STONEGATE MORTGAGE CORPORATION

FOURTH QUARTER 2015 EARNINGS CONFERENCE CALL TRANSCRIPT

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PARTICIPANTS

Mike McFadden *SVP of Finance*

Rich Kraemer *Chief Executive Officer*

Rob Eastep *Chief Financial Officer*

Jim Smith *President and COO*

PRESENTATION

Mike McFadden

Good day everyone, this is Mike McFadden and thank you all for tuning in to Stonegate Mortgage Corporation's Fourth Quarter 2015 earnings conference call.

Financial results that will be discussed in this recording and located in the press release are unaudited. Additionally, today's discussion and accompanying materials include forward looking statements, and as such are subject to risk and uncertainty that we have discussed in detail in our documents filed with the SEC, specifically our annual report on Form 10-K which will be filed by March 15, 2016, which identify important risk factors that can cause actual results to differ from the forward looking statements. Finally, the financial results and matters that we will be discussing today contain non-GAAP measures that Stonegate management uses in evaluating company performance. GAAP to non-GAAP reconciliations are located in the press release and appended to the slide presentation. These non-GAAP measures are not intended to be a substitute for our GAAP results.

Please note that the accompanying presentation materials can be found on Stonegate Mortgage's investor relations website at www.investors.stonegatemtg.com. Please refer to that website for important materials including the Q4 earnings press release.

At this time, I would like to turn the call over to Rich Kraemer, Interim Chief Executive Officer of Stonegate Mortgage.

Rich Kraemer

Thank you Mike and welcome everyone to our Q4 2015 earnings review. Joining me on today's call is Jim Smith, Stonegate's President and COO and Rob Eastep, our current CFO. On Friday, February 19, we announced that Rob will be leaving the company effective March 4. Carrie Preston, who has been our Chief Accounting Officer since October 2014, will be taking over as CFO on March 4.

Additionally, our search for a permanent CEO is still ongoing. Upon taking over as interim CEO, my task was to evaluate our situation and what we could do quickly to put the company on a better track to profitability. I believe we have accomplished many of those objectives and the board's efforts are now focused on completing the CEO search.

Today, we will provide an overview of our operating and financial performance for Q4, which I would describe as a period that required many difficult decisions.

Throughout the fourth quarter, our executive team has been working diligently on ways to maximize shareholder value for Stonegate.

Additionally, we have completed the implementation of certain operating efficiencies and restructuring changes, which have allowed us to make good progress on the expense base reductions we discussed last quarter. We are now well-positioned for 2016 with a lower fixed expense base and leaner operations.

Jim will address this quarter's operating results and expense reductions in more detail later in the call, but first I will turn the call over to Rob to discuss our financial results.

Rob Eastep

Thanks, Rich. Let's begin on Slide 3, where we provide an overview of our performance in the fourth quarter.

First, I'd like to draw your attention to a change to the presentation of our financial results this period. As discussed on last quarter's earnings call, we have made some significant strategic changes to our retail distributed operations over the course of the last several months. We determined that the sale and closure of these retail branches met the criteria for presentation and disclosure as discontinued operations.

For the full year 2015, the loss from discontinued operations was $9.7 million pre-tax or $6.0 million after-tax. Unless otherwise specified, throughout the presentation, financial results are expressed on a continuing operations basis.

In the fourth quarter, we recorded GAAP net income from continuing operations of $1.1 million or 4 cents per share. The value of our mortgage servicing right asset increased $4.1 million during the quarter primarily due to an increase in interest rates. The 10-year Treasury note rate increased from 2.06% on September 30th to 2.27% on December 31st.

After adjusting for the fair market value change, stock-based compensation and other one-time charges recorded during the quarter, Adjusted Net Income was $1.2 million or 5 cents per share.

One-time adjustments to continuing operations included $200 thousand of severance expenses due to management and organizational restructuring. Charges related to the sale and disposal of the distributed retail assets are included as a part of discontinued operations. Additional details on discontinued operations and related financials can be found in our form 10-K, which we expect to file no later than March 15, 2016.

Our Originations segment adjusted pre-tax income declined by $4.7 million to $2.1 million during the quarter, primarily due to lower funded volume during the quarter. Origination volume was $2.3 billion, down 29% from the third quarter.

In our servicing segment, we recognized adjusted pre-tax income of $1.2 million compared to $400 thousand in the third quarter primarily due to lower amortization expenses as pre-payment speeds slowed. The effective CPR in the fourth quarter was 12% compared to 16% in the third quarter.

The Financing segment continues to perform well and contributed $291 thousand in pre-tax income during the quarter. Our outstanding commitments to our correspondents grew 16% from the third quarter and our funded volume decreased 4% to $844.5 million.

Let's turn now to slide 4 where we talk about the components of our GAAP revenue during the quarter. Fourth quarter GAAP revenue of $46.8 million was up 83% from the prior quarter due primarily to the $32.2 million swing in MSR valuation changes. This includes the $4.1 million positive fair value adjustment in the fourth quarter, primarily due to higher interest rates, compared to a $28.1 million negative fair value adjustment last quarter.

