



Mr. Cooper Group Inc.
Second Quarter 2025 Earnings Call Transcript
July 23, 2025

Introduction: Kenneth Posner, SVP Strategic Planning & Investor Relations

Good morning, my name is Ken Posner and I'm SVP of strategic planning and investor relations at Mr. Cooper Group. With me today are Jay Bray, chairman and CEO, Mike Weinbach, president, and Kurt Johnson, executive vice president and CFO. This morning we'll be reviewing the company's financial performance for second quarter 2025. You can find the slides accompanying our remarks on our investor relations webpage at investors.mrcoopergroup.com.

As a reminder, we may refer to non-GAAP measures, which are reconciled to GAAP results in the appendix to the slide deck and press release. Also, we may make forward-looking statements, which you should understand could be affected by risk factors that we've identified in our 10-K and other SEC filings. We are not undertaking any commitment to update these statements if conditions change.

Finally, due to the pending combination with Rocket, we will not be taking questions on today's call.

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

Speaker: Jay Bray, Chairman & Chief Executive Officer

Good morning, everyone. I'm going to start on slide 3 with a review of second quarter highlights. Then I'll turn it over to Mike to take you through a more detailed discussion of operating results, and Kurt will wrap up with the financials.

In summary, this was a very solid quarter, marked by consistent, recurring, and predictable performance. Operating ROTCE was 17.2%, up from 16.8% last quarter, and squarely within our guidance range of 16 to 20%. As you know, we paused our stock repurchase program due to the pending merger with Rocket. If we normalized the capital ratio back to where it was at year end, our ROTCE would have been in the upper end of our guidance range.

I'm very pleased with these results, in fact, I'd say the company is firing on all cylinders. This is a real achievement considering the difficult environment, with persistent high mortgage rates contributing to ongoing affordability challenges, sluggish home sales, and home prices coming under pressure in some markets. According to the MBA's latest survey, originators have lost money in 10 out of the last 12

quarters. In contrast, Mr. Cooper has produced solid double-digit returns for nearly two and a half years straight, which demonstrates the power of our scaled platform and balanced business model.

Over this time, the key themes for our performance have been very consistent: operating leverage, fee income, and nimble execution in originations. These themes reflect the combination of people, scale, and technology, and this formula for success is accelerating as we roll out AI, which is driving even better experiences for our customers, as well as incremental efficiencies.

At the end of the day, however, it's people who produce results, and we put a lot of care into creating a purposeful and inclusive environment. I was very pleased to see the company recognized by the Great Place to Work foundation as one of the best places to work in Texas. To all my Cooper teammates, I'd like to say "thank you" once again for your consistent, amazing work.

The balance sheet is in great shape with a super-strong capital ratio of 26.6%, and robust liquidity at \$3.8 billion. Asset quality remains pristine, with delinquencies declining in the quarter to 1.0%, and our hedging program continues to perform as expected.

Turning to the segments, servicing generated \$332 million in pretax income, up 15% year-over-year, while originations generated \$64 million despite elevated rates. I was pleased with our momentum in home equity loans, where we completed two securitizations during the quarter, and by our continued strong performance in the correspondent channel, where we are a top five player and climbing.

Separately, I'm excited to announce that after a concerted, multi-year effort, we have successfully launched our maiden MSR Fund, with \$200 million in initial commitments and plans to scale rapidly from here. We're working with blue chip fixed-income investors who know us well, and who see our platform as integral to maximizing MSR economics. By doing a good job for these investors, we'll build out an important asset-light strategy to grow our platform.

Finally, I will mention that we were thrilled to see Rocket close the acquisition of Redfin, which is a major component of the integrated homeownership platform which we are so excited to be building together. We're working very closely with Rocket on post-close integration planning to ensure once the deal closes

that we hit the ground running, with strong momentum in place to deliver the benefits of this platform to our clients, partners, and investors.

And with that, I'll turn the call over to Mike.

