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Rocket Cos., Inc. (RKT)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by, and welcome to the Rocket Companies' Third Quarter 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. I'd now like to turn the call over to Sharon Ng, Head of Investor Relations. You may begin.

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 third quarter 2024. With us this afternoon are Rocket Companies' CEO, Varun Krishna; and our CFO, Brian Brown. Earlier today, we issued our third 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 Varun, let me quickly go over our disclaimers. On today's call, we provide you with information regarding our third quarter 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 mentioned today. We encourage you to consider the risk factors contained in our SEC filings for a detailed discussion of these risks and uncertainties. We undertake no obligation to update these statements as a result of new information or further events, except as required by law. This call is being broadcast online and is accessible on our Investor Relations website. The recording of the call will be posted later today.

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Our commentary today will also include non-GAAP financial measures. Reconciliation between GAAP and non-GAAP metrics for our reported results can 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 Varun Krishna to get us started. Varun?

Varun Krishna

Chief Executive Officer & Director, Rocket Cos., Inc.

Thanks, Sharon. Good afternoon, everyone and welcome to the Rocket Companies' third quarter 2024 earnings call. Two months ago, at our first ever Investor Day, we unveiled our vision for Rocket's future. Today, I want to kick off our call by emphasizing and extending one key theme optimism, optimism. Optimism is the ability to see the glass as half full. Over the past few months, the market has thrown our industry almost every curveball imaginable. With inflation easing, the Fed cut rates for the first time in four years. But in an interesting twist, while the Fed lowered rates, mortgage rates did not follow suit. Instead, both the 10-year Treasury yield and the 30-year fixed mortgage rate actually increased.

In my experience, it's always important to take the long view and put things in perspective. Despite the housing market being challenging, we are seeing signs of rejuvenation. The 30-year fixed mortgage rate has declined from nearly 8% a year ago. This is helping improve purchase affordability and opening up refinancing opportunities to lower monthly payments. Plus, housing inventory has increased from 3.4 months to 4.3 months, showing a 26% improvement. We're still below the five- to six-month range that's considered a balanced healthy market, but inventory is moving in the right direction.

While affordability and inventory are certainly still challenges, the market is showing signs of improvement compared to last year and we're right there with consumers, navigating their needs together and in service of our mission to help everyone home. Our mindset reflects the importance of optimism in a world that continues to be riddled with uncertainty. That is because homeownership is and always will be the cornerstone of the American Dream. Every day, we make 30-year bets on clients who are betting on themselves. Our role in opening the door to that dream is what makes us proud to be Rocket.

Let me take a minute to reflect on the results of the quarter. At Investor Day, we announced our bold 2027 market share goals to double our purchase market share from 4% to 8% and increase our refinance market share from 12% to 20%. This quarter was a solid step toward these goals. I am so pleased to share that we expanded both our purchase and refinance market share year-over-year in the third quarter. We delivered $1,323 million in adjusted revenue, surpassing the high end of our guidance and accelerating growth compared to Q2.

Net rate lock volume surged 43% year-over-year, driven by significant refinance activity alongside growth in purchase volume. Our adjusted EBITDA margins came in at 22%, 3 times higher than Q3 of 2023. We also reported adjusted earnings per diluted share of $0.08. These numbers are a direct result of one basic thing, execution. Our team members continuously refine every aspect of our sales and operational processes, marketing and product technology to fight for every inch of progress. That execution excellence is built on decades of investment and toward a durable competitive advantage which we call the Rocket Superstack. This is the key to the strong short-term results we're seeing today and it's also the foundation for long-term value creation and growth.

Our Superstack is comprised of four layers: a robust end-to-end ecosystem; multi-channel experiences we create for clients, team members and partners; proprietary AI-driven technology; and lastly, our iconic brand. The integration of these four layers serves as the engine that drives growth, scale and efficiency.

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Let's dive into each layer and unpack a few highlights from the quarter. First up is the power of our unique ecosystem, a system that connects each step of the journey from finding and financing a home, to servicing, to title and closing and the journey beyond. At the very heart of our ecosystem lies our origination servicing flywheel. Once the client enters the flywheel, we provide them with outstanding origination and servicing experiences and we earn the privilege of becoming their Lender for Life.

Last month, we announced a strategic subservicing partnership with Annaly. This partnership allows us to expand our servicing portfolio in a capital-efficient manner. We're excited to onboard these clients into the Rocket ecosystem this December and provide them with an amazing origination and servicing experience that sets Rocket apart.

Our industry-leading 85% recapture rate speaks to the client experience that people love that keeps them coming back to Rocket, establishing a long-term relationship. There's no additional acquisition cost for clients in our ecosystem, creating even more operating leverage. This very same ecosystem brings innovative mortgage products tailored to today's market to our clients. With home affordability top of mind, our affordable product suite is helping clients get a leg up, bringing the dream of homeownership closer. These products have struck a chord, making up a quarter of our purchase volume since the beginning of this year.

