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Rocket Cos., Inc. (RKT)

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MANAGEMENT DISCUSSION SECTION

Operator: Good daye, everyone, and welcome to the Rocket Companies Second Quarter 2026 Earnings Conference Call. Just a reminder that today's conference is being recorded. At this time, I would like to hand the call over to Ms. Sharon Ng. Please go ahead, ma'am.

Sharon Ng

Head-Investor Relations, Rocket Cos., Inc.

Good afternoon, everyone, and thank you for joining us for Rocket Companies earnings call covering the second quarter 2026. With us this afternoon are Rocket Companies CEO, Varun Krishna; and our President and CFO, Brian Brown. Earlier today we issued our second 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 second 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. 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 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.

Good afternoon, everyone, and thank you for joining our second quarter 2026 earnings call. Today, I'll cover the market, our second quarter results, and Rocket's performance. Let's go ahead and start with the market. The industry expected a normal spring homebuying season; instead, affordability deteriorated as mortgage rates moved higher through May and June. Purchase and refinance demand as a result weakened during what is typically the strongest quarter of the year and industry forecast moved lower as the quarter progressed.

Simply said, it was one of the toughest spring housing markets in years. Now, against that backdrop, Rocket delivered one of its strongest quarters in recent memory. We gained market share in both purchase and refinance. We delivered our most profitable quarter in four years. We expanded adjusted EBITDA margins, and integration of Redfin and Mr. Cooper are well ahead of plan.

Adjusted revenue was $2.8 billion, near the midpoint of our guidance. Adjusted EBITDA margin expanded to 28%, up from 26% in the first quarter. Adjusted diluted EPS increased to $0.16. Now our North Star is profitable market share growth, and we reached a new record this quarter. Purchase share increased to 6.2%, up from 5.5% in Q4 of last year. Refinance share increased to 14.3%, up from 12.2%.

This performance was not a coincidence; it was the result of years of deliberate investment, focused execution, and a business model that has fundamentally evolved. Today, more than 70% of our revenue comes from recurring or less rate-sensitive businesses. Servicing provides a durable recurring revenue foundation. Purchase mortgages, home equity, personal loans, and Redfin diversify us across broader parts of the housing market. Today, Rocket is the largest in both servicing and origination, and our recapture engine connects these two things.

Just as importantly, all of our businesses reinforce one another. Redfin brings clients into the Rocket ecosystem earlier. Mortgage helps them finance one of life's biggest decisions. Servicing keeps that relationship alive for years. Additional products allow us to continue serving these same clients as their needs evolve. Artificial intelligence strengthens every step of that journey. It improves productivity, personalization, and conversion across the entire platform. So the important point isn't that we've added new businesses; it's that we've changed the economics of the business fundamentally.

Our recurring revenue base is larger. Our client relationships last longer. Our acquisition costs improve as these businesses reinforce one another. And our operating leverage expands as AI increases productivity across this platform. This is the business we've been building; one with a stronger floor in difficult markets and significantly more upside when housing activity returns. That's what gives us confidence that Rocket's long-term earnings power is fundamentally stronger than it was just a few years ago.

Now, let me take a second and show you how that came to life during the second quarter. Homeownership begins long before a mortgage application. It begins with home search. That's what makes Redfin such an important part of Rocket's strategy. Historically, Rocket enter the relationship when a client decided to finance a home. Today, we're increasingly entering months earlier, while they're still searching. That completely changes the economics of client acquisition.

Redfin reaches roughly 50 million monthly active users with some of the highest engagement and retention in online real estate. Those users aren't casually browsing; they're actively preparing to buy or sell a home. We're turning that intent into action. Product improvements and proprietary AI models have increased lead conversion by roughly 30% over the past year, helping more clients move from searching to touring, financing, and closing. And when buyers are ready to finance, Rocket is already part of the experience. Eligible servicing clients who buy and sell through Redfin and finance with Rocket Mortgage can save up to $20,000. That's a meaningful affordability advantage in today's market, and we're seeing it translate into results.

In June, mortgage leads from Redfin more than doubled year-over-year. The mortgage attach rate with Redfin agents reached 47%, approaching our synergy target of 50%. Inventory is yet another differentiator. Through our Compass partnership, Redfin continues expanding unique inventory that isn't available on other major home search portals. In markets like Chicago that advantage is already driving meaningful increases in both homebuyer and mortgage leads. Nationally, Redfin now offers approximately 25,000 exclusive listings.

