at $882 million, above the high end of our guidance range. We reported an adjusted EBITDA loss of $79 million and an adjusted loss of $0.06 per diluted share, both metrics showing an improvement over the prior quarter. We've recently unveiled several important initiatives that help our clients in this uncertain time and lower barriers to transact.

In April, we introduced BUY+ and SELL+, a collaboration between Rocket Homes, our home search platform and real estate agent referral network business, and Rocket Mortgage. With BUY+, purchase clients can save thousands of dollars in upfront costs if they work with Rocket Homes partner real estate agents and obtain financing with Rocket Mortgage. With SELL+, sellers listing their homes for sale with Rocket Homes verified

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partner agent will receive a rebate check for 1% of the sale price from Rocket Homes after closing. If a homeowner is buying and selling, they can use both BUY+ and SELL+ to increase their savings.

We also recently unveiled the Rocket Visa Signature Credit Card, the first credit card that makes home buying more accessible and homeownership easier through everyday spending. With the Rocket Signature Card, our clients can earn 5% back, which can reduce closing costs by thousands of dollars, helping to address one of the most significant hurdles in purchasing a home.

The Rocket Signature Card is designed to appeal to first-time homebuyers as well as existing homeowners who are in the market to buy, and helps us reach them earlier on in the purchase life cycle. Along with Rocket Money, our credit card provides us with another way to reach our clients much earlier in the process and at a significantly lower client acquisition cost compared to traditional mortgage methods.

What's even more meaningful is that the points earned through the Rocket Signature Card can be used in conjunction with our Rocket Rewards loyalty program. When we surveyed our clients, nearly 90% of them told us they would value a Rocket-affiliated rewards program in a way that would promote a long-term relationship with our brands.

Now with our loyalty program credit card, our clients can further accelerate their path to homeownership. Clients with loans already serviced by Rocket Mortgage have even more flexibility and can choose to use their points to reduce their unpaid principal balance, helping drive even higher retention and client lifetime value.

Rocket Rewards enrollment has continued to show impressive growth and the early results on Rocket Rewards have been very encouraging, with our test group seeing more than two times the conversion rate from lead to close compared to those who are not enrolled in the rewards program. As of March 31, we grew the number of Rocket accounts to 27.6 million, up more than 2 million from our prior quarter, driven largely by Rocket Money.

Rocket accounts is an important metric as it represents clients who have taken the action to create an account with us and with whom we may have visibility on creditworthiness, spending behavior, finances, home buying intent, and more. We believe that these clients are more open to transacting with Rocket.

Through our full end-to-end home buying ecosystem, we can help our clients at every step of the homeownership journey, from the financial planning and educational process well before they apply for a mortgage, to searching for and ultimately the financing of their new home.

With our client engagement program, which includes Rocket Money, Rocket Rewards, Rocket Signature Card and the Home Buying Plan, we now have multiple ways to acquire and engage our clients. This provides us with valuable data insights earlier in the process, indicators of home buying intent that are particularly valuable given the high client acquisition cost and the lengthy, often complex nature of a purchase transaction, helping us personalize the right offering at the right time. We believe this engagement will help grow our market share in purchase as well as lower our client acquisition cost, meaningfully lift conversion from lead to close, increase retention, and extend client lifetime value.

All these initiatives set Rocket up for a bright future. This being my last earnings call, I'd like to thank the amazing team members that I've worked with for the past 27 years for their passion and commitment.

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Having worked alongside Bill now for many years, I'm certain there is no one more qualified to take the Interim CEO role, while the company searches for a permanent successor. Bill and I will continue to work together over the next month, helping to ensure a smooth transition.

With that, I'll turn it over to Bill.

Bill Emerson

Incoming Interim Chief Executive Officer, Rocket Cos., Inc.

Thanks, Jay. Great to be here today. Over the past few months, I've had a chance to work closely with Jay and the phenomenal team members across our organization. And I'm excited about Rocket's future as we continue to execute on our strategy.

We have an ISM at Rocket: innovation is rewarded, execution is worshipped. We laid important groundwork last year and now is the time for us to execute and continue to grow our purchase market share in a purchase-heavy market. Rocket's opportunity is significant. The mortgage industry is large and fragmented, and the traditional mortgage experience is complex, frustrating, and difficult for clients to navigate. With our end-to-end ecosystem, Rocket strives to make the home buying and homeownership experience simpler and more accessible for our clients.