Speaker: Mike Weinbach, President

Thanks Jay, and good morning everyone. If you'll turn to slide 4, I'll start with the servicing portfolio, which is holding steady around \$1.5 trillion, following the successful acquisition of Flagstar, as we prepare for the merger with Rocket while also maintaining our pricing discipline within the bulk and correspondent channels.

Starting with subservicing, we continue to have a very strong market position. The slight decline in UPB this quarter is driven by a single client who is pursuing a different strategy. During the second quarter, we deboarded \$12 billion in loans for this client and we deboarded the remaining roughly \$50 billion earlier this month.

Otherwise, we are enjoying very strong momentum with organic growth and I'm pleased to report a new client win that is bringing a sizeable portfolio of about \$40 billion in loans that we expect to board by year-end.

Turning to the owned portfolio, we're pleased with the flows coming from our correspondent and co-issue channels, and we've been bidding on select bulk pools which meet our asset quality standards and return targets. Recent wins include a sizeable portfolio from a major institution which values our seamless onboarding process and high-quality customer care. We expect to board about \$20 billion in MSR acquisitions in the third quarter.

For the remainder of the year we'd expect the total portfolio to be flat, plus or minus, as we stick to our pricing discipline and work on integration planning with Rocket.

If you'll turn to slide 5, let's talk about servicing income, which came in at \$332 million, up 15% year-over-year. The key theme here remains operating leverage, which you can see in revenues up 13% year-

over-year, tracking significant portfolio growth especially in subservicing, while operating expenses were up only 6%.

What you're seeing here is not only the benefits of our growing scale, but our team's relentless focus on process improvement, which is the secret sauce behind providing the best possible customer experience and driving incremental efficiency. According to the latest data from the 2024 MBA benchmark survey, our cost to serve is now nearly 50% below the industry average, with the gap having expanded considerably from the year before, and these numbers do not include the incremental scale benefits reflected in our 2025 results.

A key benefit of scale is having the resources to invest in innovation, and as you know, we're continuing to invest in and implement new AI solutions, since this technology is uniquely suited for optimizing large call center operations. Last quarter we shared some color on our proprietary AgentiQ application, which helps team members with customer calls, by interpreting the questions, tracking sentiment in real time, putting explanatory material and customer information at the agent's fingertips, and generating call summaries. With the first version of AgentiQ now fully rolled out, we're moving forward to beta-test true "agentic" features, where the system will execute simple tasks on its own, like answering questions and fetching data in chat engagements, subject of course to rigorous quality control including human supervision.

Let's move on to slide 6 and talk about originations, where we generated \$64 million in pretax income on \$9.4 billion in fundings.

As Jay mentioned, the DTC channel is enjoying very strong momentum. Volumes were up roughly 40% sequentially, with home equity and cashout refinances together making up nearly 60% of the mix this quarter, as we continue to help customers responsibly access the equity in their homes.

We successfully completed two home equity securitizations during the quarter, and received very favorable feedback from investors, who appreciate the power of our loss mitigation capabilities and our long track record of keeping customers in their homes.

We believe there is a very substantial opportunity with home equity loans. Our customers have in total more than \$900 billion in available equity, which represents a massive, multi-year ramp of business for our DTC team. We view home equity as a mainstream consumer product, representing the easiest and most-cost effective manner for homeowners to access equity for a wide variety of uses.

Turning to rate and term refinances, the opportunity in the current environment is obviously somewhat limited, but I'd point out that 22% of our customers have note rates above 6%, which positions us for sizeable volumes whenever rates next rally, even if it is only briefly.

One final comment on DTC, I'd like to give a shout-out to the team for staying laser-focused on operations. Thanks to your tireless work, turn times measured from lock to funding were 6 days faster in the second quarter than a year ago, which is a substantial improvement with 68% higher volumes.

I'll wrap up with a quick comment on the correspondent channel, where our team continues to do a fantastic job bringing value to our sellers and fine-tuning our pricing and capital markets strategies to optimize execution. Over the last year, we've become a consistent top 5 player in this channel, and we expect the power of our platform to drive further share gains, subject of course to maintaining margin discipline.

