



**STONEGATE**<sup>TM</sup>  
MORTGAGE

# First Quarter 2014 Earnings Presentation

*Three Months Ended March 31, 2014*

**May 15, 2014**

# Forward Looking Statements

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## **FORWARD-LOOKING STATEMENTS:**

*Our presentation contains certain forward-looking statements. These forward-looking statements may be identified by a reference to a future period or by the use of forward-looking terminology. They involve risks and uncertainties that could cause the company's actual results to differ materially from the results discussed in the forward-looking statements. Important factors that could cause actual results to differ include, but are not limited to, our future production, revenues, income, capital spending, related general economic and market conditions, delinquency rates, trends for home prices, uncertainties related to acquisitions, including our ability to integrate the systems, procedures and personnel from other companies, as well as other risks discussed in the "Risk Factors" section within our Annual Report on Form 10-K, which was filed with the U.S. Securities and Exchange Commission on March 14, 2014. These forward-looking statements speak only as of the date they are made and except for our ongoing obligations under the U.S. federal securities laws, we undertake no obligation to update or revise forward-looking statements whether as a result of new information, future events or otherwise.*

## **NON-GAAP MEASURES:**

*Our presentation contains non-GAAP performance measures, such as our references to "adjusted net income", "adjusted EPS", and "adjusted net income per diluted share". We believe these non-GAAP performance measures provide additional meaningful comparisons between current results and results in prior periods. Non-GAAP performance measures should be viewed in addition to, and not as an alternative for, the Company's reported results under accounting principles generally accepted in the United States. In addition, our calculations of non-GAAP performance measures may be different from the calculations used by other companies and, therefore, comparability may be limited. Please refer to the Appendix of this presentation for a reconciliation of these non-GAAP performance measures to the most comparable GAAP measure.*

# 1Q14 Stonegate Highlights



## Financial

- GAAP Revenue: \$38.3 million
- Gain on sale revenue: \$28.6 million or 118 bps (up 26 bps from 4Q13)
- GAAP net loss of \$7.9 million or (\$0.31) per diluted share
- Adjusted net income of \$3.4 million or \$0.13 per diluted share<sup>(1)</sup>
  - Adjustments include FMV adjustments on MSR and other non-routine expenses
- Net interest income of \$2.3 million up 3% from 4Q13
- Servicing fee income of \$9.2 million up 16% from 4Q13

## Operational

- Originations increased to a record \$2.4 billion, up 2% from 4Q13 and 27% from prior year quarter
  - Retail origination volume of \$261 million nearly doubled from 4Q13
  - Wholesale origination volume of \$422 million up 1% from 4Q13
- Interest Rate Locks increased to a record \$3.5 billion, up 16% from 4Q13 and 37% from prior year quarter
  - Retail lock volume of \$400 million (or 12% of total) up 169% from 4Q13
  - Wholesale lock volume of \$685 million (or 20% of total) up 47% from 4Q13
- Servicing UPB grew 18% from 4Q13 to \$14.1 billion

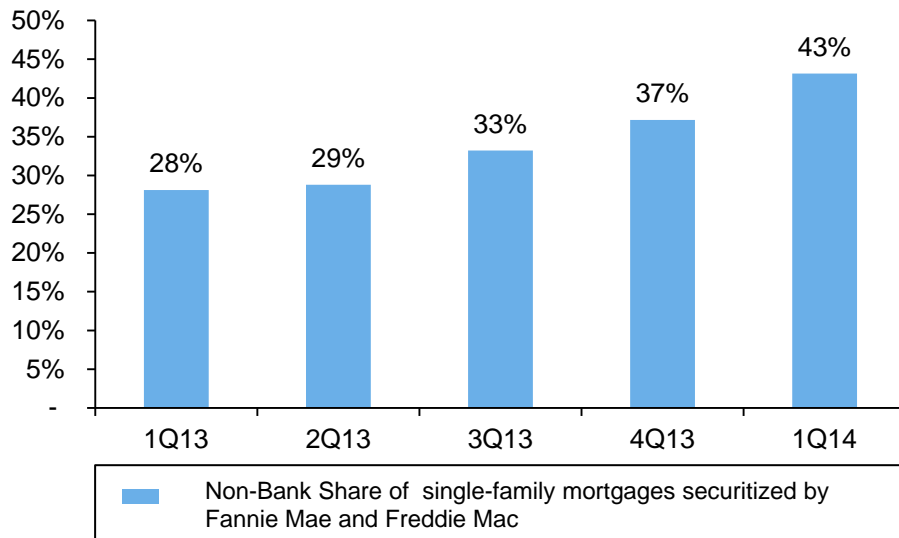
(1) Adjusted Net Income and adjusted EPS are key performance metrics used by management in evaluating the performance of our business. See the Appendix for GAAP to non-GAAP reconciliation

# 2014 Market Opportunity

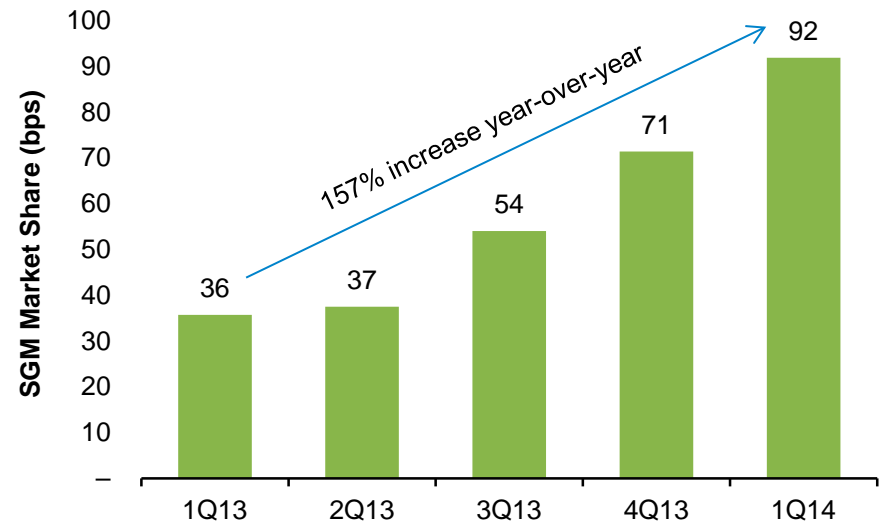


- Banks continue to cede market share to non-banks
- Origination platform creates an advantage for Stonegate compared to other non-banks who rely on buying servicing
- Costs continue to increase for flow and bulk purchasers:
  - Servicing bids are increasing
  - State and federal regulators are expressing concern with the size of servicing transfers
- Stonegate has yet to acquire licenses in 5 remaining states <sup>(1)</sup>, representing 9% of the U.S. mortgage market <sup>(2)</sup>

**Shifting Mortgage Landscape – Non-Bank Market Share <sup>(3)</sup>**



**Increasing Stonegate Market Share in a Declining Market <sup>(4)</sup>**



(1) Excludes HI and AK.