We are dedicated to delivering the best client service, leveraging our unique resources and the breadth of our offerings. BUY+ and SELL+, our collaboration between Rocket Homes and Rocket Mortgage, is a clear example of this.

With Rocket Money, Rocket Card, Rocket Rewards and Rocket Loans, we have the unique ability to serve our clients in more moments throughout their lives, all while dramatically lowering our cost to acquire. Rocket Loans, our personal loans business, had their biggest month of origination in the company's history in March, and they are just getting started as they continue to build out their product-agnostic lending platform driven by AI decisioning that will help power financial transactions from everything ranging from personal loans, to financing solar installation.

Our client-first lifetime value approach flips the script entirely on what a great experience is in mortgage and beyond. We are helping our clients prepare for homeownership and several other financial transactions, and we are providing tangible value and an experience that can only be realized through Rocket.

We are taking a new innovative approach to client acquisition, retention and lifetime value that we believe will be a game changer for the industry and drive our continued growth in purchase. Over time, we believe this will translate into substantial and sustainable growth in market share, revenue and profitability. I'm excited to continue the work that Jay and our team members started and fulfill our mission to be the best at creating certainty in life's most complex moments so that our clients can live their dreams.

With that, Brian will take us through the numbers.

Brian Brown

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

Thank you, Bill, and good afternoon everyone. On today's call, I'll cover the financial results for the first quarter of 2023. I'll also share our outlook for the second quarter, discuss what we're seeing in the current environment, and

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walk through how our unique and innovative approach to client acquisition and engagement is positioning Rocket to lead the way in a purchase-heavy market.

Rocket is executing well in an uncertain macro environment. In today's market, we're seeing strong client demand to purchase homes, and we're entering the second quarter with a healthy approval letter pipeline. However, on the supply side, the market is still constrained by limited housing inventory.

To put this in perspective, March existing home sales came in at a seasonally adjusted annual rate of 4.4 million homes, well below the 20-year average of over 5.3 million existing home sales per year. Looking at it differently, there was 2.6 months of housing inventory available in March, which is less than half of what we would expect based on the 20-year average. Housing inventory is something we're watching closely as we enter the spring home buying season.

The challenging inventory levels and persistent affordability concerns that our clients are facing require unique solutions. Take the BUY+ and SELL+ campaign that we launched in early April. This program addresses affordability concerns by providing clients that use both Rocket Homes and Rocket Mortgage a discount on their mortgage. This is something that only Rocket can offer at scale through our integrated real estate and mortgage experience.

Also because of our ability to capture the economics of the transaction from both the real estate side and the mortgage side, Rocket is uniquely positioned to provide consumers with meaningful savings on their closing costs.

The low levels of inventory are also contributing to a much longer home buying life cycle compared to historical periods. While these dynamics present a challenge for most lenders because it provides clients with more chances to switch during the process, at Rocket, we view it as an opportunity with programs such as Rocket Rewards, which incentivize clients with growing rewards as engagement increases, there's a distinct and measurable benefit to staying with Rocket throughout the process.

Moving on to the results. Rocket Companies reported a solid first quarter against a difficult market backdrop. Adjusted revenue came in at $882 million, above the high end of our guided range, driven by strong client demand and solid execution. In the first quarter, we generated net rate locks of $19.5 billion, a 30% increase from the fourth quarter.

Our gain on sale margin for the quarter was 239 basis points, 22 basis points higher than the fourth quarter. Regarding profitability, operating losses in Q1 narrowed meaningfully relative to the fourth quarter of 2022. Adjusted revenue increased by nearly $200 million quarter-over-quarter while total expenses grew less than half that.

As a result, Q1 adjusted EBITDA loss of $79 million improved significantly compared to a $204 million loss in Q4. Adjusted diluted EPS for the quarter also showed relative improvement coming in at a loss of $0.06 per share. We continue to execute a disciplined approach to managing our expenses in light of current volume levels and we remain focused on making the right long-term investments.

I'd like to take a moment and talk about the positive impact we expect from our recent launches. Our client engagement program, which includes Rocket Money, Rocket Rewards, Rocket Signature Card and Home Buying Plan provides us with multiple avenues for client acquisition, better engagement levels and improved lead conversion.

