

STONEGATE MORTGAGE CORPORATION

THIRD QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

NOVEMBER 3, 2016

PARTICIPANTS

Mike McFadden *SVP of Finance*

Jim Smith *Chief Executive Officer*

Carrie Preston *Chief Financial Officer*

PRESENTATION

Mike McFadden

Good day everyone, this is Mike McFadden and thank you all for tuning in to Stonegate Mortgage Corporation's Third Quarter 2016 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 described in detail in our documents filed with the SEC, specifically our annual report on Form 10-K which was filed on 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.stonegatemt.com. Please refer to that website for important materials including the Q3 earnings press release.

At this time, I would like to turn the call over to Jim Smith, Chief Executive Officer and President of Stonegate Mortgage.

STONEGATE MORTGAGE CORPORATION

THIRD QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

NOVEMBER 3, 2016

Jim Smith

Thank you Mike and welcome everyone to our third quarter 2016 earnings review. Joining me on today's call is Carrie Preston, Stonegate's Chief Financial Officer.

Today, we will provide an overview of our operating and financial performance for the third quarter, starting on slide 3 of the presentation with some key highlights. From a consolidated standpoint, Stonegate made continued progress in three key areas of focus – Core Earnings Stability, Liquidity Position and Debt Management.

We are extremely pleased to report strong GAAP and Core earnings this quarter, primarily driven by improved performance in our Originations segment.

The success of our restructuring efforts and execution of our cost management strategies provided us with an opportunity to benefit greatly from increased originations this quarter. As a result, we achieved GAAP earnings of \$15.6 million and adjusted net income of \$11 million for the quarter.

Additionally, we increased our book value by nearly \$16 million during the quarter to \$223.6 million, or \$8.65 per share as of September 30th.

We also reduced our MSR debt by another \$4.3 million during the quarter, while maintaining an adequate liquidity position.

Our Originations segment increased funded volume by 12% over the prior quarter and revenues were up 35%, with all channels posting increases. Our Retail channel reported strong growth with a 27% increase in production, driven by higher Stonegate Direct volume through our call center. The higher production level had a favorable impact on our net income as we leveraged our existing expense base and controlled fixed costs. This resulted in a decrease of 9 basis points or \$58 per loan.

Our NattyMac financing segment continued to perform well and posted another record earnings quarter. Funded volume was up 12% and fee income was up 6%.

In addition, we closed a \$1.2 billion MSR sale during the quarter and maintained a relatively flat servicing portfolio, while decreasing total servicing expenses by 4%.

I will cover additional details related to our operating performance later, but now, I would like to turn the call over to Carrie for a discussion on our financial results.

STONEGATE MORTGAGE CORPORATION

THIRD QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

NOVEMBER 3, 2016

Carrie Preston

Thanks, Jim. Turning to Slide 4, we provide an overview of our financial performance.

As Jim mentioned, we were very pleased with the improved consolidated financial results and the results of our segments in the third quarter, both on a GAAP and adjusted basis.

We recorded GAAP net income of \$15.6 million, or 60 cents per diluted share, in the third quarter. The rising interest rate environment resulted in a net \$4.9 million positive change in the fair market value of our MSR portfolio. The 10-year Treasury note rate increased from 1.49% on June 30th to 1.60% on September 30th.

I have mentioned on prior calls that by recording GAAP earnings, we would be able to reverse some of the valuation allowance against our deferred tax assets. We were able to reverse \$6.2 million of our valuation allowance this quarter, favorably impacting our income tax expense. Our remaining valuation allowance as of September 30th is \$14.8 million, or 57 cents of book value per share.

Our third quarter adjusted net income was \$11 million, or 42 cents per diluted share, after adjusting for the fair market value change in MSRs and stock-based compensation expense.

Our adjusted pre-tax income from the Originations segment increased by \$12 million during the quarter, primarily due to higher funded and lock volume and higher gain on sale margins.

In our servicing segment, we recognized an adjusted pre-tax loss of \$1.3 million, an additional loss of \$600 thousand compared to the second quarter, primarily due to a decrease in the average servicing portfolio resulting in lower servicing fee revenue.

The Financing segment continues to perform well and contributed \$983 thousand in pre-tax income during the quarter.

Let's now turn to slide 5 where we discuss the components of our GAAP revenue.

Third quarter GAAP revenue of \$66.3 million was up significantly from the prior quarter. The largest driver of the increase was the \$4.9 million positive change in MSR valuation, compared to \$17.9 million negative adjustment in the second quarter. In addition, gain on sale revenue increased considerably, by \$12.9 million quarter over quarter.

STONEGATE MORTGAGE CORPORATION

THIRD QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

NOVEMBER 3, 2016

The 45% increase in gain on sale revenue generated by the originations segment was primarily due to a positive change in the valuation of the pipeline, as shown on the lower right hand chart, as well as higher cash gain on sale due to higher volume. Our pipeline increased due to a combination of both higher gross volume and higher margins.