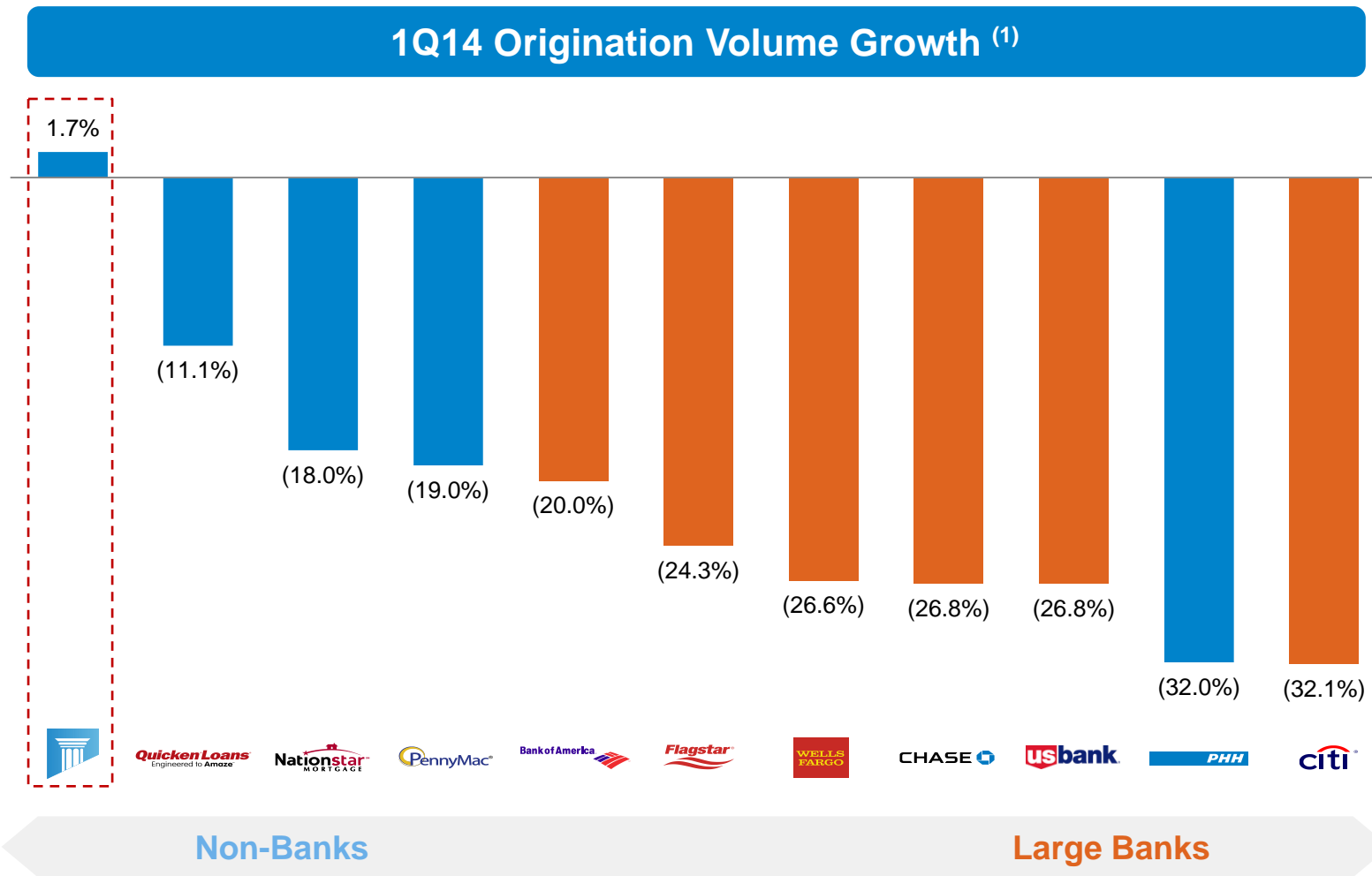
(2) Source: Mortgage Bankers Association (origination volume as of 2012).

(3) Source: Inside Mortgage Finance.

(4) Market share is calculated as Stonegate Mortgage originations divided by the average origination volume during a given period as reported by Freddie Mac, Fannie Mae and MBA as of April 2014.

# Outperforming the Industry

- Stonegate was one of six top 30 bank or non-bank originators to grow origination volume in the first quarter



Source: Inside Mortgage Finance.

(1) Represents growth for top 10 originators and Stonegate Mortgage for 1Q14 compared to 4Q13.

# Differentiated Business Model



- Stonegate’s origination platform allows it to invest less capital into Mortgage Servicing Rights than others who rely on buying bulk and flow servicing packages
  - Multi-channel origination business positions Stonegate to continue to gain market share
  - As new products are introduced, Stonegate is positioned to be a leading originator in the emerging market
- Stonegate is currently diversifying its business from a correspondent-focused originator to one more focused on retail and wholesale
  - Retail and wholesale have a lower net cost to originate than correspondent, which can produce a higher return on capital
  - This transition, along with the Nationstar acquisition<sup>(1)</sup>, is resulting in temporarily elevated levels of expenses, which are expected to decrease as retail and wholesale volumes continue to grow

Numbers in BPS	Origination			Financing & Sell			MSR Market	
	BOT Price/ Paid to TPO	Fee Income	Total Expenses <sup>(2)</sup>	Sale Proceeds	Finance <sup>(3)</sup>	Net cost to originate	Flow/Bulk Cost	Fair Market Value
<b>Retail</b>	(175)	40	(315)	400	11	(39)	115	130
<b>Wholesale</b>	(440)	35	(80)	400	11	(74)	115	130
<b>Prior Approved (mini-correspondent)</b>	(457)	25	(67)	400	19	(80)	115	130
<b>Delegated Correspondent</b>	(480)	15	(48)	400	19	(94)	115	130

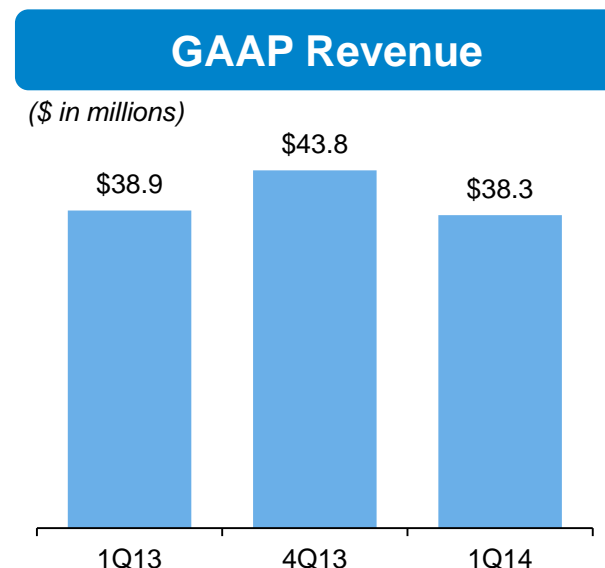
Note: Represents an illustrative example. This illustration uses assumptions that affect results shown, including assumptions that are based on factors that are beyond the Company's control. Actual results could differ from this illustration.

(1) Nationstar acquisition consisted of wholesale lending channel and certain distributed retail assets  
 (2) Expenses modeled for a fully ramped origination business (approx. \$4 billion per quarter).  
 (3) Based on 200 bps of spread. Assumes retail and wholesale loans in warehouse for 20 days and prior approved and correspondent loans financed through NattyMac and in warehouse for 35 days.