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As we've mentioned on prior calls, the largest direct and variable expense in a mortgage transaction is the cost to acquire. This cost can run in the thousands of dollars per client, and that's not even including the costs associated with potentially reacquiring at a different time or down the road for another transaction.

In contrast, Rocket Money's cost to acquire is less than $100, and we see significant opportunity to lower our overall blended CAC by expanding our acquisition channels, keeping clients in our ecosystem, and providing a best-in-class experience.

Since our acquisition, Rocket Money has played a meaningful role in expanding our client base. We reached 27.6 million Rocket accounts in the quarter, representing an increase of more than 2 million sequentially, largely driven by Rocket Money.

Rocket Signature Card further diversifies our acquisition channels, attracting clients who have high intent to buy a home. The Signature Card also provides us with valuable insights that help us understand when our clients are ready to transact, thereby lifting conversion in the process.

I'd like to clarify that our intent with the Signature Card is not to compete with large credit card companies at scale. We launched our card to give our clients something of value, capturing them earlier in their purchase journey, and getting stronger signals on home buying intent.

But beyond acquisition, we now have even more reasons to engage with our clients and more ways to deliver tangible value. Banking rewards points to save on closing costs or providing financial wellness and education to make them more confident homebuyers well before they are ready to transact.

Along the way, we're able to gather our data insights throughout the process, helping us to personalize the right offering at the right time, with indicators of home buying intent that are particularly valuable given the high client acquisition costs and the lengthy, often complex nature of a purchase transaction.

As Jay mentioned, early signs of conversion lift are very encouraging. The Rocket Rewards test group is seeing more than two times the conversion rate from lead to close compared to those who are not enrolled in the Rewards program. We believe these higher conversion rates from Rocket Rewards applied to a larger client base could have a significant impact on our unit economics.

When considering the multiple client engagement initiatives we have in place, we believe the impact can be even greater. We believe these innovative methods of client acquisition, engagement, and lead conversion will help drive our success in purchase and highlight our unique business model compared to other mortgage lending companies through superior unit economics, even higher retention rates, and extended client lifetime value.

Turning to our balance sheet. Rocket's financial strength continues to be an important strategic advantage for us. We ended the first quarter with $3.3 billion of available cash and $6.7 billion of mortgage servicing rights. Together, these assets represent a total of $9.9 billion on our balance sheet.

Our $3.3 billion of available cash consists of $900 million of cash on the balance sheet and an additional $2.4 billion of corporate cash used to self-fund loan originations. Total liquidity stood at approximately $8.1 billion as of March 31, including available cash plus undrawn lines of credit and our undrawn MSR lines.

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As of March 31, our mortgage servicing portfolio included more than 2.5 million clients with approximately $525 billion in unpaid principal. We also drive considerable recurring revenue from mortgage servicing. During the first quarter, we generated $366 million of cash revenue from our servicing book which represents approximately $1.5 billion on an annualized basis. Net client retention remained over 90% in the first quarter, well above the industry average.

Turning to our outlook for the second quarter. We expect adjusted revenue to be in the range of $850 million to $1 billion. We remain diligent in managing our expenses as we continue to monitor the broader environment with an eye towards profitability. On an absolute dollar basis, we expect Q2 expenses to be modestly higher than Q1, driven by an increase in variable expenses due to higher production and investments in marketing spend related to the launch of our Signature Credit Card and nationwide BUY+ campaign. We are monitoring these marketing investments closely, and we will adjust swiftly if they do not meet our expectations or if the housing market does not cooperate.

As always, our forward-looking guidance is based on our current outlook and visibility. Despite the continued uncertainty in the macro environment, we remain focused on serving our clients better and we are leading the way in bringing innovative products and solutions to market. We are well-positioned in the current environment, and we'll continue to execute on our strategy to deliver results and drive long-term growth.

With that, we're ready to turn it back over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from Ryan Nash with Goldman Sachs. Your line is open.

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

Q

Hey. Good afternoon, everyone.

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

Hey, Ryan.

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

Q

So Jay and Bill, you both referenced the success you're having in purchase. Can you maybe just talk about whether it's driving it -- what's driving it. Whether it's some of these newer programs? And can you maybe just talk about what you think this could mean for overall market share as we think about this next period of time here?