More inventory attracts more serious buyers. More serious buyers create more financing opportunities. That's why Redfin matters. It allows us to build relationships earlier, convert them more effectively, and increase the lifetime value of every client who enters the Rocket ecosystem. The advantages we're creating upstream continue through mortgage origination. Sales is still very much a human craft. It takes judgment, empathy, and timing. Technology doesn't replace that; it just makes our people better at it. Our loan officers provide judgment, advice, and trust, and they are the best in the business.

Artificial intelligence only makes them better. By removing administrative work and helping our teams focus on the right opportunities at the right time, AI allows our loan officers to spend more time helping clients and less time managing processes. We are already seeing significant impact. Compared with just one year ago, our loan officers are serving nearly 40% more clients while delivering double-digit improvements in conversion at the same time.

Those gains really matter today, and they matter even more as the market recovers. As mortgage volumes increase, we believe we can expand profitability faster without growing our cost structure at the same pace. This is one of the biggest structural changes happening inside Rocket. AI isn't simply making people more productive; it's actually increasing the earnings power of the business through operating leverage. We're applying that same approach across the entire company.

Servicing remains one of Rocket's greatest competitive advantages. It generates durable, recurring revenue while creating long-term relationships with millions of clients. Those relationships become more valuable every year they remain inside the Rocket ecosystem. During the second quarter of this year, we completed one of the largest servicing migrations in our industry's history, bringing our servicing clients onto a single platform. That milestone is about so much more than technology; it creates one foundation for how we serve clients, deploy AI, and identify opportunities across the business.

Earlier this year, we launched Voice AI for inbound servicing calls. It has now handled more than 1 million calls, with more than half resolved without requiring a servicing specialist. Clients receive faster service, and our servicing experts spend more time solving the complex situations where human judgment matters most. Every interaction improves our understanding of the client and helps us identify opportunities to refinance, access home equity, purchase another home, or use another Rocket product. That's what makes our servicing different. It isn't just a recurring revenue business; it's the engine that continuously creates future origination opportunities.

Today, Rocket is both the nation's largest mortgage servicer and the nation's largest mortgage lender. Very few companies have both. That combination allows us to deepen client relationships over time instead of rebuilding them with every new transaction. So, the economics are fundamentally different. Every year we keep a client, we improve the probability of serving them again while reducing the cost of doing so. Artificial intelligence simply accelerates that advantage by improving client experiences, strengthening recapture, and increasing productivity across the entire platform. The result is a business with a stronger recurring earnings base today and even greater operating leverage when housing activity recovers.

The power of this business model is what it allows us to build on top of this platform. Because we already have trusted client relationships, servicing scale, AI capabilities, and distribution, we can expand into adjacent businesses faster and more efficiently than any company starting from scratch. Home equity is one great example. We entered the category just four years ago. Today, Rocket is the nation's largest home equity lender. Since launch, we've helped more than 250,000 homeowners access over $24 billion of their home equity. Rocket is the first independent mortgage company to lead the category. That milestone demonstrates something far larger than just success in a single product; it shows the advantage of building new businesses on top of an existing client base, rather than acquiring every new customer from the beginning.

Rocket Loans tells a very similar story. Loan volume nearly doubled year-over-year during the first six months of 2026, culminating in a record month in June. More than half of those loans come from existing Rocket servicing clients. That simply reinforces the strategy we've been executing for years. Each additional product strengthens the client relationship. Each stronger relationship creates another opportunity to serve that client over time. Lifetime value increases, while future acquisition costs decline. That's the economic engine we are building.

We are not assembling a collection of products. We're building a business where every product makes every other product more valuable. The same dynamic extends to our partner ecosystem. Through our Compass partnership, Rocket Pro brokers have originated more than $2 billion of net rate lock volume. Consumers, agents, and brokers all benefit from a more connected experience, and every additional participant strengthens that network. Those advantages compound over time.

I'll close with this; the second quarter tested the housing industry. Higher rates reduced affordability. Demand softened. The spring market fell well short of expectations. But against that backdrop, Rocket reached record market share in both purchase and refinance, delivered its most profitable quarter in four years, and continued executing ahead of plan. Those results reinforce what we've been building for years.

Rocket today is fundamentally different from the company we were just a few years ago. We have a larger recurring revenue base, longer client relationships, higher operating leverage, and more opportunities to serve clients throughout the homeownership journey. We can't control where mortgage rates go next quarter; we can control the business we build. Quarter-after-quarter, we're building one with a stronger floor in difficult markets and significantly more upside when housing activity returns.