# 1Q14 Revenue



- GAAP revenue of \$38.3 million was down 13% from the previous quarter and down 1% compared to the same period last year
  - Servicing fee income grew 16% from 4Q13
  - Net interest income grew 3% from 4Q13
  - Gain on sale revenue grew 30% to \$28.6 million as gain on sale margins increased by 26 bps to 118 bps compared to 92 bps in 4Q13 <sup>(1)</sup>
  - Includes a \$7.9 million negative adjustment of MSR valuation



Revenues (\$ in thousands)	Three Months Ended		
	3/31/2013	12/31/2013	3/31/2014
Gains on mortgage loans held for sale	\$ 24,204	\$ 21,942	\$ 28,631
Changes in mortgage servicing rights valuation	4,090	2,773	(10,658)
Loan origination and other loan fees	4,648	5,589	5,077
Loan servicing fees	3,119	7,880	9,174
Interest income	2,821	5,661	6,077
<b>Total revenues</b>	<b>\$ 38,882</b>	<b>\$ 43,845</b>	<b>\$ 38,301</b>

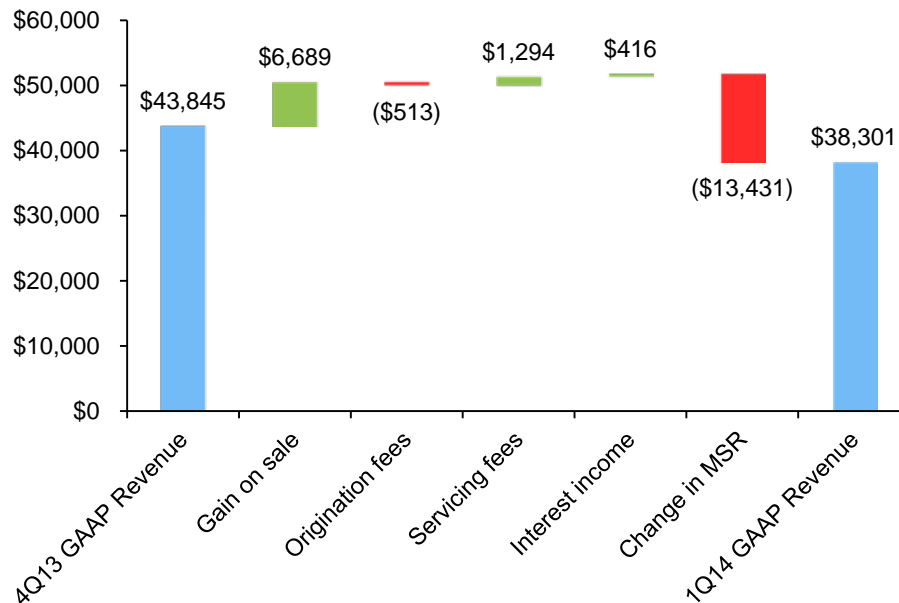
(1) Gain on mortgage loans held for sale as a percentage of origination volume

# 1Q14 Revenue Reconciliation

- Loan servicing fees, interest income and gain on mortgage loans held for sale each increased from 4Q13 to 1Q14 due to higher UPB, origination volume and gain on sale margins improvements
- Cash gain on sale was the only component of gain on sale that increased from the prior period as margins in each channel improved and retail made up a larger percentage

## GAAP Revenue Bridge

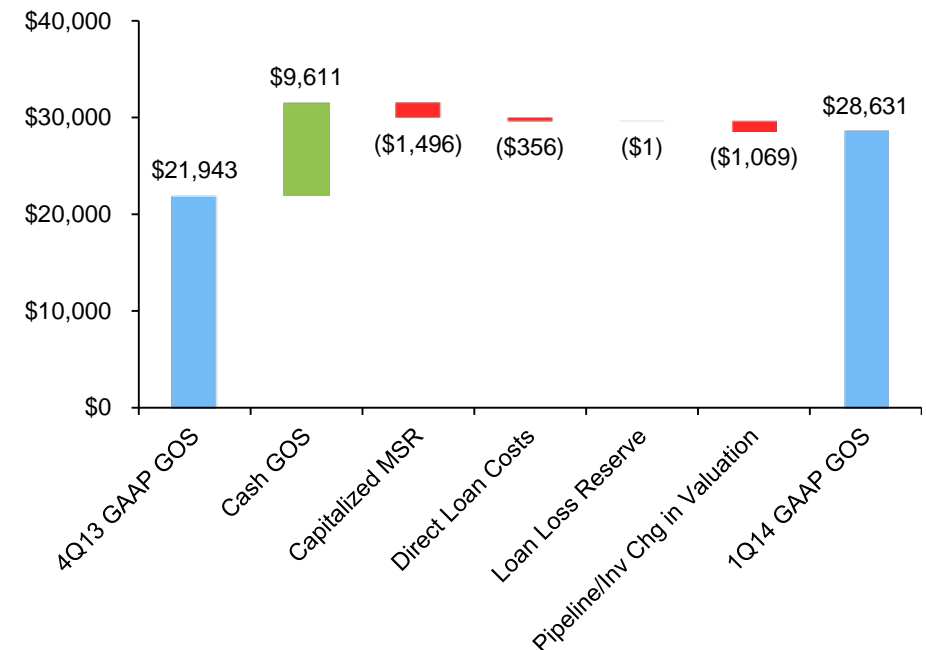
(\$ in thousands)



■ Negative Adjustment ■ Positive Adjustment

## Gain on Sale Bridge

(\$ in thousands)



■ Lower GAAP gain on sale ■ Higher GAAP gain on sale

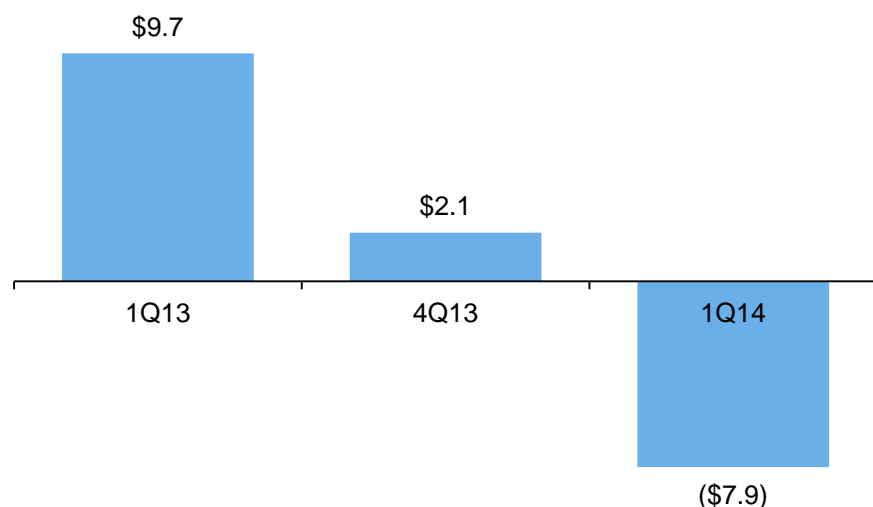


# 1Q14 Net Income

- GAAP net loss of \$7.9 million or (\$0.31) per diluted share
- Adjusted net income<sup>(1)</sup> of \$3.4 million or \$0.13 per diluted share
  - 1Q14 adjusted net income<sup>(1)</sup> represents a 27% increase from the previous quarter
  - Adjustments include the FMV change in MSR, ramp expenses associated with the Nationstar acquisition, and other non-recurring items
    - Non-routine expenses totaled \$10.5 million – primarily attributable to Nationstar ramp-up expenses, as we built retail and wholesale pipeline throughout the quarter