Our recently launched Welcome Home Rate Break is a great example. We reduced rates by 2 points in the first year and 1 point in the second, providing meaningful affordability relief for homebuyers. Since its launch in late August, we've seen our ONE+ and Welcome Home Rate Break product groups grow by more than 20%.

Now, on top of our ecosystem sits our experience layer, where we're breaking new ground in delivering delight to our clients. We have made tremendous strides this quarter in expanding our GenAI-powered chat functionality. Our generative and live chat is now fully integrated across all our digital platforms, handling everything from purchase to refinancing and servicing 24/7 whether clients are logged in or not. This round-the-clock access is key, with 20% of our clients contacting us outside of regular business hours. We're seeing significant growth here as chat interactions with our bankers have more than doubled quarter-over-quarter.

Beyond just the literal growth in the number of interactions, chat is driving real results. Every chat is a chance to deliver personalized, insightful experiences that deepen client engagement, which in turn leads to higher conversion. Clients who use chat are converting three times higher compared to those who don't, from first interaction to credit pull.

We often talk about letting technology do what it does best, freeing our team members to focus on what they do best, helping our clients. Responding with urgency when our clients need us most is the ante to play. I can't think of a better example where this was put to the test than most recently during the hurricanes that hit the Southeast.

While dealing with a devastating situation, I couldn't be prouder of our team's quick, technology-enabled response to support and be there for our clients. We tracked the storm paths in real time. We activated our emergency playbook. We customized our digital tools before landfall. Self-service options like our website, AI-powered chat, and IVR allowed nearly 70% of affected servicing clients to get immediate answers on credit suppression, late fee waivers, and forbearance, seamlessly connecting them to our team when they needed personal support.

We also saw a significant threefold increase in disaster inspection reports for affected counties compared to the weekly average in the months before. Now, this process can often be delayed at the collateral underwriter review

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stage where workloads are already substantial. Quickly reviewing this report is critical to getting our clients' loans back on track. Thanks to automation efforts we put in place months ago, we cut review times by 71%, allowing us to push through this bottleneck and quickly provide next steps to help our clients move toward closing.

Let's move to the third layer that powers our ecosystem and experience, technology. The ability to leverage technology is crucial to scale, drive profitable growth, and adapt to market shifts. Let me share just two quick examples.

In our business, we're constantly asking and answering complex questions like, "which loans are in the money in Wayne County, Michigan?" Or "is this loan compliant with regulations in Nevada?" For many lenders, answering these questions takes intense research that can take many hours or even days, involving multiple data analysts or engineers pulling data from various sources. This is just the industry norm, but not at Rocket. Rocket is changing the game with a new technology called Navigator, our internal AI-driven knowledge and workflow platform that puts answers to questions within reach in seconds.

Navigator empowers our team members to create no-code apps, experiment with AI securely, summarize documents, analyze sentiment, and even role-play scenarios. Navigator's AI automates complex queries, empowering more people to drive innovation on their own without involving support from a data analyst or engineer. With Navigator's conversational AI interface, our team now has the answers they need at their fingertips. And the results are impressive.

In just a few months, over 2,000 team members have logged more than 52,000 LLM interactions. And they love it. Daily active users have been climbing steadily since launch, nearly doubling from August to October. By automating complex queries, Navigator is multiplying the number of innovators across Rocket by an order of magnitude. That is the power of AI in a nutshell.

We've also continued to build out our proprietary AI-powered loan origination system, Rocket Logic. We recently expanded Synopsis to handle all inbound calls, and the results have skyrocketed. In early November, we reached a major milestone, processing nearly 1 million calls in a single week. The power of processing these calls through AI results in transformative insights to our business. Each call provides semantic data that lets us extract names, sentiment, call purpose, pain points, and more. These tags create metadata that helps us strategically allocate resources, equip our bankers with valuable real-time insights, and address specific needs, ultimately driving higher conversion rates.

With Synopsis, we have insight into a client's purchase journey, whether they have a home in mind, have submitted an offer, or had it accepted. This allows us to connect high-intent clients with the right bankers, creating more meaningful interactions and driving purchase conversions.

The last layer of the stack is the icing on the cake, our iconic brand. The Rocket brand is one of our greatest superpowers. While Rocket is already an admired brand, this coming year, we will significantly amplify its identity, purpose, and impact in homeownership. Over the past few months, we've zeroed in on the growth audiences that are set to reshape the homebuying landscape, female heads of households, Hispanics, and aging first-time buyers, just to name a few. By 2030, over half of first-time homebuyers will be Hispanic. Meanwhile, the economic influence of women will continue to surge, with women managing two-thirds of household wealth. Our brand will evolve to meet these clients exactly where they are.

In February 2025, we will unveil the new Rocket brand identity. The transformation began with our recent acquisition of rocket.com, a site that will unify the homeownership experience across home search and mortgage.