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

Well certainly. Yeah. I think we touched on this a lot throughout our prepared remarks. To differentiate, especially for us, direct-to-consumer in many ways, to differentiate, we have to have experiences that allow our clients to come in the top of the funnel and remain with us as they search for homes. As Brian pointed out in his

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remarks, with inventory levels down, that life cycle may be a bit longer. I think it's encouraging to see approval letters up because that's telling us that top of the funnel is growing the way that we want it to grow. And I want to pay compliments to our team because I think when you look across the entire industry, it's hard to find a lender outside of Rocket that has a very unique marketing strategy with our BUY+/SELL+ campaign, combined with the technology, the rewards program, the new signature card, all of these things meant to contain and increase conversion.

So as you can tell, our focus is very strong and making sure that we can be a leader in purchase. And again, very proud of the team and the work that they've done in the last seven or eight months to roll out all these programs. Really, the foundation was Rocket Money and that team there that allowed us to get going. So critically important for us. It's going to be important for all lenders in the coming years, and we're very, very focused on it.

I'll let Bill make any additional comments.

Bill Emerson
Incoming Interim Chief Executive Officer, Rocket Cos., Inc.

A

I think you got it covered there, Jay. I mean, there's been so much great work that's been done inside of the organization. A lot of this stuff has just rolled out. And so there's a lot of learning that's happening and a lot of adjusting, and I think that will continue over the foreseeable months.

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

Q

Got it. And maybe as a follow-up, Brian, you made a reference to an eye on profitability. Do you see a near-term return to profitability? And what are some of the drivers? Is this more about volumes and revenues improving? And are you actually seeing capacity coming out that could help margins over time? Maybe you could just flesh out some of those comments for me. Thanks.

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

A

Yes. Sure, Ryan. So I mean looking at Q4 to Q1, we cut the operating loss in half, margins have improved from Q4 to Q1 fairly substantially, gain on sale margins that is -- and then we guided up revenue from Q1 levels to Q2 levels. Why did we guide up revenue because of some of the comments that Jay mentioned.

The consumer demand is coming in very strong, and we're very happy to see that. That's helping the volume numbers. On the gain on sale margin numbers, to your point, yes, the price competition is lessening a bit, and we're starting to see that translate in the gain on sale number.

So if you think about what we've done over the past quarters, and of course, you know this, but we've gone hard on the expense side as well. I think we're headed in exactly the right direction. We need a little cooperation from the housing inventory in the backdrop of the market, but I think we're doing everything right and we're absolutely within striking distance.

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

Yeah. And the final thing that I don't want to have missed, our banking groups, our operations groups, the NPS scores we talked about are very meaningful. To excel in purchase, our clients and realtors have to have confidence that we're going to deliver an amazing client experience. It's what we've built the company on for 37-

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plus years. And to see those NPS scores with our retail clients at I think 75, and with realtors now north of 50, and anything north of 50 is excellent, just kudos to our teams that are delivering that service.

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

Q

Got it. Thanks for all the color.

Operator: Next, we'll go to Kevin Barker with Piper Sandler. Your line is open.

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Thank you. So with these new programs, particularly BUY+, SELL+ and you also – you have the Inflation Buster come out late last year, it requires buyers to be motivated either by the relationship and trust or some type of monetary incentives. Now obviously, Inflation Buster and the BUY+ seem like they provide that monetary incentive. But could you describe your expectations for why you think these are going to be successful in driving more purchase volume? And if you're going to be able to make up some of the monetary partly subsidizing the loan on the other side via either higher margins or potentially higher revenue down the road by refinancing these newer customers? Thank you.

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

Yeah. Good question here. I think Brian touched on the fact that margins were good in Q1, and we're feeling good about the revenue number we're projecting in Q2. We're in a very fortunate place that through our BUY+ and SELL+ not only do we have Rocket Mortgage, we've got Rocket Homes. We've got a title company. And so our ability to capture revenue through multiple areas of the transaction differs from our competitors. And so even if, and in this case you pointed out, we're providing a incentive to clients to move forward, that BUY+ program and SELL+ program allows us to capture broader revenue across the entire transaction.

And I think there are three elements if you're going to grow purchase right now. Element number one is certainly, you've got a message that resonates with buyers. That's why we're out on airways. Our marketing team has done a great job of putting out that message so people are aware that we're here as a purchase lender.