Competitors may have pieces of this model. No one has integrated it the way that Rocket has. That's why we believe Rocket's long-term earnings power is stronger than at any point in our history.

And with that, Brian, over to you.

Brian Nicholas Brown

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

Thank you, Varun. And good afternoon, everyone. Today, I'll discuss our second quarter results and the record market share gains we delivered in a challenging market. I'll also cover capital position and integration progress. I'll close with our outlook for the third quarter.

Let's start with the second quarter's results. Adjusted revenue was $2.8 billion, near the midpoint of our guidance range. We generated $47 billion in total net rate lock volume and $49 billion in total closed loan volume. Gain on sale margin, excluding correspondent, was 311 basis points. That's compared to 322 basis points in the first quarter. Adjusted EBITDA was $766 million, representing an adjusted EBITDA margin of 28%, up from 26% in the first quarter. Adjusted diluted EPS was $0.16, up from $0.15 in the first quarter, making this our most profitable quarter in four years.

Our market share gains in the second quarter were impressive. In fact, we achieved our highest-ever quarterly market share in both purchase and refinance. Based on industry estimates, purchase market share came in at 6.2% and refinance market share was 14.3% in the second quarter. This represents a 13% increase in purchase market share from the fourth quarter and a 17% increase in refinance market share.

These results reflect the structural advantages of our business model. First, a diversified revenue base that provides stability with built in upside. Second, unique assets, including the industry's largest servicing portfolio and Redfin's purchase funnel that drive share gains at a very low cost of acquisition. Third, a cost advantage across origination and servicing where scalable capacity and expense synergies keep fixed costs flat while volume grows.

Let me unpack each of these a little more, starting with our balanced revenue model. More than 70% of our revenue is recurring or less rate-sensitive. Servicing fee income and Rocket Money subscription revenue are recurring. The purchase business, cash out refinance, home equity loans, as well as the Redfin business operate in a large and less rate-sensitive category. The remaining 30% includes rate and term refinance, which carries the most rate exposure, but it's also our greatest source of upside when rates fall. And the good news is, we have over $300 billion of origination capacity that's primed to capture this upside. In Q2, this balanced business model drove our operating results. Servicing generated $1 billion of steady cash flow; while less rate-sensitive products, including purchase, cash out refinance, and home equity loans contributed to the majority of gain on sale revenue.

Let's turn to our unique assets, the industry's largest servicing portfolio connected to a powerful recapture engine and Redfin's purchase top of funnel. These assets are hard to replicate and they allow us to acquire clients at a fraction of the industry's average cost, because these clients are already in our ecosystem. Those assets delivered in the second quarter. On the purchase side, the Redfin integration is paying dividends. Mortgage leads from Redfin in June doubled year-over-year. Mortgage attachment, the percentage of Redfin buy side clients who financed with Rocket Mortgage, has reached 47%, approaching our 50% target.

That momentum helped drive the direct to consumer purchase volume up 45% year-over-year. And on the refinance side, our servicing portfolio drove share gains across rate and term, cash out, and home equity loans. Existing service clients accounted for 57% of refinance close volume, up from 54% in Q1. And those closings come with near-zero client acquisition costs. Recapture rates on the Mr. Cooper portfolio reached another record, and we are more than halfway to realizing our Mr. Cooper revenue synergy target on an annualized run rate basis.

The clearest example of these assets working together is preferred pricing. Service clients who buy and sell with Redfin and finance with Rocket Mortgage can receive up to $20,000 in combined savings. We can offer an incentive of this size for one simple reason; we own the search portal, the real estate brokerage, the mortgage financing, the title and closing, and the servicing. Historically, these are four or five separate companies, all with different experiences and different client acquisition models. As I mentioned, our cost to acquire these clients is nearly zero. We pass these structural advantages right back to the client, directly addressing affordability, which is the biggest barrier in today's housing market, while deepening relationships across the ecosystem.

This brings me to the third advantage, we operate origination and servicing at a significant cost advantage when compared to industry averages, and that gap is widening. Technology advancements are expanding the capacity of every production team member. Our tools help loan officers drive double-digit conversion improvement while working with nearly 40% more clients than just one year ago. This allows us to keep fixed costs flat while volume grows. And once fixed costs are covered, incremental revenue drops to the bottom line at a very high rate. Expense synergies are amplifying this advantage. We realized $100 million of annualized Mr. Cooper expense synergies in the quarter, in line with our expectations. We remain on track to achieve the full $400 million target by year-end.