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In the coming months, we will share a greater ambition with the country and establish a brand that represents the ability for our clients to own the elusive American dream once more.

Let me quickly summarize. Each layer of our Superstack accelerates our execution and propels us forward. The stack is a durable advantage that empowers us to set bold goals and establishes clarity on how we will achieve them. Each layer is unique to Rocket and combines to create a whole that is greater than the sum of parts.

What truly excites me isn't just the what of our strategy, but the how, and most importantly, the who. We've built a world-class leadership team, bringing in key executives with deep expertise in AI and technology to work hand-in-hand with the best homeownership mortgage and finance leadership team in the industry. Together, we are poised to drive needed change and modernization in the industry, and I am so proud to work alongside them every single day.

I'm going to close where I started. Our mission is to Help Everyone Home, a mission that reflects the optimism we have toward our future growth. Forecasts for the mortgage origination market indicate a 20% to 30% year-over-year growth in 2025. That gets us excited and creates an opportunity to capture share. And no matter how the market evolves in the coming years, our $5 trillion market opportunity reflects our potential and our ambition. We firmly believe Rocket is well-positioned to drive disruption and transform the industry to benefit millions of homeowners.

Thank you. And with that, I'll turn it over to Brian.

Brian Brown

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

Thank you, Varun, and good afternoon, everyone. I'd like to start by setting the stage and framing how we're responding to market realities and seizing opportunities as they come, and why we're uniquely positioned to capture a bigger slice of the homeownership market. It's been an interesting couple of months for the industry. For most of the third quarter, 30-year fixed mortgage rates have trended lower, from nearly 7% in July to touching 6% during a two-week window mid-September. However, stronger-than-expected economic indicators caused the 10-year yield and 30-year fixed mortgage rates to quickly jump back to 7%.

In short, the market's been anything but predictable. Since interest rates are impossible to predict with any certainty, the key is scaling up quickly to capture the market opportunity when it presents itself. The third quarter was a perfect example of this. When rates briefly dipped to near 6%, clients who had financed homes in the past two years jumped at the chance to lower their payments. We also saw a lift in our purchase pipeline as affordability improved, reaching our highest daily production volumes in the past 24 months during that brief window. It was a game-on moment, and we scaled up quickly to capture this volume surge.

Every layer of our Rocket Superstack, our ecosystem, experience, technology, and brand played a role in powering execution across the board. We captured more top-of-funnel leads through all of our channels, including direct-to-consumer, broker, partnerships, and of course, our serviced clients. We launched innovative mortgage products like our Welcome Home Rate Break promotion to meet the moment, supercharged our bankers with tools to serve more clients, and boosted conversion throughout the funnel.

Altogether, this meant we captured and converted more leads with speed and scale, without adding head count or increasing fixed costs. We flexed up our capacity seamlessly through our technology platform. That's the power of what we're building at Rocket. When these windows of opportunity open, we're ready to act. This lightning-fast execution is unique to us and hard for others in the industry to replicate. To take advantage of the brief 6% rate

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opportunity in the quarter, most mortgage companies would have needed to hire, train, license loan officers and underwriters months in advance. Relying on human capital to drive capacity likely means missing the opportunity entirely.

Equally important to seizing market opportunity is staying resilient when the market contracts. Thanks to our tech platform, we can flex our capacity up or down without the whiplash of hiring and layoffs typical in traditional mortgage models. No matter what the market throws at us, we stay focused on our goal to capture profitable market share in any environment.

When we zoom out, as Varun shared, we see reasons for optimism. Compared to a year ago, the 30-year fixed rate has trended lower. Housing inventory, measured in months of supply, has increased by nearly 30%. Active home listings have grown for 12 consecutive months. And the share of homes sold above the listing price is down 10% year-over-year, signaling a cooling in the competitive bidding for homes. While there's still affordability challenges, these are promising signs, and we anticipate even more momentum as we head into the new year.

Now, with that backdrop, I'll take you through our strong Q3 financial performance, talk more about how AI is unlocking value for our business, and the critical role that our origination servicing flywheel plays in fueling our financial success. I'll also touch on our new investment-grade credit rating, and I'll wrap up with our outlook for the fourth quarter. Let's jump in.

If I had to sum up this quarter in one phrase, it's lights-out execution. We grew purchase and refinance market share, revenue, and profitability on a year-over-year basis. Adjusted revenue came in at $1,323 million, above the high end of our guidance range. This represents a 32% increase from the third quarter of last year and our fifth consecutive quarter of year-over-year revenue growth. We generated $30 billion in net rate lock volume, marking a 43% increase year-over-year and our highest volume since the first quarter of 2022. This year-over-year growth included double-digit increases in both purchase and refinance. Our home equity product posted another record high.