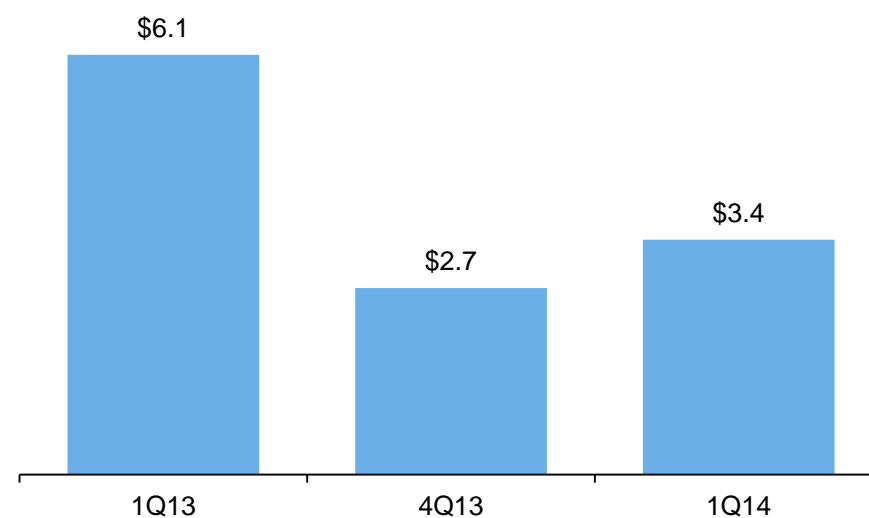
## GAAP Net Income

(\$ in millions)



## Adjusted Net Income <sup>(1)</sup>

(\$ in millions)



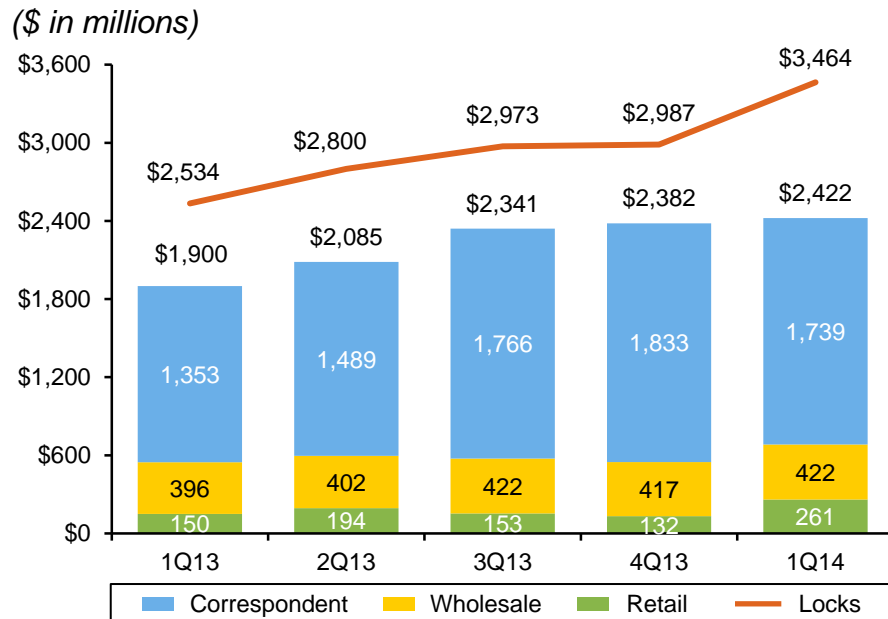
(1) Adjusted Net Income is a key performance metric used by management in evaluating the performance of our business. See the Appendix for Adjusted Net Income reconciliation

# Stonegate Mortgage Origination Business

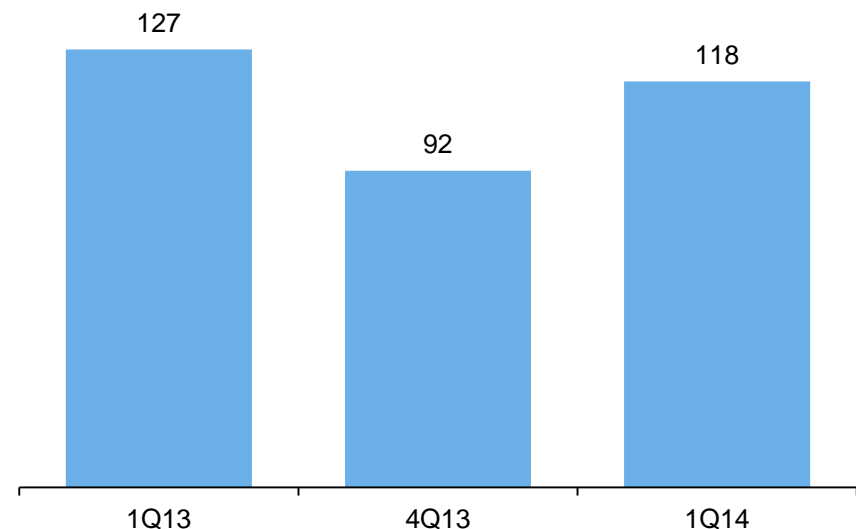


- Stonegate again turned out a record quarter for both origination volume and lock volume
  - Origination volume grew 2% over 4Q13 and 27% over 1Q13
  - Gain on sale margins increased 26 bps over 4Q13<sup>(1)</sup>
  - Purchases as a percent of originations decreased to 63%
- Interest Rate Locks increased to a record \$3.5 billion, up 16% from 4Q13 and 37% from 1Q13
  - Retail and wholesale accounted for 12% and 20%, respectively, of total locks

## Origination Volume



## Total Gain on Sale Margins<sup>(1)</sup> (bps)



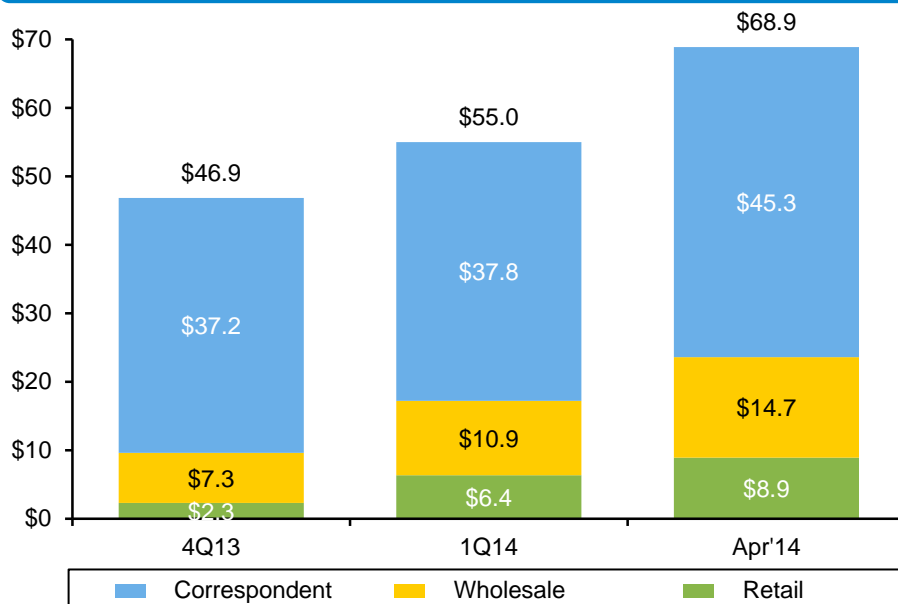
(1) Gain on mortgage loans held for sale as a percentage of origination volume.