This is how our business model delivers in tough markets and in more favorable ones. Since completing the Redfin and Mr. Cooper transactions in the back half of last year, we have grown share and expanded profitability for three straight quarters, across both rising and falling rate environments. Everything I just described runs on a foundation of balance sheet strength. In a market like this, when capital is not just defense, it's offense. It is what allows us to invest through the cycle and move quickly when opportunities arise, while others are forced to pull back.

We ended the quarter with $11.2 billion of liquidity, up $1.8 billion from the first quarter. In June, we refinanced existing debt through a successful senior note offering. That execution was supported by our investment-grade rating and credit profile that keeps getting stronger. Net corporate leverage ended the quarter at 0.9 times, 20% lower since year-end.

Part of maintaining that balance sheet strength is treating our MSR portfolio as the strategic asset it is; actively managed, not passively held. During the quarter, we sold a portion of our low coupon MSRs at attractive market prices, but we didn't sell off the client relationship. We retain the subservicing on those MSR and, even more importantly, we retain the ability to do recapture and the related economics.

Even after these sales, our servicing portfolio ended the second quarter at $2 trillion of unpaid principal balance. These sales also rebalance the composition of our portfolio toward higher average note rates. Today, 26% of our owned MSR portfolio, or $320 billion of unpaid principal balance, carries a note rate above 6%. This is a large pool of clients who are first in line to refinance when rates fall, and ours to recapture.

Looking ahead, we expect the housing market to remain challenging in the near-term. In recent weeks, expectations of higher future inflation pushed the 30-year fixed rate to 6.8%, 50 basis points higher than the average rate during the first half of the year and the highest level in more than a year. These pressures are weighing on both purchase and refinance activity. Existing home sales remain near 4 million on an annualized basis, while pending sales and purchase applications continue to decline.

The expected housing recovery in 2026 has not materialized as increasing rates continue to pressure affordability. Last quarter, we told you our real-time data indicated a tougher market than industry forecast suggested, and that is exactly how the second quarter played out. Today, the same data leads us to expect the third quarter mortgage market to be smaller than the second; something the industry has not seen since 2022.

With that context in mind, we expect adjusted revenue to be between $2.5 billion and $2.7 billion in the third quarter. This guidance implies continued market share gains in both purchase and refinance. At the midpoint of the guidance, we expect expenses to be approximately $2.350 billion that includes approximately $110 million of intangible amortization, $90 million of stock-based compensation, and $100 million of onetime acquisition-related costs. Excluding those items, expenses are expected to decrease approximately $100 million quarter-over-quarter.

I'm also happy to report that our progress on integration synergies will continue beyond the third quarter. With the major Mr. Cooper integration milestones complete, we now have line of sight into approximately $100 million of annualized expense savings above our original goal of $400 million. We expect to realize these in the first half of 2027.

Let me close with this; Rocket's platform is performing as designed. We expanded profitability in a volatile market. We gained share. We realized synergies and increased our goal. We strengthened the balance sheet, and we continue to invest through the cycle. Rocket is built to perform today and accelerate when the market recovers, with growth converting into operating leverage, margin expansion, and stronger earnings power.

With that, I'll turn it back to the operator.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. At this time, we will take your questions. If you have a question today, press *1 on your telephone key pad. We do ask that you limit your questions to one. Once again that is *1 if you have a question. And your first question will come from Ryan McKeveny with Zelman.

Ryan McKeveny
Analyst, Zelman & Associates

Q

Hey. Thank you for all the details and taking the questions. Maybe just a high level one. You called out the tough industry conditions in the second quarter that have continued into the third quarter. Rates, as I think Brian just mentioned, are now up year-over-year. So, can you talk a bit more about just the macro backdrop that you see playing out right now? The macro backdrop that's embedded within the guidance.

And lastly, maybe just on the expense side, probably also for Brian, I think what I just heard you say is that the expectation for 3Q is for expenses to be down $100 million sequentially from 2Q. Obviously, the revenue guide is down sequentially as well. So, should we think about that step-down in expenses as just a function of the revenue side; or should we think of that 3Q as a decent run rate going forward? Thank you, guys, so much.

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

A

Ryan, thanks for the question. It's great to hear from you. Let me start with the market and kind of macro backdrop, and then I'm going to ask Brian to talk us through the quarter and our guide, as well as your question around expense. I'll start by saying, look, there's no question that Q2 was tougher than the industry expected. You had rates rising 26 basis points from the April lows. You had rate and term refinance under more pressure. And we all saw that this normal spring and summer purchase season was just weaker than in prior years.