Number two, you've got to deliver a great client experience. We just touched on those NPS scores that we're delivering. Number three, you've got to have an offer that's compelling. And right now, when you talk to clients, as rates have moved up, they're watching their buying power shrink. And nothing is more -- making you more aware of that than when you are cutting a check at the closing table.

And so we're offering significant dollars back for our clients, thousands and thousands of dollars back. It's meaningful. It's getting their attention. And so once you have that type of message, my firm belief is that you will cut through, you'll have awareness, you'll have engagement.

Now, the only question is, how do you stay engaged with that client until they find the home because with inventory levels a bit low, we've got to keep that relationship going for three, four, five, six months, who knows.

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That's why we've made the investment in our home buying plan, in the credit card, in the rewards program. These are critical tools that allow us -- once we've had that client join our funnel, allow us to have a right to keep interacting with that client till it's time to convert. And so seeing all of these elements come together is, I think, what gives us great confidence that we can be a very strong purchase lender here in the United States of America.

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Okay. And then just a follow-up on the expense guide, I realize you have marketing spend and then higher volumes. How much of the operating expense would you consider maybe transitory in nature due to investments that you're making relative to what your core run rate would typically be given all the expense cuts that you've made over the last year. You've seen that you probably would continue to see a drift lower particularly in the back half of the year after unveiling some of this marketing spend that you talked about?

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

A

Yeah. I think -- so Kevin, here's how I think about it. First of all, just because you mentioned it, we took $3 billion out of the cost structure last year. That was over 40% of the total cost. So, it was not the fun work to do, but it was the important work to do. And you can clearly see that setting us up for success this year.

The north stars that we use to guide us on that front are revenue, share growth, and profitability. It's that simple. And to break it down further, how I think about it in terms of two categories, one is capacity. We clearly stay very close to the capacity, very close to the loan production. The good news is that's cooperating right now. So, that makes us feel good about the expense side of the house on that side.

And then, of course, the other which you mentioned is the investment side. Here's the good news on that. A lot of these products are launched now. So, we're getting real data and real data information. Before, it's a lot of monitoring the cost side and making sure we launch things on time and sticking to our milestones. Now, we're actually getting to evaluate the return on those investments and the returns have been better than we've expected in most cases, but to the extent they're not, we'll re-prioritize and we'll reallocate those resources. And to the extent that doesn't work, we'll keep a close on them and we'll make changes if needed.

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

The other thing I'll add is as a lot of folks will talk about the dollars invested in technology, changing experience, those sorts of things. What I'm most proud of the team is actual execution, delivery. We talked about the fact that we're going to do these things. And here we are, again, seven, eight, nine months later, and their rolled out the door, our clients are experiencing them. And so as Brian talks about investments we're making, I think it's important to be able to tie that to actual delivery of product that's out in the wild.

Bill Emerson
Incoming Interim Chief Executive Officer, Rocket Cos., Inc.

A

Yeah. Jay, the only other thing I'd add to that is that, I mean anybody who's run a business knows rolling something out is step one, right? Then there's the constant monitoring, following up, tweaking and there's resources necessary to make sure that you refine it, so that it's giving you exactly what you wanted to get, and we have a lot of work still to go there.

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Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Thank you very much.

Operator: Next, we'll go to Derek Sommers with Jefferies. Your line is open.

Derek Sommers
Analyst, Jefferies LLC

Q

Hey. Good evening, everyone. Could you talk about what investments and initiatives you have planned for the rest of 2023 both for the core mortgage business and the Rocket Rewards side of the house? I know you mentioned the marketing campaign, but could you go into a little bit more detail or shed some light on other initiatives?

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

I think as Bill just touched on, step one was rolling all these initiatives out. Step two is the integration of these initiatives in all the appropriate places, understanding where we have to provide additional support marketing. As we built Quicken Loans and then Rocket over many, many years, once you get something out there, there are so many different adjustments you can make, tweaking of the dials, changing of the messaging, and we're just in the early stages of that. So there'll be a lot of effort pointed towards that.

And Bill can touch on this as well. But we're always making investments in how the operations of the business occurs from our bankers and how they work with our clients as you roll out new products for the clients that's got to get integrated into the banker process. So to really see success at a full level, it's a full integration from banking to operations to capital markets, learn, rinse, repeat. And so I think that's where you'll see a lot of our efforts as we continue forward in the year. Bill?