With that, I'll turn the call over to Kurt.

Speaker: Kurt Johnson, EVP & Chief Financial Officer

Thanks Mike, and good morning, everyone. I'll start on slide 7 and provide some additional commentary around the second quarter financials.

To summarize, net income was \$198 million, which included \$269 million in pretax operating income, a \$30 million positive mark, net of hedges, offset by \$15 million in adjustments and \$7 million in intangible amortization.

Let me start by unpacking the adjustments. This quarter we had approximately \$9 million in costs related to the Rocket merger, and \$4 mm associated with Flagstar. Other miscellaneous adjustments,

which netted to \$2 million, included losses associated with equity investments, legal fees related to the Fund launch, a vendor expense write-off, and an offsetting reserve release related to the Home Point portfolio. Full details are as always listed in the appendix.

In terms of operating results, Mike covered both servicing and originations, and I'll mention that the corporate segment incurred \$48 million in expenses. For third quarter of 2025, we anticipate corporate expenses remaining at this level due to IT investments which we are continuing to make in our servicing platform, including projects like the agentic applications Mike mentioned, as well as additional investments in our correspondent channel.

Turning to the mark-to-market line, interest rate volatility was relatively muted this quarter. We marked up the MSR by \$59 million to reflect rising interest rates and lower CPRs, as well as non-interest rate related factors like cost-to-serve and OAS spreads. These changes resulted in a quarter-end valuation of 156 basis points of UPB or a 5.4 multiple of the base servicing strip. Offsetting the gain were \$29 million in hedge losses and our target hedge ratio remains 75%.

Turning to slide 8, I'll briefly touch on asset quality, which is a strategic focus for us. As you can see from the chart, our high-quality portfolio continues to perform extremely well, with MSR delinquencies down by 6 basis points in the quarter to 1.0%. Low delinquencies reflect our thoughtful portfolio construction, evident in the high FICO scores and low LTV ratios for our customers, as well as our loss mitigation capabilities, which we believe are best in class.

As we've commented in the last few quarters, we're closely monitoring the Ginnie Mae sector, especially FHA, where our delinquencies have increased, although they remain well below peers. Due to our conservative risk appetite, we've limited FHA loans to 15% of our MSR portfolio. In addition, we've largely avoided the 2023 and 2024 vintages, which we regard as posing higher risk.

FHA recently tightened the standards for its loan modification programs, limiting availability to once every 24 months. We view this as a prudent move by FHA to prevent recidivism in what are otherwise extremely helpful programs for customers struggling with financial hardship. Having said that, the change will reduce the population of delinquent customers who qualify for these programs.

Additionally, as you've probably heard, the end of the student loan moratorium has led to a rise in student loan delinquencies. In our portfolio, roughly 16% of customers have student loans, and we did see elevated student loan delinquencies as high as 8.7% in April, before settling down to 7.9% in June. We are closely watching our FHA customers who also have student loans, but for us this population represents only 3.5% of our total portfolio, and is largely associated with customers with significant equity positions. Therefore, we do not believe this portfolio poses a material risk to our performance.

Turning to slide 9, I'll end my remarks with an update on our key balance sheet metrics.

Liquidity ended the quarter at \$3.8 billion, slightly lower than the prior quarter, primarily due to the timing of a bulk MSR portfolio acquisition right at quarter-end. Looking ahead, we anticipate continued strong operating cash flow supporting a robust liquidity position throughout the remainder of the year.

Our capital ratio, as measured by tangible net worth to assets, ended the quarter at 26.6%, up from 24.4% at year-end, thanks to strong earnings and the absence of stock repurchases during the quarter, which we suspended due to the Rocket transaction. As Jay mentioned, if you normalized our capital ratio, we'd be earning in the upper end of our guidance range, which we believe reflects exceptional performance for a mortgage company at this point in the cycle.

Looking ahead to third quarter, we'd guide you to expect continued, consistent performance.

With that, I'd like to wrap up by thanking you for your interest in Mr. Cooper.