# Focus on Retail and Wholesale

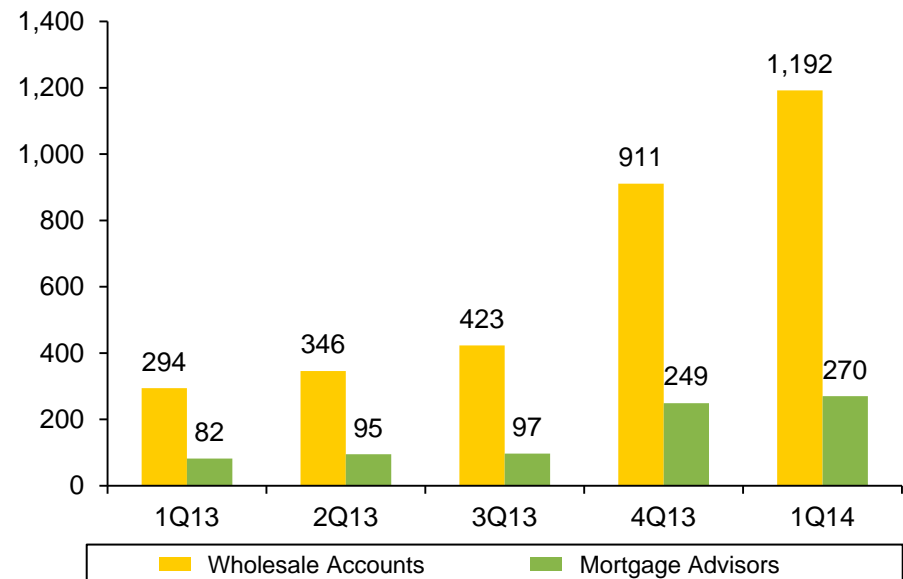


- Channel shift is underway; retail volume accounted for 12% of locks in 1Q14 compared to 5% in 4Q13
  - Retail locks per day grew 174% and 41% in 1Q14 and April, respectively
  - Wholesale locks per day grew 49% and 35% in 1Q14 and April, respectively
- Total number of mortgage advisors was 270 in 1Q14, an increase of 229% since 1Q13
- Total number wholesale accounts was 1,192 in 1Q14, an increase of 305% since 1Q13
  - Please see appendix for FY13 productivity data of mortgage advisors and wholesale accounts

**Locks per Day Trend**



**Mortgage Advisors and Wholesale Accounts**



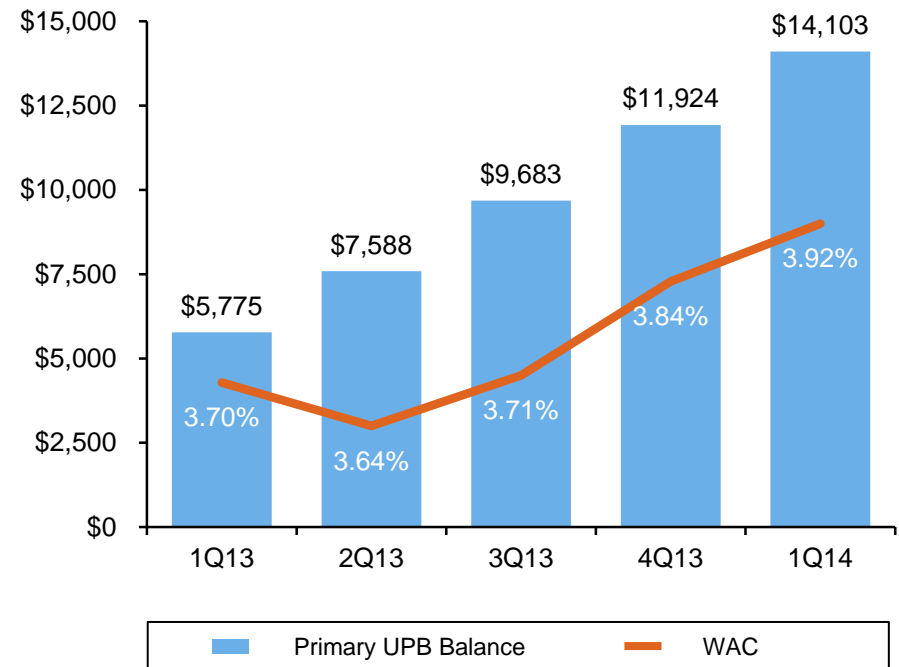
# Stonegate Mortgage Servicing Business



- Servicing UPB grew 18% from 4Q13 and 144% from 1Q13
  - As of 1Q14, the 90+ day delinquency rate was 0.42% and the average CPR was under 4%
  - Portfolio composition as of 1Q14 was 38% government / 62% conventional
  - Weighted average coupon rate as of March 31, 2014 was 3.92%, up 22 bps from prior year
- Loan servicing fees grew 16% from 4Q13 and 194% from 1Q13
- Non-banks servicers accounted for 18.0% of the total market in 1Q14, compared to 15.5% one year ago <sup>(1)</sup>
- Market for MSR financing is improving
- Pursuing subservicing opportunities

## Servicing UPB and WAC

(\$ in millions)



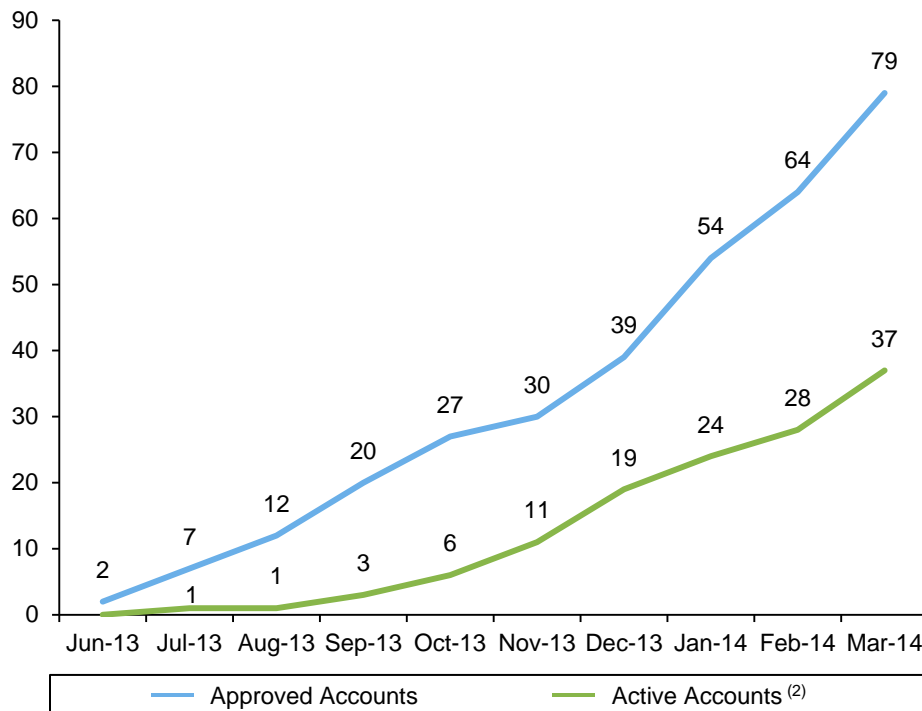
(1) Source: Inside Mortgage Finance.