Bill Emerson
Incoming Interim Chief Executive Officer, Rocket Cos., Inc.

A

Yeah. No, I think that's right, Jay. And that's just the reality of how things work. But I mean, we're constantly working on our internal platform systems and some of our mortgage operation technology to make that more effective. There's still lots of work that can be done to cut cycle time out of transactions.

And so we continue to work on stuff. We always have stuff in the queue that we're thinking about. But the reality of life is some of that's still being baked. So we're excited about where we are, what we've rolled out, the initial indications, and we're always thinking about what's next and what's new.

Derek Sommers
Analyst, Jefferies LLC

Q

Got it. Thank you.

Operator: Next, we'll go to Richard Shane with JPMorgan. Your line is open.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

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Hey, guys. Thanks for taking my question. Bill, congratulations. Jay, I hope you'll miss us as much as we're going to miss you, but I suspect you probably won't.

Jay Farner
Chief Executive Officer, Rocket Companies, Inc.

A

Thank you for that. I will miss you guys. It's been always fun.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Thank you. Look, one of the things that I would observe is it looks like the drag from repurchases, from loan repurchases seems to be abating as you sort of anniversary the larger volumes. Should we assume that there is convergence between the stated gain on sale margin revenue, and the actual revenue as we move through 2023?

Brian Brown
Chief Financial Officer & Treasurer, Rocket Companies, Inc.

A

Yeah, Rick, I'll take a shot at it. I think we saw the biggest difference there in Q4, and that was really due to the rate environment. The number one thing that we fair value those repurchased assets on our balance sheet and the note rate or the 10-year treasury rate at the end of that period goes into that fair value assumption.

So for us, anything that ran through there was not because of necessarily an increase in the number of loans we're repurchasing, just a fair value adjustment at the end of the period. So I don't have a crystal ball, and I can't predict where rates will be at any particular time, of course. But what I do know is the volume of repurchases is still at a very, very low level and something we're very comfortable with.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Got it. Okay. That's helpful. And then just one housekeeping thing. I didn't see it in the press release, and we're waiting for the supplement. What was the UPB on the servicing book at the end of the quarter?

Brian Brown
Chief Financial Officer & Treasurer, Rocket Companies, Inc.

A

$550 billion-ish. It's in the – Rick, I think it's in one of the bullets towards the end of the earnings release.

Richard Shane
Analyst, JPMorgan Securities LLC

Q

Okay. Terrific. Thank you.

Operator: Okay. Next, we'll go to James Faucette with Morgan Stanley.

Sandy Beatty
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. This is Sandy Beatty on for James. I want to quickly touch on capital position, how you're thinking about the balance sheet, but more specifically, opportunities to deploy excess capital, strategic M&A, bolt-on acquisitions, anything in the pipeline that's particularly exciting.

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Brian Brown
Chief Financial Officer & Treasurer, Rocket Companies, Inc.
A

Yeah. So, starting with your question on the balance sheet, very strong credit profile, very robust balance sheet. Worth noting, at least from a rating agency perspective, two to four notches above where anyone else in the mortgage space is rated.

From a liquidity position, very solid, over $8 billion of liquidity in the organization, which includes over $3 billion of cash. So, well-capitalized and definitely puts us in a position to be opportunistic. There's no doubt about that.

In terms of the M&A front, look, in the mortgage space, there's no shortage of inbounds. But the same thing we've said here many times, we'd have to ask ourselves what would we be buying. On the positive side, valuations have come down. But we're not interested in buying loan officers or shells with loan officers in it. That's not interesting to us.

Of course, we could take a look at the technology, but in almost all cases, we find out that our technology is much more advanced than what we'd be buying. Some things that could be interesting could be MSR portfolios, and we're active in that space. We're not necessarily willing to pay any type of premium just through an M&A transaction rather than just buying in the open market. But the balance sheet and capital position of this company allows us to be opportunistic.

Jay Farner
Chief Executive Officer, Rocket Companies, Inc.
A

I think what Brian points out is important when you're thinking about purchasing an MSR, you've got to think about your cost to originate it. And that's what we spent the bulk of this phone call talking about, over the course of many, many years, we became experts at producing a refinance transaction at a cost that was always more advantageous almost in all cases than buying an MSR.

Now, you've heard us talk about that same investment in generating a purchase transaction, whether it's 4.5 million or 5 million purchase transactions out there, very few have found a way to market to consumers to drive that business.