Gain-on-sale margin held steady at 278 basis points, roughly flat with the same period last year. From a channel perspective, our direct-to-consumer sold loan gain-on-sale margins have climbed to over 400 basis points, while our partner network margins have increased to roughly 150 basis points. Our continued focus on driving top-line growth, operational leverage, and efficiency combined to make the third quarter our most profitable quarter in two years. Adjusted EBITDA was $286 million, representing a margin of 22%. We reported adjusted net income of $166 million and adjusted diluted EPS of $0.08.

When we talk about profitability, it's driven not only by our top-line growth, but also by creating operating leverage, powered by our investment in technology. Our scalable tech platform is what empowers us to navigate dynamic markets with agility. From my perspective, the most powerful benefit of AI is the boost it gives to operational efficiency and productivity. Simply put, it's about achieving more with the same resources.

The increase we're seeing in team member productivity translates directly into greater capacity. We unlock this capacity through technology, while others in the industry try to grow it by adding head count, which is inefficient and has a long runway. And when the market contracts, you're left with excess capacity and inflated costs.

Today, we have the capacity to support $150 billion in origination volume without adding a single dollar of fixed costs. We proved that this quarter. Not only did we handle more volume, net rate lock volume was up 43%, but we did so with 7% fewer production team members year-over-year. Our AI tools are driving these gains from

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automating income verification and collateral review to enabling multiple client chats and insights that boost conversion.

Rocket Logic, our proprietary loan origination system, is driving massive efficiency improvements. With recent updates, we're saving over 800,000 team member hours annually, a 14% increase from just two months ago, resulting in more than $30 million in annual savings. But it's more than just cost savings. AI is giving us greater speed, accuracy, and personalization, boosting conversion rates and fueling growth. Operational efficiency is a top priority for us, and we're constantly evolving to keep ourselves lean, agile, and competitive.

Another key part of our business model is our origination servicing flywheel. As we've discussed on previous calls and at Investor Day, MSRs are an attractive way to acquire future origination clients. Together, our origination and servicing businesses form a powerful homeownership flywheel that allows us to source new clients and organically create new MSRs while positioning us to help clients with future transactions, be it their next purchase, refinance, or even home equity loan.

Earning repeat business is what we refer to as our recapture rate. Our goal is to provide a client experience that is so exceptional that we become the client's go-to for all future home financing needs. Our industry-leading 85% recapture rate is a testament to the client experience. When you excel at something, you earn the opportunity to extend that value beyond your own ecosystem and offer it to your partners.

Our high recapture rate is a win-win for both Rocket and our partners. It is a powerful advantage for MSR owners without in-house origination capabilities as it offsets the prepayment risk inherent to owning MSRs. This also makes cash flows more predictable for our partners, reducing the need for complex, costly hedging strategies.

In October, we proudly announced a partnership to subservice a portion of Annaly's MSR portfolio. This strategic subservicing partnership complements our strategy of growing servicing through organic new originations as well as bulk acquisitions. Across bulk acquisitions and subservicing, year-to-date, we've acquired or committed to add over $70 billion of unpaid principal balance to our serviced portfolio. That's a 15% increase compared to the 2023 year-end balance. This growth represents 220,000 new clients who represent prime candidates for future purchases, home equity loans, and rate and term refinances.

As of September 30, our mortgage servicing portfolio included 2.6 million loans with $546 billion of unpaid principal balance. In the quarter, we generated $374 million of cash revenue from our servicing book, which represents approximately $1.5 billion on an annualized basis. We ended the third quarter with $3 billion of available cash and $6.8 billion of mortgage servicing rights. Together, these assets represent a total of $9.8 billion of value on the balance sheet. Our $3 billion of available cash consisted of $1.2 billion of cash on the balance sheet and an additional $1.8 billion of corporate cash used to self-fund loan originations. And as of September 30, total liquidity stood at approximately $8.3 billion, including available cash plus undrawn lines of credit.

As a testament to our sustained financial strength, I'm proud to share that Fitch recently upgraded Rocket Mortgage to investment grade. This makes Rocket Mortgage the first non-bank mortgage company to receive investment-grade status from one of the three big rating agencies in almost two decades. This achievement highlights our strong balance sheet and financial profile and paves the way to access a wider range of funding sources at a much more favorable cost of funds. This added flexibility positions us to continue to allocate capital in service of our growth strategy.

Turning to our fourth quarter outlook. Based on typical seasonality, we anticipate the mortgage market in the fourth quarter to be smaller than the third quarter. We expect adjusted revenue to be in the range of $1,050

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million to $1,200 million. The midpoint of this range represents 27% year-over-year growth and reflects continued market share gains. We expect expenses in the fourth quarter to be in line with the third quarter. The fourth quarter includes marketing spend related to our brand restage and the annual renewal of banker licenses. As always, our forward-looking guidance is based on our current outlook and visibility.

As we look ahead, we're excited and optimistic about what's to come. Over the years, I've seen us navigate a wide range of markets, consistently proving our ability to thrive through both highs and lows. What excites me most is that Rocket is now better positioned than ever before. This optimism isn't just mine, it's shared across our entire organization. Rocket has what it takes to disrupt, capture, and grow at scale in an industry where only the strongest thrive. We're making bold investments, setting ambitious goals, and accelerating execution, all with a clear focus on creating long-term value for our shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And your first question comes from a line of Jeff Adelson from Morgan Stanley. Your line is open.