As shown on the prior slide, payoffs on the MSR portfolio trended down during the quarter as refinance volume subsided from the recent peak in the first quarter of 2015. This decline in payoffs resulted in a $2 million improvement to revenue compared to the third quarter of 2015. Lower origination volume during the quarter resulted in decreased gain on mortgage loans held for sale, loan origination fees and lower interest income.

On slide 5, we focus on our balance sheet and capital allocation decisions. We maintained adequate liquidity in the fourth quarter, with cash & equivalents as of December 31st of $32.5 million. We also have additional liquidity available through borrowing against our MSR asset, which was only levered at 39% as of year-end 2015. Finally, we continue to free up capital from servicing assets to re-invest in our originations and financing segments by opportunistically executing bulk and flow sales.

With that, I'd like to turn the call over to Jim Smith to discuss our operating results.

Jim Smith

Thanks, Rob. Turning to our originations segment beginning on Slide 6, interest rate locks were down 32% over the third quarter. Origination volume was down 29% over the third quarter to $2.3 billion. These results were impacted by several factors, including TRID implementation, normal seasonal declines, and the company's restructuring efforts.

Industry sources have estimated loan closing timelines have increased 7-10 days due to TRID implementation. Therefore, our correspondent clients took longer to deliver closed loan packages to us which impacted our funding volume this period.

As you can see on slide 7, Originations segment revenue was down 25% and adjusted pre-tax income was down 69% over the prior quarter. This is primarily due to the decrease in origination volume.

We've also included a comparison of revenue, pre-tax income and expenses on a continuing operations basis compared to a consolidated basis, which includes the discontinued operations. The revenue, adjusted expenses and adjusted pre-tax loss from discontinued operations were less significant in the fourth quarter as the branches continued to wind down throughout the quarter. We anticipate that the results from discontinued operations will have minimal impact on our consolidated results in 2016.

Adjusted segment expenses from continuing operations decreased 19% over the prior quarter in total dollars due to the lower volume, but were up $334 per loan as fixed costs were spread out over the lower loan count. These expenses exclude the approximately $200,000 in one-time severance expenses associated with Originations.

The restructuring efforts that took effect in the fourth quarter reduced our fixed expenses in excess of $35 million on an annualized basis, which will drive more revenue to the bottom line.

We had previously stated an expense reduction goal of $350 per loan in our originations segment, and in the fourth quarter, we more than achieved this goal. Our cost per loan would have remained at $3,200 on a consolidated basis, rather than the $2,800 cost per loan from continuing operations we obtained. Our retail distributed platform had the highest per loan expense base, and by reducing our footprint in this channel, our per loan costs were improved significantly. We were also focused on improving our variable cost per loan by improving our operational efficiency.

Turning to slide 8, our Servicing segment produced adjusted pre-tax income of $1.2 million during the quarter compared to $400 thousand in the third quarter, primarily driven by lower amortization expenses. As expected, our annualized CPR rate continued to trend down during the quarter; decreasing to 12% in the fourth quarter from 16% in the third quarter. Our portfolio ended the quarter with $17.5 billion in UPB, a $600 million decrease over last quarter.

Moving on to slide 9, our Financing segment posted pre-tax income of $291 thousand, which was 35% below prior quarter due to end of year intersegment adjustments. We believe this segment will continue to provide positive financial results in 2016. Funded volume was down slightly for the financing segment, coming in at $844.5 million or 4% lower than prior quarter. This highlights our growing warehouse market share as the correspondent market was down more than NattyMac's volume. As you would expect, there is a strong correlation between commitments outstanding and fee income, as evidenced by the chart on the bottom right. NattyMac's commitments grew another 16% in the fourth quarter to an all-time high of $572 million. If all other variables remain constant, we would expect NattyMac to continue to grow its fee income.

On slide 10, we provide a brief glimpse into the first quarter of 2016. So far in January and February, we are seeing an upwards trend in lock volume per day as interest rates have fallen and refi applications have picked up. While rates declined in January and February, our servicing payoffs were lower quarter-to-date compared to the monthly average of the fourth quarter. However, we do expect March payoffs to exceed the prior 2 months as the refinance applications start to fund.

Continuing to slide 11, we remain focused on operating as efficiently as possible, which will be critical to our success in any market environment. Our stated objective to reduce our overall expense base by 15% to 20% has been met as a result of discontinued operations and other strategic expense reductions. Consolidated expenses declined 27% in the fourth quarter compared to the year-to-date quarterly average through the third quarter, and reflect the decline in expenses due to discontinued operations. Over the same period, total expenses from continuing operations declined 17%. This reflects expense reductions outside of the retail distributed restructuring, including management restructuring and other operating efficiencies.

We remained focused during the quarter on optimizing our retail distributed branch structure to maximize shareholder value. We had 19 locations as of the end of December, primarily throughout the Midwest, after closing or selling a significant portion of our branch locations during the third and fourth quarters. We now believe we have a profitable core of physical branch locations and will focus on increasing that profitability by hiring additional talented mortgage advisors and leveraging our positions in existing markets.

With that summary, I'd like to turn it back over to Mike McFadden.

Mike McFadden

Thank you, Jim. As a reminder, the materials accompanying today's recording are available on the investor relations website at www.investors.stonegatemtg.com.