And so if you think about where you might put your dollars, as you keep cracking that code and you start seeing wins much like I think we saw with refinance over the years, a strong place we will look is leveraging those wins that we find in being able to generate our own growing MSRs through the origination of purchase transactions.

Brian Brown
Chief Financial Officer & Treasurer, Rocket Companies, Inc.
A

That's right.

Sandy Beatty
Analyst, Morgan Stanley & Co. LLC
Q

Perfect. Thank you. That's super helpful. And then I'll just ask one follow-up on capacity. Interested in where you think the industry stands today. So, obviously, working through what inning we're in, head count, of course, but general capacity as well and where Rocket fits within that framework and perspective?

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

A

Yes, I'll take a first shot and then Bill might have comments, too. But look, we're all reading the headlines. Capacity is coming out of the system. There's no doubt about that.

I look at it in a couple different buckets. One is the banks, of course. Banks are absolutely exiting the space, either to trying to slow down or getting out completely. There's no doubt about that. When it comes to the retail lenders, the few direct-to-consumer lenders that are left in the space, they have a cost of acquisition problem. Right now, it's very expensive to acquire a purchase transaction, especially if you're doing it right at the time the clients found a property, which is why it's so important of all the things we launched, building relationship with the client much earlier in the client's life cycle and keeping them here and keeping them incubated.

And then the third bucket is brokers, of course. And for the brokers that have been in business a while, for the brokers that have a book of business, that have a strong local presence, that have done purchase business before, they'll be fine. They'll be great through this cycle and they'll be very successful.

But for the brokers that may have entered the space more recently and had focused on refinance transactions, which didn't necessarily require relationships with realtors and a big presence in the local community, I think they'll struggle. So from my perspective, capacity's coming out, albeit maybe not as fast as we'd like it to, particularly on the loan officer front. But gain on sale margins are a good indication of capacity, and they've been going up and the guide for Q2 says that we would expect them to go up as well.

Sandy Beatty
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thank you.

Operator: Okay. Next, we'll go to Doug Harter with Credit Suisse. Your line's open.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Sticking on the topic of kind of customer acquisition costs, when you think about the credit card, are you thinking about that as kind of generating new leads for the top of the funnel? Or are you thinking about that more of kind of keeping the existing customers engaged?

Jay Farner

A

*Chief Executive Officer, Rocket Cos., Inc.*Yeah. It's both. And I'm glad you brought that up, because – and Brian talks about this a lot, when you look at the traditional cost to acquire a client in the mortgage space, you're going to see thousands of dollars at this point in time for a closed loan. When you think about what our cost to acquire someone through Rocket Money or the credit card is, it's far less. So it gives our marketing group a much wider opportunity to reach a broader audience at lower cost.

Now, that credit card does two things. If you're a first-time homebuyer, it allows us to bring those clients in, they can build credit towards the closing of their mortgage, reduce the expenses, etc. But it also allows people in our servicing book to benefit from using the credit card. So, we kind of think of it as a mechanism to acquire a new client, to incubate our lead flow, and keep existing clients that are already in our book.

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Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you, Jay.

Operator: Okay. Next, we'll go to Don Fandetti with Wells Fargo. Your line's open.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Hi. Good evening. It looks like you've got some pretty good momentum with your client engagement programs. Can you talk about how you're thinking about market share going forward?

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

A

Well, I know that we don't typically specify specific market share. I can tell you the important thing that's happening in our – inside our organization is thinking about it separately by product and to ensure that we are building ways to increase that market share, and you've heard us talk a lot about purchase, both first-time homebuyers and repeat buyers. And so that's kind of our focus, not getting caught in the broader market share, but in the areas where we're dialing in, do we see a path to grow that market share.

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

A

Yeah, I think that's right, Jay. I mean to me, it's about growing. The market has shifted from heavy refinance to heavy purchase. So that's going to affect the overall market share math. That's a mathematical problem. But where we focus is ensuring that we're growing purchase market share and ensuring that we're growing refinance market share individually. And we believe that's happening.

When we think about how we measure market share internally, we look at a couple different metrics. We, of course, take the industry forecast, the MBA and the Fannies and Freddies. But as we all know, the difficulty with that is not only do they have different forecasts, they have different actual numbers, too, which makes it hard to be very precise there.