Jeffrey Adelson
Analyst, Morgan Stanley & Co. LLC

Q

Hi. Good evening. Thanks for taking my questions. Maybe, Brian, you could start with the drivers behind the revenue outlook for the fourth quarter. It looks like you're looking for roughly a 10% to 20% decline in the range there sequentially. Can you just break out maybe what you're seeing on volume versus gain-on-sale margin there, or what other assumptions are embedded in that guide? Thanks.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

Jeff, thanks for your question. Let me start, and then I'll ask Brian to chime in on the gain-on-sale margins. And I'd start by just saying that we feel very good about our guide, and there's a few things that I think are important to just keep in mind when it comes to Q4. You typically expect the fourth quarter to be a little bit smaller than Q3. And when you really think about why that is, primarily it's due to just homebuying slowing down a little bit post-Labor Day. You've got kids going back to school. You've got the holiday season. So, mortgage financing is just not typically as top of mind. The second thing that I would share is you've seen interest rates tick up a little bit, and that has obviously an impact on mortgage applications. And so, these two factors can compound and just have an effect on the quarter.

But at the end of the day, the market size is going to be whatever it is. It's still a big market, and our big focus is really just on growing our share with great execution. And when you just put that together, we definitely believe we have a strong and confident guide. And I'll also just call out that the guide is 27% higher year-over-year for this quarter. And that guide reflects, obviously, our continued focus on market share gains and just our resilience to be able to grow in any market. And then, let me ask Brian to comment further.

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

A

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Sure. Thanks, Varun. Yeah, I'll touch on the gain-on-sale margin piece. We do expect a slight expansion in gain-on-sale margin in Q4 compared to the third quarter. There's a little bit of conservatism built in there, and that's just typically because we see some competitors do some pricing plays around the holidays. If you think about it, you're in their shoes, they have about the same amount of capacity either way, and as volume ticks down, to Varun's point, every once in a while, we see some pricing pressure there. So, we've considered that in the guide.

And if you kind of just zoom out, we've said for a long time now that we expect gain-on-sale margins to expand. That doesn't happen in an exactly linear basis. But we are getting back to levels, particularly on a channel, if I look at direct-to-consumer and partner individually, that are really close to the historical healthy levels that we've seen pre-pandemic.

Jeffrey Adelson
Analyst, Morgan Stanley & Co. LLC
Q

And just on the volume assumption for the quarter, are you maybe just sort of embedding that the level of refi or just the current level of interest rates holds for the rest of the quarter? I know the App index for refi is down about 50% and total is down about 35% since quarter-end last quarter. So, just curious, are you assuming things maybe get a little bit better or just hold where they are right now?

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

Yeah, I mean, Jeff, if we think about what we do when we set the guide, we obviously take into consideration all the information we have up to this point in the quarter there's no question about that. It has been a volatile start to the quarter to Varun's comments. Rates have sort of moved in the opposite direction. So, all of that is baked in. The MBA applications, and we look at that, we look at Optimal Blue. But the most important thing, if I were to leave you with a takeaway, is we truly believe this guide is taking share in the fourth quarter.

Jeffrey Adelson
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. Thank you.

Operator: Your next question comes from the line of Ryan Nash from Goldman Sachs. Your line is open.

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

Hey. Good afternoon, everyone. So, maybe as we look ahead, industry forecasts are obviously calling for a nice pickup next year in originations, call it, up to 30%. And so, I wanted to drill in a little bit on your expectations into 2025. Obviously, I'm sure things are fluid given how rates are moving around. But maybe just curious how you think about the size of the market, how much progress you can make on your market share goals. And then just giving your comments about the $150 billion and not needing to have any fixed costs, how do you think about the relationship between revenue and cost growth in an improving mortgage market? Thanks.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.
A

Thanks for the question, Ryan. I'd start by saying that the mortgage market, obviously, is not easy to predict. But in general, when you look at multiple factors, our outlook is optimistic. And there's a few factors that I'll just comment on, then I'll ask Brian to jump in as well. And I think the first thing to start with, obviously, is the rate

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environment. And there's a multitude of things that go into that, obviously, things like unemployment, CPI, consumer confidence. And in general, those things signal economic health. But the reality is inflation is still a part of the system. And until it's clear that it's working its way out of the system, you can expect that there's going to be a little bit of pressure on the 10-year Treasury and then, correspondingly, the 30-year fixed-rate mortgage.