# Stonegate Mortgage Financing Business



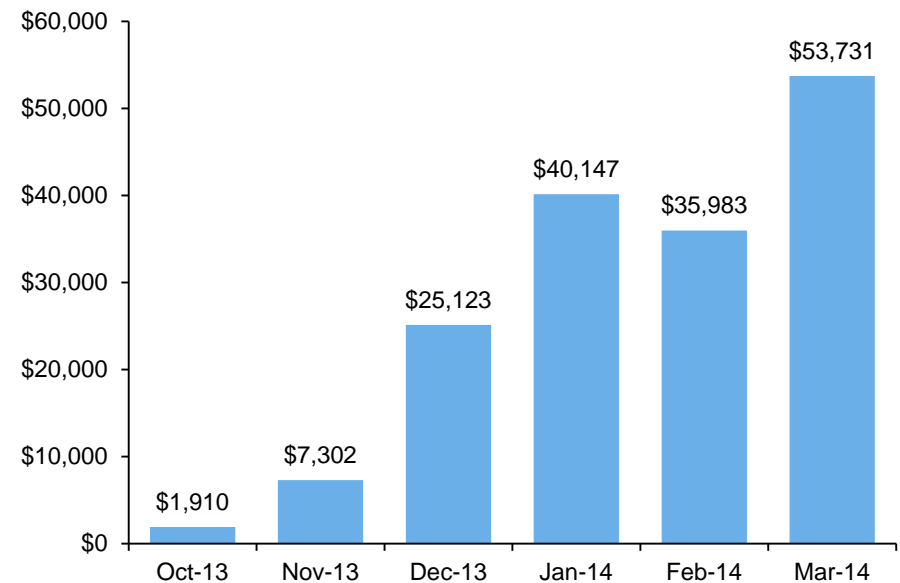
- Number of NattyMac customers and commitments continuing to grow
  - Current commitments<sup>(1)</sup> total \$325 million to 87 approved accounts
- Stonegate generated \$2.3 million in net interest income in 1Q14 from its loans held for sale and NattyMac outstandings

## NattyMac Customers



## NattyMac Average Outstandings

(\$ in thousands)



(1) As of April 30, 2014

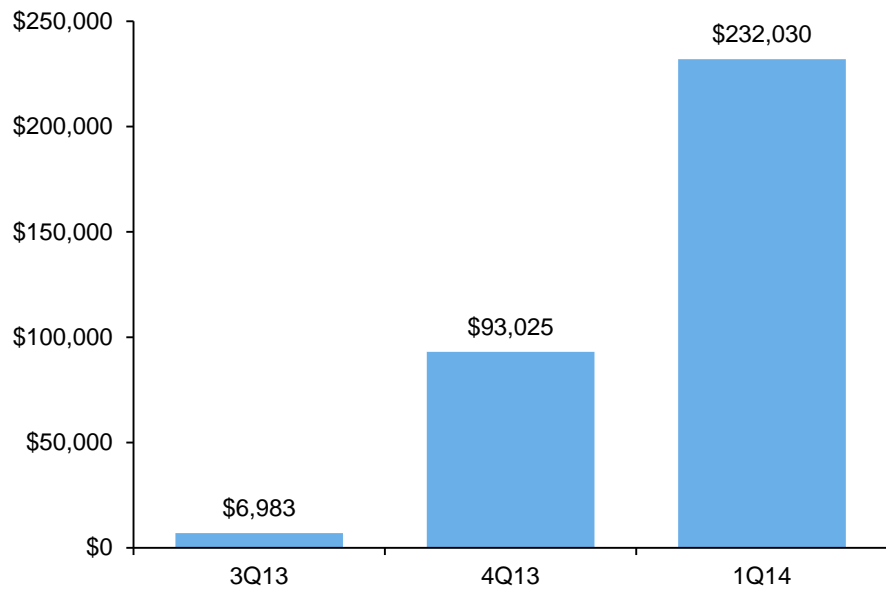
(2) Funded at least one loan through on a NattyMac warehouse line in the last 90 days

# NattyMac Creates Sticky Business

- Small to mid-size originators are in need of a financial partner
- NattyMac clients' locks increase 59% on average three months after receiving a warehouse line compared to the three months' average prior
- Provides additional fee and interest spread income to Stonegate
- NattyMac funded \$130 million in April, compared to \$77 million on average per month during 1Q14

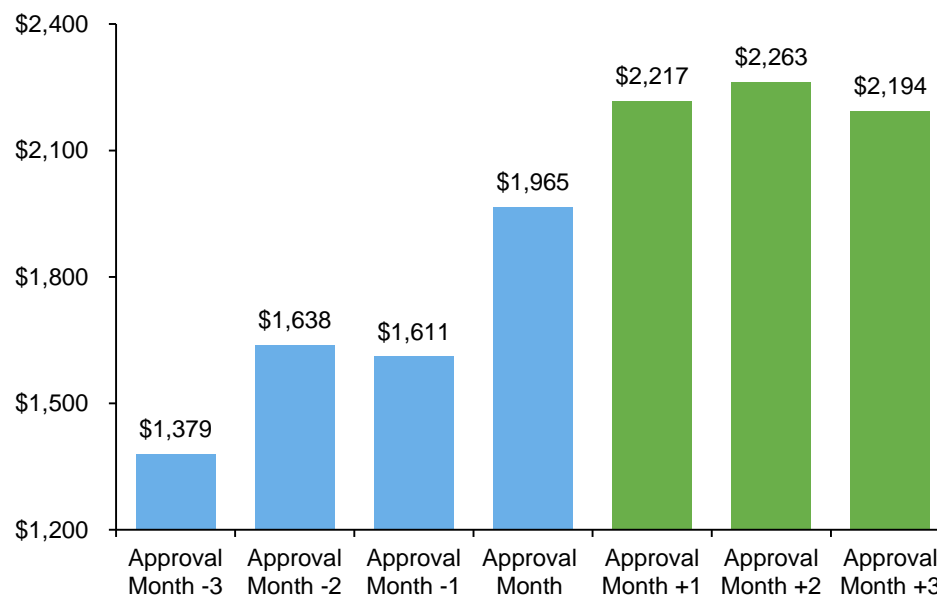
## Funding Volume

(\$ in thousands)



## Locks per Month

(\$ in thousands)



# Nationstar Acquisition Update



## Investment

- Due to the Nationstar acquisition, which did not include a pipeline, we incurred ramp expenses while the Mortgage Advisors (Retail) and Account Executives (Wholesale) rebuilt their pipelines
  - Ramp expenses were related to both sales and operational expenses, such as guarantees, salaries, etc.
  - Expenses ran through the end of 1Q14. We currently do not expect to book any additional ramp expense in 2Q14
  - Total expenses associated with the ramp in 4Q13 and 1Q14 total approximately \$14 million, in line with original expectations

## Production

- 88 new Mortgage Advisors are currently employed by Stonegate due to the acquisition
- Through the end of 1Q14, the account executives that joined Stonegate from Nationstar signed up 515 new wholesale accounts in aggregate

## Return on Investment

- We expect to earn a return on this retail and wholesale investment by lowering our overall net cost to originate
- Retail and wholesale produce MSR's for a lower cash investment than correspondent or the flow/bulk market. See slide 6 for additional details

# 2Q14 Recent Developments

## April Originations

- Locks per day increased 25% from 1Q14 to \$68.9 million
  - Retail and wholesale locks were 13% and 21%, respectively; up from 12% and 20% in 1Q14
- Increased the number of Retail mortgage advisors by 13 from the end of 4Q13
- Increased the number of approved wholesale accounts by 326 from the end of 4Q13

## Retail Tuck-in Acquisitions

- Continue to pursue additional retail tuck-in acquisitions in connection with our previously disclosed strategy
- Do not expect any additional ramp-up expense associated with Nationstar acquisition

## Servicing

- Actively pursuing subservicing opportunities to build servicing scale without buying bulk packages