On slide 6, we continue to demonstrate the results of our expense reduction efforts. Comparing our current year to date annualized total expense base to the annualized expense base for the same period in the prior year exhibits the progress we have made in this area, lowering expenses by \$82 million. Approximately 64% of the \$82 million decrease is due to our discontinued retail operations.

In addition to the discontinued operations, our salaries and bonus expenses were down \$28.2 million and our interest expenses were down \$3.7 million. These reductions are reflective of our strategic reductions, as well as lower volume through the first three quarters of the year. The only expense category with a notable increase is depreciation and amortization expense which is a non-cash expense item. This increase relates to significant technology investments made in the prior years.

Moving on to slide 7, we maintained an adequate liquidity position in the third quarter, with \$23.2 million in cash and equivalents on September 30th.

The expense reductions previously discussed have had a positive impact on our cash flows, as it reduces the required investment to originate and service MSRs.

We continue to monetize our MSR asset through strategic bulk sales. The proceeds from this quarter's bulk sale were used to pay down a portion of our outstanding MSR debt. Our MSR debt balance at the end of the quarter was \$57.6 million, a decrease of \$4.3 million compared to June 30th. In addition, we decreased our MSR leverage ratio from 47% to 39% during the quarter.

We also continue to focus on reducing our cash investment in capital assets from \$16 million during 2015. Year-to-date investments have totaled \$1.6 million.

And finally, each of our segments generates fee income, which serves as a steady form of cash inflows for the business. Our servicing segment generated \$11.2 million of fee income in the third quarter while our Originations and Financing segments generated a combined \$6 million.

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

STONEGATE MORTGAGE CORPORATION

THIRD QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

NOVEMBER 3, 2016

Jim Smith

Thanks, Carrie. Turning to the originations segment results beginning on slide 8, we generated \$3.6 billion of interest rate locks during the third quarter – an 11% increase over second quarter results. Lock volume related to our refinance activity increased 32%, while purchase volume activity decreased 10%.

Origination volume of \$2.6 billion was up 12% compared to the second quarter. Our Retail channel reported a 27% increase in production and accounted for 28% of the additional volume. Our Wholesale channel reported a 6% increase in production and accounted for 12% of the additional volume. And our Correspondent channel reported an 11% increase in production and accounted for 60% of the additional volume.

As you can see on slide 9, Originations segment revenue increased 35% compared to the prior quarter, primarily due to the higher origination volume, while adjusted segment expenses were up just 4%. Adjusted segment expenses were up in total dollars, but down \$58 per loan or 2% compared to the second quarter.

The increased revenue combined with only slightly higher expenses resulted in adjusted pre-tax income of \$17.7 million compared to \$5.8 million last quarter.

Turning to slide 10, our Servicing segment reported an adjusted pre-tax loss of \$1.3 million during the quarter compared to a loss of \$700 thousand in the second quarter, primarily due to lower servicing fee revenue, partially offset by lower amortization expense. Overall, total expenses were down 4% from the prior quarter.

Servicing fee revenue decreased 18% or \$2.5 million from the prior quarter due to the lower average size of the servicing portfolio. This decrease in fee revenue was partially offset by a \$1.6 million decrease in amortization expense.

Our portfolio ended the quarter with \$14.4 billion in UPB, a \$300 million increase from levels at the end of the second quarter. The weighted average coupon of our servicing portfolio at quarter end was 3.75%.

Moving to slide 11. We continue to take a disciplined approach to building out the NattyMac platform and our results clearly continue to validate that strategy.

NattyMac funded volume increased 12% from the prior quarter to \$1.4 billion and generated pre-tax income of \$983 thousand – up 6% from the prior quarter and up 226% from our 2015 quarterly average.

STONEGATE MORTGAGE CORPORATION

THIRD QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

NOVEMBER 3, 2016

At the end of the third quarter, we had 106 approved NattyMac correspondents of which 102, or 96% were active with us during the quarter. Outstanding commitments to our correspondents as of the end of the quarter totaled \$575.5 million. In addition, our increased fundings generated 6% more fee income, up from \$459 thousand in the second quarter to \$488 thousand in the third quarter.

On slide 12, we provide a brief overview of October's origination and lock volume activity.

During the month of October, we saw a decline in our average lock volume per day when compared to the average lock volume per day during the third quarter – down 26%. This is primarily due to the rising interest rate environment experienced throughout the entire month. While lock activity was lower in October, we were able to maintain our gain on sale margins on those locks compared to the margins in the ending September pipeline.

Origination volume during October increased to \$44 million per day from \$41 million per day during the second quarter - up 8% with all channels posting increases.

In conclusion, we continue to remain highly focused on optimizing the risk-return profile of our business. During both the second and third quarters, we have successfully generated core profitability during each month.

In addition, we continue to focus on maintaining a prudent liquidity position, leveraging our cost structure and sound management of our MSR debt levels.

We believe that these efforts will continue to improve our overall execution, strengthen our balance sheet and increase shareholder value.

With that, I will turn the call back over to Mike.

Mike McFadden

Thanks, Jim. As a reminder, the materials accompanying today's recording are available on the investor relations website at [www.stonemortgage.com](#). Thank you everyone for listening in today.