The next thing we look at is the housing market. Obviously, the housing market is a big part of the GDP. And the good thing there is that we're seeing definitely some signs of rejuvenation. You've got more inventory. You've got more homes that are selling at or below list. You've got equity at an all-time high. And when you look at housing inventory, we went from 3.4 months to 4.3 months. The number of homes listed for sale, that's up 29%. Affordability is up 5%. And so, some really good things happening there that gives us confidence in 2025. And then we look at the size of the market. To your point, good things happening there. The forecasts are expecting that the market will be up over $2 trillion. That's up 28% compared to this past year. And that's still a huge market, right? And so, regardless of conditions, there's plenty of share up for grabs.

And then what I would also say is the most important thing we really look at is just our execution, our ability to execute in any market. And that's something we feel tremendously confident in. And a big part of that is our Superstack and what we believe is a tailwind to be able to execute against our Superstack relative to competitors. And so, putting all that together, that gives us a lot of optimism for 2025 being better than 2024. And we know that 2024 was certainly better than 2023. And that's kind of how we think about our outlook. And then on the expense side, I'll ask Brian to jump in.

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

A

Yeah. Sure. Thanks, Ryan, for the question. I mean, when it comes to operating leverage, I think the first starting point is think about what we've done this year. To Varun's point, I do think 2025 will be a bit better than 2024. But I still think if you look back, we're five years ahead and you look back at 2024, I still think it's going to be looked at as a pretty down market in the big scheme of things. We'll see how the fourth quarter shakes out. So, all that being said, in every single quarter this year, we've printed double-digit EBITDA margins. If I take the kind of year-to-date three quarters in margin, that's about 20%. And we've done the good work on the cost side over the past couple of years. We've talked a lot about that. But what I'm most proud of is the expansion in EBITDA margins is really through top-line growth. It's from taking share and doing the things that we said we'd do.

So, to Varun's point, if you look ahead to 2025 and you believe that it's going to be healthier, which we do, than 2024 by 20% to 30%, a $2 trillion market is a really healthy market. So, you believe in some expansion there. And then, of course, our share gain goals that we shared at Investor Day are exactly what we're seeking to achieve. The third quarter is another example of that. The guide in the fourth quarter keeps us right on track to achieving those share gains. So, if I say, hey, the EBITDA margins this year in 2024 in a pretty tough market were 20%, a little bit of help from the market in taking share gets us very excited about the opportunity to increase operating leverage next year.

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

Q

Got it. Maybe as a follow-up, just thinking about opportunities, Brian, you talked about $70 billion of bulk MSR inflow year-to-date. Maybe just talk, as you look ahead to 2025, what do you think the bulk purchase market for MSRs look like? And maybe just talk about how much more capacity you have and what is the appetite to continue to add in this area of the business. Thank you.

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

A

Yeah. Thanks, Ryan. So, I'll start here, and Varun may want to add in, but it's definitely an area that we're very excited about. When we talked about our capital waterfall and we talked about being interested in deploying capital, MSR still remain right at the top. It's right in our bread and butter. You mentioned the $70 billion. One of the things I'm most excited about, and you guys have all seen the news, we're very proud of this Annaly deal. Annaly is a world-class asset manager. And in our business, this flywheel effect that we have been driving for decades now is really impressive, 85% recapture rates. We're collecting the servicing cash flows very efficiently. But when you really think about the revenue opportunity of the next loan compared to the cash flows you're collecting, it's 20 times that.

So, I expect us to continue to double down there on those opportunities, both from the bulk acquisition market, but I think the subservicing aspect is also very interesting to us, because if you were in a seat where you didn't have an in-house origination capability, but you were a really good asset manager, protecting those cash flows has to be your number one priority. And if you're thinking about choosing between subservicers, you have one sitting here that has a J.D. Power multiple year winning experience and does it really good, and then you also have something that I don't think others can offer, which is this recapture rate. And recapture rate is the thing that allows an asset manager to protect against CPR or protect against prepayment risk. So, I expect it to be a big part of our strategy going into 2025.

Varun Krishna
Chief Executive Officer & Director, Rocket Companies, Inc.

A

I would just add that this example with MSRs and extensibility is just showcasing the power of the platform and it's just something that really illustrates in a cool way how we scale beyond our four walls, because we've earned the right to take these capabilities to benefit other like Annaly. You'll also see us doing the same thing with integrating our technology as a platform to serve as the mortgage platform for banks. The same platform is being extended to create value for brokers via TPO. And then on top of that, as Brian talked about, these recapture capabilities are only going to get better with investments in technology, AI, insights, notifications, CRM capabilities, mobile, data-driven personalization. And as we invest in our platform, each of the parties that we extend the capabilities to become beneficiaries of that innovation. And so, really the power of that platform really lies in its extensibility. And the idea that you can write something once, you can run it anywhere, benefit multiple parties is something that we're very excited about.

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

Q

Thanks for the color, guys.

Operator: Your next question comes from the line of Mark DeVries from Deutsche Bank. Your line is open.

Mark DeVries
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, thanks. Brian touched on this at a high level, but was hoping to get a little more detail on how your rate locks moved during the period in the quarter when mortgage rates were down closer to 6%, both purchase and refi and how they moved as rates headed back up, and also any context around kind of how gain-on-sale margins compared in the busier period versus slower periods.