## Non-Agency

- Non-agency locks totaled \$43.4 million in April compared to \$27.7 million on average per month during 1Q14

## Financing

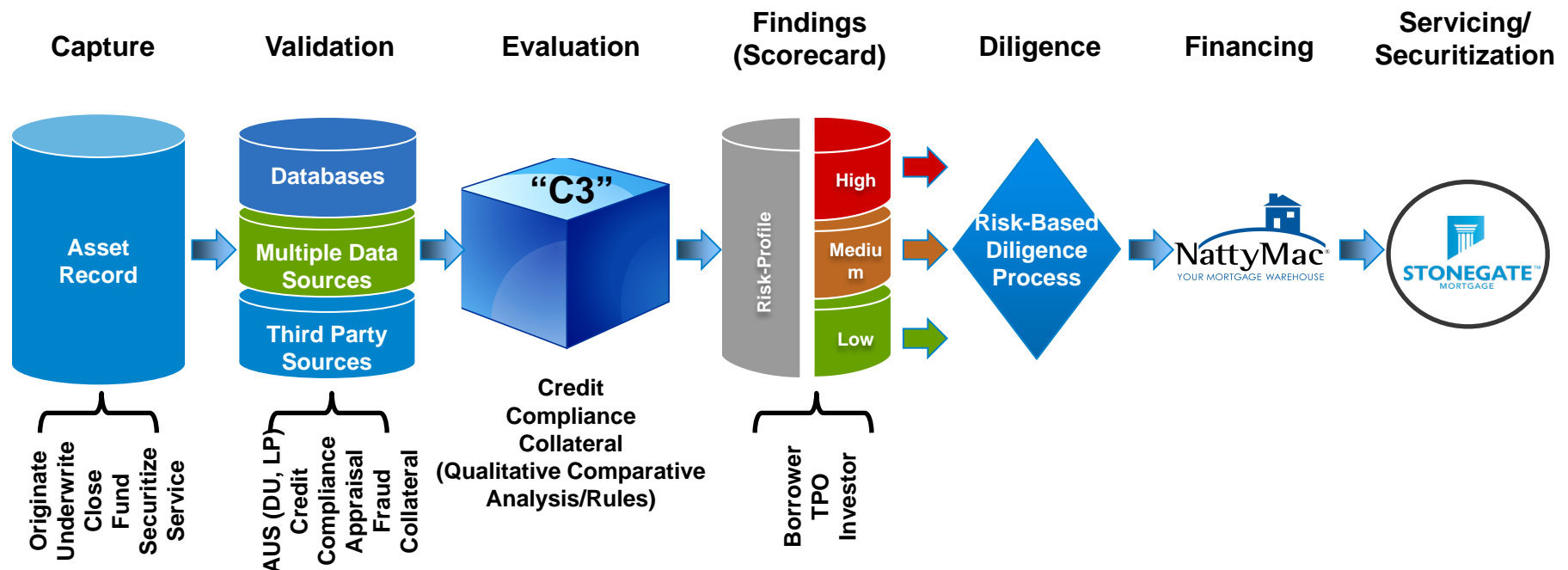
- Increased size of warehouse lines while also reducing cost
- MSR asset provides access to additional long-term financing



# Regulatory Landscape

- Mel Watt has signaled that he will direct Fannie and Freddie to expand access to mortgages
  - Investors (GSEs and private) will require quality control from “borrower to bond”
  - Originators will require tools and technology to assess risk and manage the process
- Stonegate’s proprietary C3 technology positions it to be a leading aggregator for investors and issuers

## C3 Platform

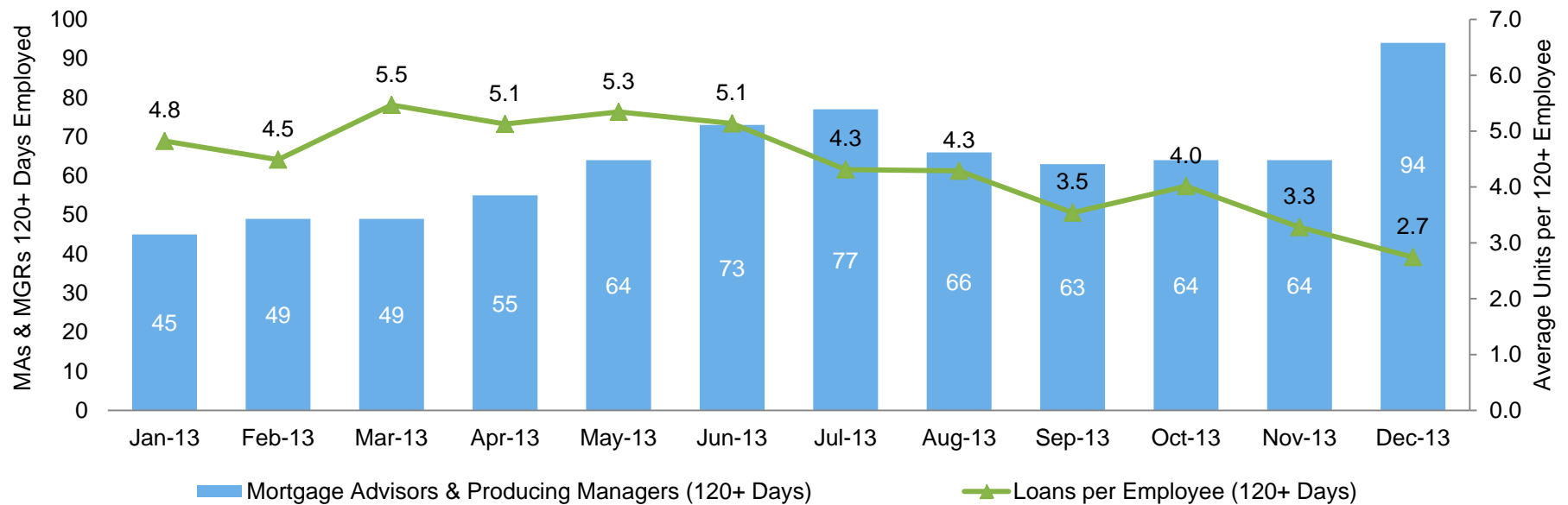


# Appendix

# Growing the Retail Channel

- As retail provides the highest return on invested capital, Stonegate is focused on growing the retail channel
  - Growing retail is a function of adding additional loan officers to originate loans
  - As of April, Stonegate employed 262 mortgage advisors
- During 2013, loans per 120+ day employee averaged 4.4 per month