But I think what I would emphasize is the bottom line is that this was not a huge surprise to us. And on our last call, we shared with all of you that this market was shaping up to be smaller than the forecast. And that's pretty much exactly what happened. I think the good news that I would share is that we saw this coming. We were ready. And I would argue that our results show it unequivocally.

We gained share in purchase and refi. We expanded profitability for the third quarter in a row. And I think what you're starting to see is what's unique about Rocket is really separating it from the rest of the industry. More than 70% of our revenue is now less rate-sensitive. That allows us to keep investing while others are actually forced to react. And so, we expect that to become a structural advantage that will continue to be a strength for us in Q3. And that's why we feel pretty good about our guide that we put out for Q3.

And so with that sort of market backdrop, Brian, maybe you can unpack the Q2 performance and guide and expenses.

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

A

Yeah. Thanks, Varun. Ryan, good to hear from you. Yeah, let me let me double-click on Q2 real quick, because I do think it was impressive for many reasons, but particularly as Varun mentioned, the increase in market share coupled with the increase in profitability. So, probably just worth spending a second on those market share gains. If you look at on the refinance side, which had significant increases, it was largely attributable to the recapture increases and being ahead of goal on that synergy value. So, of course, that's great to see.

And then the purchase side, it's really twofold. One is the additional lead flow coming from the Redfin side to Rocket Mortgage. We talked about that being up double year-over-year, which continues to fuel those share gains. And then finally, the Compass partnership we've talked to you guys about that before, but particularly in the Pro space has really gained some traction. So that's also contributing to some of those purchase share gains.

But let me transition over to Q3 in the guidance to answer the second part of your question, Ryan. We always include what we're seeing in real time. We told you last quarter that we thought Q3 – excuse me, Q2 was going to be down. And, look, it's a challenging market. Most of the industry forecasters have the second half being smaller, and that feels right based on what we're seeing. But the guide of $2.5 billion to $2.7 billion, we still feel is a very strong guide. And all else being equal, that'll be another quarter of significant share gains. On the gain on sale margin perspective, it's probably worth noting we're seeing margins hold steady and even some improvements at the channel level. So all in all, we expect Q3 to be another strong share gain quarter for Rocket.

You mentioned on the expenses, yeah, I think expenses will be down the second half of the year, as I said. The $100 million from Q2 to Q3 is really primarily a result of that synergy value coming through the P&L. There is a little volume, the variable expenses associated with volume in there. So, to answer your question on that baseline perspective, remember, we said we're about halfway through the realization of the $400 million goal as of the end of Q2; and the other $200 million we expect to be realized in the second half of this year. So that hopefully gives you a little more color on the expense side.

Ryan McKeveny Q
Analyst, Zelman & Associates

Perfect. Thanks so much.

Operator: The next question will come from Jeff Adelson, Morgan Stanley.

Jeffrey Adelson Q
Analyst, Morgan Stanley & Co. LLC

Hey. Thanks for taking my questions. I was hoping you could maybe talk about the competitive state of the market today. Are you seeing any market share come your way, perhaps given a bit of a tougher backdrop out there and some pressures on your larger peers; or do you think more of that is a result of the execution, Brian, you just talked about and Redfin as well as the recapture from the Cooper deal? And just maybe related to that, it looks like you've been pretty active in the Rocket Pro channel year-to-date. You had the Power Play initiative, the 12-business-day guarantee closing. Can you talk about how that is also maybe driving your market share as well?

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

Jeff, it's great to hear from you. Look, I think I'd start by saying that we believe that competition really in any market is healthy, right. It pushes to do their best. It creates better outcomes for clients. We respect our competitors, but honestly, we don't spend a lot of time really thinking about them. We focus on building the company we believe should exist. But with that said, I think it's important to also highlight that this particular market and the tough market that we're in, what it does expose is where a competitor's business model is narrow.

And to give you like a couple of examples. If you only originate, then you have an Achilles heel, which is that you get exposed when rates rise and when volume falls. If you only service, but you don't have recapture, then you don't get to participate fully in that next transaction and you have likely a retention problem. If you only have traffic and you cannot convert it into a mortgage, then you will only own a small fraction of the economics. And I could keep going, right? If you don't bet big on technology as we have, you will be commoditized. If you don't manage your capital well, you will become distressed.

And so, what you're starting to see is that separation, you're starting to see this happen across the competitive landscape. And that's really why Rocket is built very differently, right. We originate, we service, we recapture. Our technology makes the entire platform work as one. Our capital structure is extremely robust. And so, what you're starting to see is that separation. And we actually think that separation will accelerate as the market improves. And so, that's kind of the core answer.