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

A

Yeah. Thanks, Mark. Appreciate the question. So, I think there was a two-week window in the month of September, and I think that's what you're referring to, where mortgage rates came down to the low-6s. And I think it's such a good case study into our strategy at work, there were two really notable things. One – first is, when rates get down into the low-6s, it proved that we are off to the races. You have about two years of mortgage production north of that, so there's definitely a bunch of consumers that can benefit from a rate and term refinance, and we saw that. So, that's the first thing to note is that that's your sort of Mendoza Line there is you get into those low-6s, and it's – you're off to the races.

But the second thing is if you think about how to capture that opportunity, that gives us a bunch of proof points into what we're building and how impactful it is, because in this case, you had a very, very short window with very high-intent consumers and a ton of consumer demand. So, the ability to scale up very quickly and capture that is exactly what differentiates us between us and our competitors. If you think about it, it's not just about being able to handle it from a processing, underwriting, and closing perspective, but obviously that's very important because the client coming in with high demand and a client coming in with low demand expects the same level of the service, the same closing time.

So, that is important, but it's also just about taking that demand and effectively allocating it to your bankers and keeping your bankers very, very efficient and productive, because the more clients they can interact with and engage with during that very short window to take advantage of it, the better off the client's going to be because they're going to be saving money, and also the better off we are because we're going to capture more share during that period. So, it was actually very interesting. Of course, we didn't plan on it. It was sort of leading up to the Fed meeting and we know what happened after that. The Fed cut 50 basis points and then rates went up, but it did prove to us that, one, there are a ton of consumers in the money at that rate.

And the last thing I'll sort of leave you with there, Mark, is I think just the change in the consumer is interesting because if the pandemic taught us one thing, there were clients that refinanced multiple times over a couple-year period. So, today, fast-forward, when consumers are getting a mortgage, they're truly in the mindset of I'm not going to have – I may have this house for a long time, but I'm not going to have this rate for a long time. And so, the interesting part about it is during that couple-week window, there was a lot of headlines around the 10-year Treasury and how mortgage rates were moving, and we got a kind of inbounds from our clients, both, of course, from our serviced clients, which you'd expect, but just from clients that had mortgages from other companies because the propensity for clients to transact now and their sensitivity to rates, I would argue, is at an all-time high.

Varun Krishna
Chief Executive Officer & Director, Rocket Companies, Inc.

A

The only thing I would just add is that you asked a little bit about capacity, Mark, and this is why we're so obsessed with AI. And the investments that we've made in Rocket Logic, which is our proprietary LOS, is driving big efficiency gains. We're on track to save our team members 800,000 hours annually. That's up 14% in just two months, and it's almost $30 million in savings. And we're achieving that while keeping, obviously, our fixed costs roughly the same. And so, the reason we're obsessed with AI is because when you think about all the bread and butter aspects of our business, analyzing client interactions, automating underwriting, applying models to capital market infrastructure, automating document processing, credit modeling, appraisal reviews, these are all the capabilities that make the mortgage business work, and they're all benefiting from the implementation of AI. And so, just continuing to invest in that, I mean, this is why we've spent upwards of $0.5 billion over the past five years

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on this investment. And we've made progress. We will continue to do so. And we think there's significantly more gains to be had in the future as well.

Mark DeVries
Analyst, Deutsche Bank Securities, Inc.

Q

Got it. Thank you.

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

A

Thanks, Mark.

Operator: Your next question comes from a line of Derek Sommers from Jefferies. Your line is open.

Derek Sommers
Analyst, Jefferies LLC

Q

Hi. Good afternoon, everyone. I was wondering if you could share any incremental detail on the Annaly partnership, maybe portfolio characteristics or how the recapture economic share is going to work.

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

A

Yeah, thanks for the question, Derek. We don't disclose, obviously, the economics of our partnerships, but I think it's safe to say when you look at the things that Annaly is good at, being a great world-class asset manager, protecting against prepayments is very important to us, and that's where we come in. So, clearly, there's a subservicing agreement, as you'd expect. We think we do that very efficiently if you just look at our own servicing. But I think the more interesting part about this deal is really the recapture opportunities, and we think that's the superpower that we can offer.

So, we're happy to do that for Annaly. It truly makes a win-win with the partnerships. And if you think about it, there's economics on the subservicing side, and then, of course, there's economics on the recapture side. So, it's really bringing two great firms together and sort of solving our challenge of, hey, we need more servicing, and it's a great capital-light way to do it. And their challenge of, hey, we have a lot of servicing, but we have to protect against it. So, it's truly a win-win.

Derek Sommers
Analyst, Jefferies LLC

Q

Got it. Thank you. And then, just to change gears for a second, on second lien products, what kind of behavior are you seeing with the consumer there? Are you viewing this product as potentially interest rate agnostic?