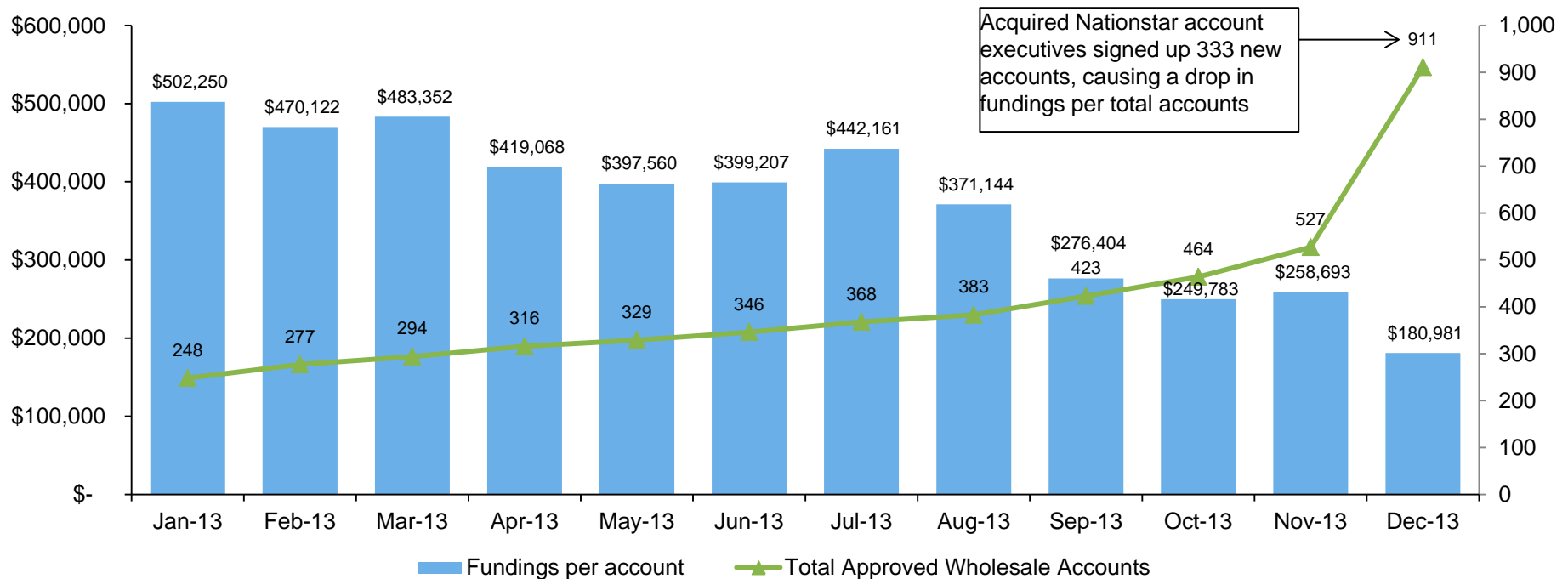
## Retail Producers and Productivity



# Growing the Wholesale Channel

- Wholesale provides the most attractive returns of the third-party channels
  - Growing wholesale is a function of signing up new accounts and converting them to active accounts
  - As of April, Stonegate had 1,237 approved wholesale accounts
- During 2013, fundings per account averaged \$371 thousand per month

## Wholesale Volume per Account



# Statement of Operations



	Three Months Ended		
	3/31/2014	12/31/2013	3/31/2013
<i>(\$ in thousands except per share data)</i>			
<b>Revenues</b>			
Gain on mortgage loans held for sale	\$ 28,631	\$ 21,942	\$ 24,204
Changes in mortgage servicing rights valuation	(10,658)	2,773	4,090
Loan origination and other loan fees	5,077	5,589	4,648
Loan servicing fees	9,174	7,880	3,119
Interest income	6,077	5,661	2,821
<b>Total revenues</b>	<b>\$ 38,301</b>	<b>\$ 43,845</b>	<b>\$ 38,882</b>
<b>Expenses</b>			
Salaries, commissions and benefits	\$ 33,420	\$ 23,871	\$ 14,493
General and administrative expense	8,209	8,059	3,602
Interest expense	3,813	3,454	3,073
Occupancy, equipment and communication	4,141	3,740	1,485
Provision for mortgage repurchases and indemnifications	395	610	-
Depreciation and amortization expense	1,083	830	384
Loss on disposal of property and equipment	91	80	-
<b>Total expenses</b>	<b>\$ 51,152</b>	<b>\$ 40,644</b>	<b>\$ 23,037</b>
<b>Income before income tax expense</b>	<b>(12,851)</b>	<b>3,201</b>	<b>15,845</b>
Income tax expense	(4,967)	1,136	6,130
<b>Net income</b>	<b>(7,884)</b>	<b>2,065</b>	<b>9,715</b>
Less: Preferred stock dividends	-	-	(19)
<b>Net income available to common stockholders</b>	<b>\$ (7,884)</b>	<b>\$ 2,065</b>	<b>\$ 9,696</b>
<b>Earnings per share</b>			
Basic	\$ (0.31)	\$ 0.08	\$ 3.42
Diluted	\$ (0.31)	\$ 0.08	\$ 0.86

# Balance Sheet



<i>(\$ in thousands)</i>	<u>3/31/2014</u>	<u>3/31/2013</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 17,874	\$ 17,736
Restricted cash	1,159	6,315
Mortgage loans held for sale, at fair value	834,915	295,551
Servicing advances	3,290	956
Derivative asset	14,895	13,506
Mortgage servicing rights	192,470	67,453
Property and equipment, net	13,461	5,384
Other Assets	81,634	10,163
<b>Total assets</b>	<u>\$ 1,159,698</u>	<u>\$ 417,064</u>
<b>Liabilities and stockholders' equity</b>		
Secured borrowings/warehouse lines of credit	\$ 745,909	\$ 286,176
Operating lines of credit	10,716	7,553
Accounts payable and accrued expenses	29,489	24,527
Derivative liabilities	2,618	4,958
Reserve for mortgage repurchases and indemnification	4,231	2,871
Deferred income liabilities, net	23,365	14,800
Other liabilities	42,854	10,474
<b>Total liabilities</b>	<u>859,182</u>	<u>351,359</u>
<b>Stockholders' equity</b>		
Preferred stock	–	32,749
Common stock	264	250
Additional paid-in-capital	264,729	3,994
Retained earnings	35,523	28,712
<b>Total stockholders' equity</b>	<u>300,516</u>	<u>65,705</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 1,159,698</u>	<u>\$ 417,064</u>

# Non-GAAP Financial Reconciliation



	Three Months Ended		
	3/31/2014	12/31/2013	3/31/2013
<i>(\$ in thousands, except per share data)</i>			
<b>Net income:</b>	\$ (7,884)	\$ 2,065	\$ 9,715
Adjust for:			
Changes in mortgage servicing rights valuation	7,931	(5,169)	(5,890)
Stock-based compensation expense	899	837	7
Ramp-up and other non-recurring expenses <sup>(1)</sup>	9,593	5,247	36
Acquisition expenses	49	146	-
Tax effect of adjustments	(7,149)	(423)	2,210
<b>Adjusted net income</b> <sup>(2)</sup>	<b>\$ 3,439</b>	<b>\$ 2,703</b>	<b>\$ 6,078</b>
<b>Adjusted net income per share</b>	<b>\$ 0.13</b>	<b>\$ 0.11</b>	<b>\$ 0.54</b>

(1) Consists primarily of guarantees and other compensation expense occurred prior to the period of meaningful origination volume.

(2) Adjusted net income is a key performance metric used by management in evaluating the performance of our business.

# Gain on Sale Economics

- Gain on sale consists of cash and non-cash items:
  - Cash gain on sale
  - Direct Loan Expenses
  - Loan loss reserve
  - Capitalized MSR asset
  - Pipeline/Inventory fair value

## Gain on Sale Economics

<i>\$ in thousands</i>	Three Months Ended		
	3/31/2014	12/31/2013	3/31/2013
Cash GOS	\$ (2,540)	\$ (12,151)	\$ 8,331
Capitalized MSR	31,219	32,716	21,161
Direct Loan Costs	(4,621)	(4,265)	(3,904)
Loan Loss Reserve	(493)	(492)	(999)
Pipeline/Inventory Chg in Valuation	5,066	6,135	(385)
<b>Total GOS - Consolidated</b>	<b>\$ 28,631</b>	<b>\$ 21,943</b>	<b>\$ 24,204</b>



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