I think, in terms of the Pro business, Brian, maybe you want to add some more commentary.

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

A

Yeah, of course. I do just want to touch on your capital point because I think that's a important point, particularly this quarter. Just as a reminder for the group, we're the only mortgage company with an investment-grade rating. And when I look across the publicly-traded mortgage companies, we're the only publicly-traded mortgage company with less than 1 times leverage. We have over $11 billion of liquidity, and we just strengthened that liquidity position through a successful $1.5 billion senior note offering. So, the capital differentiation keeps widening in our space and I think that's important for both defense and offense.

But, Jeff, to answer your question on the Pro side, yeah, look, I think the Pro business is a very important part of our ecosystem. Varun mentioned in his prepared remarks that we've done over $2 billion locks related to that Compass partnership. That's great to see. We are offering a pricing incentive, which is the right thing to do when you enter a big partnership. And we need to get these Compass agents excited about the partnership. But the momentum we're seeing in terms of signing up new brokers to Rocket has never been greater than what we're seeing right now.

And the beautiful part about this is, the brokers we're signing up are brokers that are coming to us from Compass. In a lot of cases, they have relationships with Compass agents. So, the more Compass agents we work with, the more brokers we have; and the more brokers we have, the more compass agents we have. A true demonstration of the network.

Jeffrey Adelson
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great. Thanks for taking my questions.

Operator: Next, we'll hear from Ryan Nash, Goldman Sachs.

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

Q

Hey. Good afternoon, guys. So obviously, there's a lot of moving pieces on the 3Q guide. Costs are coming down with revenue, and maybe there's some cost saves. And I know the company was very aggressive in managing costs during 2022 to 2025 timeframe when the market was pretty challenging. So, as we enter this next phase of higher rates, maybe just talk about what's left to do on the cost side? And given all the AI investments, how meaningful can you bring down costs from here revenues prove to be more challenging than expected? Thank you.

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

A

Yeah. Thanks, Ryan. I'll jump in on that one. I mean, I think, look, the biggest takeaway from this call is the additional $100 million of synergy value that we talked about at the end of the prepared remarks. That's over and beyond the $400 million in our previously stated goal, and obviously a pretty significant increase. The question may be, where is that coming from? Well, as Varun mentioned, we've just completed the biggest servicing loan integration in recorded history. And now that we're beyond a lot of those big milestones, we have line of sight to some more synergy value. That's first and foremost what's on our mind and achieving that in the first half of 2027.

But as you know and you've mentioned, we've always taken a very disciplined approach to the cost side of the house. Our technology advancements and AI advancements are only increasing that. But one thing I do want to leave you with, because I think it's important, we've seen others sort of react to the market sizing and their cost base. And of course, there's nothing wrong with that, but this is true synergy value from the three companies coming together and it's not impacting our capacity. So we still have over $300 billion of capacity to take advantage of upside if and when rates move.

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

Q

Got it. And maybe if I could squeeze in a follow-up. It's good to see the market share increases that you've had with over 6% in purchase and over 14% in refinance. And I know you mentioned further gains here. But can you maybe just talk about the drivers of reaching the 8% and 20% you had laid out several years back? Maybe just how is the new rate environment impact your ability to achieve this? Thank you.

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

A

Yeah, absolutely. I'd start by just saying we feel very good about the progress toward our market share goals. And I'm going to try to break down some of the key building blocks and levers. But first off, obviously, purchase shares up into the right, reaching 6.2% from 5.5% in Q4. Refi share has increased to 14.3%, that's up from 12.2%. So, we're making progress. But the thing I would share is the share number in an absolute sense is the outcome. It's how we keep score. But I think the bigger question behind the question is like what building blocks are actually producing that growth. And I would highlight a couple.

The first one is what we call recapture. And connecting servicing and origination is obviously a very core, very differentiated part of our strategy. And the reason for that is simple. We know the client. We already service the loan, and that creates a meaningful advantage when that client is specifically ready their next transaction. And as we shared, Mr. Cooper refinance recapture reached another record. And obviously, as Brian shared earlier, we remain very well on track against our revenue synergy target.

The second building block from market share is Redfin, and we think of Redfin as the doorway to all of Rocket. And the evidence is there, right. Mortgage leads have doubled year-over-year. The attachment rate for mortgage is approaching nearly 50%. Redfin is a high quality, serious homeowner app, and it's bringing more high intent purchase clients into the Rocket ecosystem, and that's where our Rocket Mortgage engine achieves lift off.

