STONEGATE MORTGAGE CORPORATION

FIRST QUARTER 2016 EARNINGS CONFERENCE CALL TRANSCRIPT

MAY 10, 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 First 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.stonegatemtg.com. Please refer to that website for important materials including the Q1 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.

Jim Smith

Thank you Mike and welcome everyone to our first 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 first quarter. Our first quarter results were impacted by the challenging rate environment, particularly as it relates to the fair market valuation of our MSR assets and the capitalization rate at which we record new MSRs. Our financial results were also impacted by a decrease in our origination volume, which was in line with the reduction in the overall industry volume as reported by the Mortgage Bankers Association.

While the bottom line results are not in line with our expectations, we are pleased with the continued improvement we have made on our expense structure over the last several months. As we move forward, these cost structure improvements will enhance our competitive position, while reducing the cash required to originate mortgage servicing rights. In addition, our lower cost basis will drive improved operating performance and allow us to maintain our strong balance sheet.

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

Carrie Preston

Thanks, Jim. Let's begin on slide 3, where we provide an overview of our financial performance.

In the first quarter, we recorded a GAAP net loss of $37.5 million or $1.45 per diluted share. The declining interest rate environment resulted in a $35.7 million negative fair market value change in our MSR asset. The 10-year Treasury note rate decreased from 2.27% on December 31st, 2015 to 1.78% on March 31st, 2016.

Due to the decline in our MSR assets, the delta between our deferred tax assets and deferred tax liabilities increased, which led to the recording of an additional valuation allowance against our deferred tax assets in the amount of $13.1 million this quarter. In the event that we have GAAP earnings in the future, including a write up of the MSR asset, we may reverse some or all of this valuation allowance.

Our Adjusted Net Loss was $3.1 million or 12 cents per diluted share after adding back the fair market value change in MSRs as well as certain other adjustments recorded during the quarter.

Our adjusted pre-tax income from the Originations segment declined by $1.6 million to $500 thousand during the quarter, primarily due to the lower funded volume. We recorded an increase in the valuation of the pipeline, which was offset by lower cash gain on sale and lower MSR capitalization rates across all channels.

In our servicing segment, we recognized adjusted pre-tax income of $2.1 million, an increase of $800 thousand compared to the fourth quarter of 2015. The unpaid principal balance of our servicing portfolio increased to $18.1 billion at the end of the first quarter, compared to $17.5 billion at the end of 2015.

The Financing segment continues to perform well and contributed $545 thousand in pre-tax income during the quarter.

Let's now turn to slide 4 where we talk about the components of our GAAP revenue during the quarter. First quarter GAAP revenue of $5 million was down 89% from the prior quarter due primarily to the $39.9 million swing in MSR valuation changes. This quarter includes the $35.7 million negative fair value adjustment compared to a $4.1 million positive fair value adjustment from last quarter. The lower origination volume resulted in decreased loan origination fees and interest income.

Gain on sale generated by the originations segment was lower due to the lower volume during the quarter. More specifically, as shown on the lower right hand chart, we recorded lower cash gain on sale and MSR capitalization. These items were mostly offset by the positive change in the valuation of our pipeline as we had more interest rate lock commitments outstanding at the end of the first quarter compared to last quarter.

On slide 5, we focus on our expense reduction initiatives. Comparing this quarter's annualized total expense base to the annualized expense base through the first 3 quarters of last year demonstrates the progress we have made in this area.

We had previously stated that we expected to lower our expenses by 15 to 20 percent, and we have exceeded those expectations. Our current quarter's annualized expense base of $177 million is $89 million lower than the YTD run rate through the 3rd quarter of last year.

We have focused these efforts on lowering our fixed expenses, but the lower funded volume has also resulted in lower variable costs. Therefore, as we increase origination volume, we would expect total expenses to rise, but we believe the lower fixed expense base will make the additional volume more profitable.

Moving on to slide 6, our liquidity and cash flow position has also benefited from the expense reductions. We maintained an adequate liquidity position in the first quarter, with $29.5 million in cash and equivalents on March 31st, 2016.

We increased the amount of flow sales quarter-over-quarter as we sold MSRs with an unpaid principal balance of $532 million on a flow basis this quarter compared to $436 million last quarter. We did not execute an MSR bulk sale in the first quarter.

In addition to the P&L focus on expenses, we also have reduced the cash investment in capitalized assets and PP&E from last year's annual pace of $16 million as we only used $1.1 million in cash this quarter for these investments.

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

Jim Smith

Thanks, Carrie. Turning to our originations segment beginning on slide 7, interest rate locks of $3.1 billion were up 14% over the fourth quarter, with refinance volume up 19% and purchase volume up 9%. Origination volume of $1.9 billion was down 15% compared to the fourth quarter. These results were impacted by several factors, including operational changes related to TRID, overall market declines, and the company's restructuring efforts. Although our correspondent clients continued to take longer to deliver closed loan packages to us, our closing timelines did improve by several days by the end of the quarter.

As you can see on slide 8, Originations segment revenue was down 10% and adjusted pre-tax income was down 76% over the prior quarter. This is primarily due to the decrease in origination volume.

Adjusted Segment expenses decreased 5% over the prior quarter in total dollars partially due to the lower volume, but were up $278 per loan as fixed costs were spread out over the lower loan count.

Turning to slide 9, our Servicing segment produced adjusted pre-tax income of $2.1 million during the quarter compared to $1.2 million in the fourth quarter.

We incurred $7.2 million in payoffs and principal amortization of mortgage servicing rights during the quarter as prepayments were still somewhat elevated. This expense was in line with what we incurred during the last quarter.

Despite the increase in portfolio size, servicing fees were down during the quarter as a result of lower average government mix. Government mix has declined in recent quarters because more of our bulk and flow sales have been government MSRs. We have seen better market pricing for our government MSRs than for our conventionals which has led to a higher percentage of government MSRs being sold. These MSRs typically have higher cap rates, which result in higher cash flows. As a result, we have increased our government percentage of total originations.

Our portfolio ended the quarter with $18.1 billion in UPB, a $600 million increase over last quarter.

Moving to slide 10, NattyMac's Funded volume increased 4% to $882 million. Our Financing Segment pre-tax income of $545 thousand was 87% higher than the prior quarter.

Our outstanding commitments to our correspondents were $564 million at the end of the first quarter. In line with the higher fundings, our fee income increased from $318 thousand in the fourth quarter to $325 thousand in the first quarter.

On slide 11, we provide a brief overview of April's origination and lock volume. Our average origination volume per day was up 18% in April, while lock volume was down slightly. Refinance volume ticked down slightly from 52% of total locks in the first quarter, compared to 50% in April.

In conclusion, Stonegate remains focused on developing a strong business platform capable of delivering positive and sustainable results over the long-term. We have taken the necessary steps to ensure our business is appropriately scaled, our expense base is market aligned and our quality levels meet the highest standards.

We have reduced our annualized expense base by $89 million and maintained a strong liquidity position with just under $30 million in cash and equivalents at the end of the quarter.

We continue to make progress in strengthening our servicing platform and developing our financing segment business which continued to deliver profitable results.

In addition, we are taking steps to improve our efficiency and productivity levels across all business segments, expand our customer base and streamline our loan process.

We anticipate that these efforts will increase overall shareholder value, improve our execution and maintain our strong balance sheet.

With that, I will turn the call 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. Thank you everyone for listening in today.