

UWM Holdings Corporation

(NYSE: UWMC)

*The \$603M Hedging Loss, the Oaktree \$2.05B Rescue,
the Suspended \$641M Dividend,
and the Perpetual Call Option Read*

Pre-and-post capital structure with adjustment columns.

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AUTHOR OWNERSHIP DISCLOSURE INSIDE

AUTHOR PURCHASED UWMC AT \$1.54 ON AUGUST 12, 2026

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The Baratelli Institute

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Case Study

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*A Baratelli Institute practitioner case study. Financial Services · Mortgage Origination
· August 2026. Author Ownership Disclosure Inside.*

Author Ownership Disclosure

The author of this case study, Philip A. Baratelli, purchased UWMC common stock at \$1.54 per share on August 12, 2026, following the completion of the Institute's initial internal analysis of UWMC's Q2 2026 results and the concurrent Oaktree Capital Management capital investment.

The author is a long holder. The Institute discloses this position prominently in accordance with editorial standards. This case study is not investment advice, is not a recommendation to buy, sell, or hold UWMC or any other security, and does not consider the individual financial circumstances of any reader.

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Institute Practitioner Thesis

The purchase price at \$1.54 is functionally the premium paid for a perpetual call option on UWMC's residual enterprise value with no expiration date. Downside is capped at the premium paid. Upside is uncapped — if UWMC survives, redeems the Preferred, refinances the senior notes, and returns to normalized operating margins, the common could 3x-5x from these levels. Oaktree Capital Management's 10% cash / 13% PIK preferred terms with warrants, board seats, and ratcheting redemption premiums are distressed-adjacent pricing — Oaktree's specialty is exactly this category. The reported Q2 loss of \$451.9M does not fully explain the \$2.05B raise; a compound of near-term debt maturity, warehouse covenant pressure, litigation reserves, regulatory net worth cushion, MSR valuation risk, and Q3 uncertainty likely drives the sizing. The Ishbia family had been extracting approximately \$641M annually via Class A dividends plus SFS Corp. distributions; the suspension of that stream is the specific cash-conservation move that made the recapitalization possible. Position sizing should match the option-like character — small allocation, tolerate total loss, hold for asymmetric upside if catalysts break correctly. Watch Q3 hedge results (Nov 5) and rights offering resolution (Nov 12).

1. What actually happened in Q2 2026 — walking the \$603M "hedging loss"

UWM Holdings Corporation reported Q2 2026 results on August 5, 2026, and simultaneously announced a \$2.05 billion capital transaction with Oaktree Capital Management and the Ishbia family. The composition of the Q2 loss is critical to understanding why the raise happened.

1.1 The Q2 income statement — where the loss actually came from

Line item	Q2 2026	Q2 2025	Change
Total revenue	\$888.0M	\$758.7M	+\$129.3M
Loan production income	\$527.2M	\$447.9M	+\$79.3M
Loan servicing income	\$220.5M	\$178.8M	+\$41.7M
Interest income	\$140.3M	\$132.0M	+\$8.3M
Change in fair value of MSRs	(\$122.7M)	(\$111.4M)	(\$11.3M)
(Gain) loss on interest rate derivatives	(\$603.2M)	+\$208.9M	(\$812.1M)
Total expenses	\$635.1M	\$526.8M	+\$108.3M
Net income (loss)	(\$451.9M)	+\$314.5M	(\$766.4M)
Adjusted EBITDA	+\$185.9M	+\$195.7M	(\$9.8M)

The operating business is functional. Total revenue grew 17% YoY. Loan production income grew 18%. Loan servicing income grew 23%. Gain margin expanded to 133 bps from 113 bps. Adjusted EBITDA of \$185.9M was roughly flat with prior year. The catastrophic line is the \$603.2M loss on interest rate derivatives.

1.2 The Two Harbors backstory

Per the August 2026 investor presentation (slide 3): *"UWM recognized a \$603M Q2'26 derivative loss tied to exposure it expected to assume in connection with the TWO transaction."*

Meaning: UWMC was in flight to acquire Two Harbors Investment Corp. (an MSR-focused mortgage REIT). UWMC put on interest rate derivative positions to hedge the MSR/rate exposure it expected to inherit. The Two Harbors deal was terminated during Q1 2026 — the 10-Q footnotes disclose that UWMC actually received a termination fee (recorded as a Q1 2026 acquisition-related recovery of approximately \$9.6M net). The associated hedge positions produced the Q2 2026 loss when rates moved.