The third thing I'd also just highlight very quickly is home equity. We are the largest home equity lender in the country. So, you look at these building blocks – recapture, Redfin, home equity – and these are three major drivers of our progress. And we're still early in the journey, right. This is not a market where you have saturation dynamics among different players. So, what I would pay close attention to is we gain share in purchase and refi. We expanded profitability for the third quarter in a row. We're also not sacrificing profitability to chase share like potentially many others are doing. So, we're building the business the right way for the long-term. We feel great about our progress.

The other thing I would also say is we're not relying on the market to grow our share. We're taking share in a difficult environment. And historically, when rates do cooperate, we tend to take even more share. So, if rates stay elevated, we think the industry will continue to consolidate and we expect to be a beneficiary of that. But our North Star goal of profitable market share growth, it does not change based on the market. So, we feel very good about the progress. We think we're building the business the right way and that's independent of the market dynamics.

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

Q

Thanks, Varun.

Operator: Your next question is from Bose George, KBW.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey. Good afternoon. As you noted, on the refinance, recapture loans, there's no customer acquisition cost. Just wanted to how do you guys think about the CAC on purchase loans that you acquire through Redfin or Compass? And when you offer the incentive, like, how is that reflected in your P&L?

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

A

Yeah. Thanks for the question, Bose. Yeah, let me start on the recapture side. We say near-zero acquisition cost. There's a little bit that comes into that, but of course it's much lower than the new client acquisition cost. On purchase, regardless of the channel, frankly speaking, we think about it all the same way in terms of the return. There's different ways to acquire the client, in some cases it's a performance marketing cost. And then the pricing incentive to answer your question directly, really just comes out of the gain on sale margin. But you're thinking about it the right way in terms of it is sort of the cost of acquiring that client.

So it doesn't change how we think about it. There could be a little bit different P&L logistics in terms of marketing versus gain on sale margin. But to be clear, at the end of the day, we have a desired return on a unit basis and we're striving to achieve that return. We'll flex across the different channels, and a lot of it also is meeting the consumer where they are. For example, some of our purchase business, as we talked about right now is coming from referrals from Compass agents. That's a great way to acquire clients and put them in our ecosystem. Some of it's from people coming directly to Rocket Mortgage, the direct-to-consumer channel. That's another great way and we can flex that up and down. And then more and more so the servicing business is starting to contribute to purchase growth as well.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. That's helpful. Actually, just a quick follow-up on the earlier market share discussion. I mean, you guys had solid growth in correspondent as well. I mean, could we see that continue and also support sort of market share growth?

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

A

Yeah, absolutely. Thanks for the question. Yeah, it was a good quarter for correspondent. And as we've talked about on this call before, correspondent is really a way to grow the MSR portfolio. There are certain levers like bulk acquisitions, correspondent, or of course just our organic-driven business. And we did see a lot of opportunity this quarter in the correspondent space.

I mean, the one thing I think is worth just restating is it comes back to those recapture rates. And we have the best recapture rates in the business on loans that we've originated, but we also have the best recapture rates in the business, correspondent or bulk acquisition loans. So, that best recapture rate turns into best returns, which will allows us to be more aggressive in the correspondent and other channels in terms of acquiring those clients because we see the best returns through recapture.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Great. Thanks.

Operator: Mark DeVries, Deutsche Bank has the next question.

Mark DeVries
Analyst, Deutsche Bank Securities, Inc.
Q

Yeah. Thanks. This past quarter was a particularly challenging environment for hedging MSR, yet you guys seem to kind of emerged unscathed. Could you discuss kind of your latest thoughts on how to hedge the MSR? I mean, the challenges of your peers inclined you to want to rely primarily on recapture, or do you see a place for derivatives?

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

Yeah. Thanks, Mark. I'm glad you asked that question. I was hoping to talk about it. Our hedge strategy is simple and it's consistent. I want to be very clear on that. Our goal is to hedge the interest rate volatility in the asset. And you can see, particularly when you look at both Rocket and Mr. Cooper, over time that the hedge strategy has performed well in both environments, high rates and low rates. We only use low cost instruments like Mortgage TBAs and Treasury Futures.

And the thing that's probably different when you look at Rocket compared to others is what you were alluding to, that our coverage ratio. The recapture business provides a really nice natural hedge. So, we don't target the same 80% to 100% coverage because that would actually make the hedge ineffective when you include the recapture rate. So that helps us lower the cost of hedging, I guess, you could say.