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

A

I can start, and then Varun maybe want to add, too. Yeah, I think there's a lot of room to run in that product. There's no question about it. If you just kind of study the note rates of all the mortgages outstanding, there is definitely a chunk that's north of 6%, and as we just kind of touched on, is available for rate and term refinance with just a little bit of rate movement. But, of course, there's another big chunk that's 3%, 3.5% out there, and likely will remain out there for quite some time, unless the homeowner is planning on moving. So, if you think about it, for them, the home equity product is a great product. And it's going to make a lot of sense for a long time.

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I do think, we saw in that couple-week period during the quarter where rate and term refinances become back in favor, and even to some extent cash out can start making more sense as rates start touching 6%. And again, we're sort of happy to do that product for a client where it makes sense as well. But generally speaking, we think the client makes sense for a lot of consumers out there, particularly those consumers that are sitting on those very low note rates. And by the way, the thing we talk about a lot internally is by layering on that second makes a ton of sense for the client, but it does bring up the weighted average note rate of the two loans. And then, if and when rates do move a little bit, you have an interesting refinance opportunity in terms of the consolidation of those two liens.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

Yeah, I would just add that, in general, our approach is to innovate and meet our clients where they are. And so, if we see a market opportunity, we will build products and services to meet our clients there. And so, there's room to grow there, but this is an example of where we just really focus on delivering value to our clients. And then the other thing I would also call out is that it's important that we build products not just for our existing client base, but also for our new client base.

What we've seen is for products like this, this actually attracts clients to the Rocket brand and to the Rocket franchise. And so, by bringing them in, we can then offer them additional products and services that allow us to become their Lender for Life. And that's a really great thing about this product offering.

Derek Sommers
Analyst, Jefferies LLC

Q

Got it. Thank you for taking my question.

Operator: And your final question comes from the line of Doug Harter from UBS. Your line is open.

Douglas Harter
Analyst, UBS Securities LLC

Q

Thanks. Just hoping we could talk about expenses and just take it from a different angle. Given the capacity, you said, of about $150 billion, is there opportunity given the outlook for volumes to take out fixed costs, even if that means that that capacity comes down somewhat?

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

A

Thanks for the question, Doug. I mean, the way to answer that is our primary focus is capturing share and growing into the market. We just talked about our views on 2025 and, admittedly, Q4 has been a bit more volatile than anyone would like, but still very bullish on the 2025 outlook being higher. So, right now, our focus is being able to continue to capture share, grow into a larger market, and do it with a relatively flat fixed cost base. And what that does is it really just increases operating leverage. Even if I look at just the numbers from Q2 to Q3, I think Q2 – or excuse me Q3 expenses are up 3% from Q2. But if I just look at on a rate lock basis, volume was up 20%. So, you can see us doing exactly what we said we'd do in terms of building that operating leverage.

Of course, it provides option value, there's no question, for different markets, but our goal in life here is to avoid the traditional yo-yo effect of the mortgage market. And if you think about how most people grow capacity, they do it through hiring. And we will hire some people, too. We have the best team members in the business and the best

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loan officers in the business. But that being said, hiring is not always the most efficient way. For anything, it takes a long time. You have to recruit people. You have to train people. You have to license people. So, you need a very long runway.

That two-week period in the third quarter was such a good example of where you couldn't hire someone. There was no chance. So if that was your only way to increase capacity and maybe that with a little bit of overtime, you were going to miss out on a really big opportunity. So, I think the simplest way I can say it is our focus is growth and our focus is increasing operating leverage. The good news is most folks believe 2025 is going to be better and we absolutely believe we'll take share. So, we expect growth from both of those angles.

Douglas Harter
Analyst, UBS Securities LLC

Q

Appreciate that, Brian. I guess how do you think about – recognizing the importance of having capacity to take advantage of those pockets like you saw in 3Q, how do you think about what is the right level of kind of spare capacity versus kind of having too much capacity for the market opportunity, even factoring in the growth ambitions?

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

A

I would just say, Doug, that I think what we have right now is the perfect capacity, and we're not looking to sort of expand or detract. At the end of the day, it's a huge market. Our team members provide incredible value and they're going to become very scaled and successful as a result of the investments that we're making in technology. And so, we feel really good about our capacity. We think that it will allow us to take share. We think it will allow us to grow, especially as the impact of technology continues to make our team members more and more efficient. It's a big market. We're very ambitious about our growth aspirations. And so, we feel really good about where we are.

Douglas Harter
Analyst, UBS Securities LLC

Q

Great. I appreciate the answers. Thank you.

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

A

Thanks.

Operator: And that concludes our question-and-answer session. I will now turn the call back over to Varun Krishna for closing remarks.

Varun Krishna
Chief Executive Officer & Director, Rocket Cos., Inc.

Well, thank you, everyone, for listening to our call. We're excited, and we look forward to speaking with you again next quarter. Thank you.

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

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