But we also look at the MBA application index and securitization data is a great way to get at market share, too. It doesn't necessarily include all the mortgages because banks will balance sheet loans, but it does include most of the mortgages. And when we look at those three data points, we believe we're gaining market share both in purchase and refinance individually.

Donald Fandetti
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Next, we'll go to Kevin Kaczmarek with Zelman & Associates. Your line's open.

Kevin Kaczmarek
Analyst, Zelman & Associates

Q

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Hey, guys. This is Kevin on for Ryan. Can you talk about how your purchase volumes breakdown between new home sales and existing home sales? And how your market share within the new home portion has been trending recently? And how might it look going forward? And I ask because with the low inventory and people locked into lower rates, the new home market, in some ways, gets around some of that. So that's why we're asking.

Brian Brown
Chief Financial Officer & Treasurer, Rocket Cos., Inc.
A

Yeah. It's growing in both. It's not – there's not probably a noteworthy difference in either, but I think you do make a good point. I mean, when we study the inventory levels, and I'm sure many of you have read the homebuilder reports recently, they're doing well because of the low levels of existing inventory, so that's pushing people more towards the new builds.

And to your point, that can be actually a very helpful thing for us. So it is something that we focus on. There's not a big difference in both, but the outperformance has been driven by, I would say, all purchase categories at this point.

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.
A

It's always encouraging. When we built the Rocket experience years ago, it was for first-time homebuyers who wanted to be able to control this transaction and do it any time of the day or night on their phone.

If you think about that experience, if you think about our BUY+, if you think about the credit card, all of these things engage or allow us to engage a first-time homebuyer, which is important in a market like this because individuals who've purchased them in the last few years are probably sitting in a situation where it's a little harder to move up. And so someone who leads in the first-time home buyer I think will have an advantage in continuing to grow their purchase market share.

Brian Brown
Chief Financial Officer & Treasurer, Rocket Cos., Inc.
A

That's right, Jay. First-time home buyer isn't exchanging of 3% note rate for a 6% note rate so they're definitely at a distinct advantage there.

Kevin Kaczmarek
Analyst, Zelman & Associates
Q

Right. Understood. And as a follow-up, we saw the press release you guys put out at the start of the kind of the banking turmoil. But can you give us an update on incremental impacts you've seen so far regarding things like credit availability to borrowers, mortgage rate spreads, gain on sale margins, emerging market opportunities or any other notable areas?

Brian Brown
Chief Financial Officer & Treasurer, Rocket Cos., Inc.
A

Yeah. I mean the first thing that still holds true from when we put out the 8-K is we don't have any direct exposure to any of the banks that failed or really any regional banks. Most of our banking partners are global, the big banks that you would, of course, recognize the brand names. So that's the first thing.

The second thing is no, we haven't seen much impact at all. One of the things we're watching closely is, due to the banking crisis, banks were already hesitant to be in the mortgage space and already pulling back from the

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mortgage space. So this is something we view more as an opportunity in terms of banks not participating in mortgage as much and potentially giving us an opportunity to take share.

Kevin Kaczmarek
Analyst, Zelman & Associates

Q

And how does it impact the mortgage-as-a-service offering? And how do you think about that going forward?

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

A

Well, like we said, mortgage-as-a-service is a service for banks, to help banks get the cost structure of a mortgage and provide J.D. Power winning level experience to these banks to keep them in the game but let us do the work for them and it turns out to great unit economics, both for us and them. So the way I look at it is it should only increase that opportunity.

Kevin Kaczmarek
Analyst, Zelman & Associates

Q

All right. Thank you for taking my question.

Operator: Okay. And that does conclude today's question-and-answer session. I'll turn the call back over to our presenters for any additional or closing remarks.

Jay Farner
Chief Executive Officer, Rocket Cos., Inc.

Thank you, everybody. It's Jay Farner here. I appreciate you joining the call and always asking great questions. As this is my last call, I want to make sure I thank Dan Gilbert, all of our team members, our clients, our shareholders. This has been an amazing experience for me the last 27 years, and it's because of everybody's passion, support, excitement for what we're doing here at the company, in the city of Detroit and other places across the country. And as Dan always says, I firmly believe the best here at Rocket is yet to come. And we'll sign off. Have a good day.

Operator: This concludes today's conference call. You may now disconnect.

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