But the point I would just leave you with is that we are not placing any bets on rates going up or down. We're not placing any market bets to be clear. We're simply hedging the interest rate volatility in the asset itself.

Mark DeVries
Analyst, Deutsche Bank Securities, Inc.
Q

Got it. Thank you.

Operator: The next question is from Mihir Bhatia, Bank of America.

Mihir Bhatia
Analyst, BofA Securities, Inc.
Q

Hi. Good afternoon. Thank you for taking my question. I wanted to ask about two regulatory changes that seems to favor Rocket maybe a little bit, namely the VantageScore and the trigger lead ban. And, like, if I could ask specifically on VantageScore, you were among the first to put it into production. What have you seen with it? What share maybe of your volume is coming through it? Is the pay off more approvals, lower credit costs on that one. Just trying to understand like how that's benefiting you?

And then similarly on the trigger lead ban, given your servicing book, Redfin funnel, does that now put you in a more advantageous position? Are you seeing a show up yet in lower lead costs or better recapture as competitors' acquisition costs get higher? Thank you.

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

A

Yeah, thanks Mihir. I'll start on the VantageScore side and I'll start by saying, look, it is early. We're all early, to your point, we were able to participate in the pilot. So we're further along than other folks. There's two I would say positive things about Vantage. One is just we welcome competition in the credit scoring models themselves, largely because we've all seen the cost increases that have come from FICO over the years. So, having a competitive score is a good thing from a driving down costs and welcoming of competition.

But the second piece of it is, I think, where you were alluding to, there is a benefit even aside from cost advantage. And that benefit is that we do have thousands of clients that come through the system that don't have a FICO profile, or said differently, they don't have a FICO score but actually indexes or over-indexes to first-time homebuyers who maybe haven't built up their credit in the traditional way. That's where Vantage can really help. And I do believe there's an outsized benefit to Rocket because we help more first-time homebuyers than anyone else. We are starting to see that in the results, but I will just also be balanced in saying it is early days.

Your second question was on the credit triggers. Yes, the benefit we're seeing in credit triggers is really not so much as the acquisition cost, because as you guys know, we weren't a big user, I guess, you could say, of credit triggers. But like other lenders, our clients were getting calls from other people. And so when you kind of look at the mid-section of the funnel, as you're getting people down the funnel and in process, we are seeing better conversion rates just because those clients aren't getting those calls and getting harassed by other lenders at the time we pull credit.

So both of them, I agree with you are positive. A little bit early days on the VantageScore; but the credit triggers, they're good for the consumers and they're good for businesses that want to take care of their consumer.

Mihir Bhatia
Analyst, BofA Securities, Inc.

Q

Thank you.

Operator: Your next question comes from Kyle Joseph from Stephens.

Kyle Joseph
Analyst, Stephens, Inc.

Q

Hey. Good afternoon. Thanks for taking my questions. I just wanted to dig in on the MSR sales. Was that just kind of opportunistic? It sounds like it was a little bit of portfolio rotation. And remind us kind of what your appetite is for that going forward, recognizing that it's kind of pending market conditions?

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

A

Yeah. Thanks for the question, Kyle. Yeah, for those of you that have followed Rocket for a long time, this isn't a new thing. We have done some rebalancing. We've done some best acts. And to your point, it's all about just optimizing the portfolio. You'll see those prices come through in the Q. But it was a really good trade for Rocket. We focused on the low-WACC MSRs. And the good news is something to the tune of 80% of those sales went to our partners. And when I say partners, I mean folks that we already do the subservicing and recapture abilities for. So it's sort of a win-win.

We took advantage of the opportunity to sell and collect those proceeds, but most importantly, we will still be the sub-servicer of those loans and we'll still collect the recapture economics on those loans too, which is a win for us and a win for our partners. I think now if you look at there's $320 billion of unpaid principal in our book that has a note rate north of 6%. So, look, that's a great opportunity. That's your rebalancing point. If and when rates move, that'll provide a great rate and term first recapture opportunity.

Kyle Joseph
Analyst, Stephens, Inc.

Q

Great. That's it from me. Thank you.

Operator: Thanks, everyone. That's all the time we have for questions today. I'd like to hand the conference back to Varun Krishna for any additional or closing remarks.

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

Well, thank you, everybody, for listening and we look forward to seeing you next quarter.

Operator: And once again, ladies and gentlemen, that does conclude today's conference. We would like to thank you all for your participation. You may now disconnect.