Practitioner read on the Two Harbors framing. The story softens the narrative somewhat — this was not pure directional speculation. Three specific questions the story does not fully resolve:

One. If the Two Harbors deal was terminated in Q1 2026, why did UWMC hold the associated hedge positions into Q2 2026? Management explicitly states in the 10-Q (page 35): *"A significant portion of these derivative positions was entered into at the end of the first quarter and during of the second quarter of 2026."* UWMC was **still building positions** after the deal was already dead. Positions established for an exposure that no longer exists are, by definition, directional

speculation whatever their original label.

Two. The scale is enormous. \$603M lost on rate positions against an operating business that produced \$186M of Adjusted EBITDA in the quarter. Even if we accept the full Two Harbors hedge story, the sizing was disproportionate to the underlying acquisition rationale — Two Harbors' entire market capitalization at the time of the terminated deal was materially smaller than the hedge loss.

Three. Two Harbors' termination itself is worth understanding. UWMC received a termination fee, which typically indicates the counterparty (Two Harbors) walked away, not UWMC. That suggests either regulatory issues, financing issues at UWMC, or Two Harbors' shareholders or board rejecting the deal on price or terms. Any of the three points to strategic execution issues on UWMC's side.

2. The Q2 2026 balance sheet trajectory — the compounding pressure

The single-quarter equity destruction was substantial. Non-funding debt-to-equity climbed dramatically. Regulatory net worth cushion thinned.

Metric	Q2 2025	Q4 2025	Q1 2026	Q2 2026
Cash and equivalents	\$490M	\$503M	\$424M	\$498M
Total equity	\$1.75B	\$1.59B	\$1.60B	\$985M
Non-funding debt	\$3.32B	\$4.36B	\$5.09B	\$6.04B
Non-funding debt / equity	1.90x	2.73x	3.18x	6.13x
MSR portfolio (fair value)	\$3.45B	\$4.07B	\$4.59B	\$5.31B
MSR portfolio UPB	\$211.2B	\$240.8B	\$229.5B	\$247.6B
Warehouse lines drawn	\$7.25B	\$8.91B	\$9.90B	\$8.60B
Available liquidity	—	—	—	~\$1.3B

Regulatory net worth cushion at 24%. Per the 10-Q Note 12, the most restrictive of the Fannie/Freddie/Ginnie/HUD/USDA requirements requires UWM to maintain a minimum net worth of \$743.6 million. Actual total equity at Q2 2026: \$985.3 million. Cushion: approximately \$242 million, or 24% above the floor. One more \$250M+ loss quarter breaches the floor. Breaching the floor triggers agency-specific remedial actions "up to and including terminating UWM's ability to sell loans to and service loans on behalf of the respective agency" — an

existential threat for a mortgage originator.

3. The Oaktree \$1.65B preferred equity investment — terms in detail

On August 5, 2026, UWMC closed a strategic capital transaction with affiliates of Oaktree Capital Management and entities affiliated with the Ishbia family. Two tranches of preferred stock were issued concurrent with the announcement of a \$400M rights offering.

3.1 Preferred stock terms — side-by-side comparison

Feature	Series A-1 (Oaktree)	Series A-2 (SFS Group / Ishbia)
Amount invested	\$1,500M	\$150M
Type	Perpetual Preferred	Perpetual Preferred
Original issue price	\$1,000 per share (1.5M shares)	\$1,000 per share (150K shares)
Cash dividend rate	10.0% per annum (quarterly)	10.0% per annum (quarterly)
PIK dividend rate	13.0% per annum (if not paid in cash)	13.0% per annum (if not paid in cash)
Warrants at \$2.00 strike	150M	15M
Warrants at \$6.00 strike	150M	15M
Redemption premium schedule	Y1: 10%, Y2: 20%, Y3: 30%, Y4: 40%, Y5: 50%, Y6+: 60% (+10%/yr)	Same schedule
Voting rights on ordinary matters	None	None
Voting rights on matters adverse to Preferred	Yes (as a class)	Yes (as a class)
Board representation	2 directors (1 must be independent) + 1 non-voting observer	None
Subordinate to Series A-1	—	Yes (dividends and distributions)
Governance/protective provisions	Extensive	Limited

3.2 The redemption premium schedule — what UWMC pays to buy back the Preferred

The escalating redemption premium is a specific structural pressure mechanism. On the \$1.5B Oaktree tranche:

Redemption year	Premium	Cost to redeem \$1.5B Series A-1	Interpretation
Year 1	10%	\$1.65B	Break-even penalty for early exit
Year 2	20%	\$1.80B	Meaningful penalty accumulates
Year 3	30%	\$1.95B	\$450M penalty above par
Year 4	40%	\$2.10B	\$600M penalty above par
Year 5	50%	\$2.25B	\$750M penalty above par
Year 6	60%	\$2.40B	Base redemption ceiling
Year 7+	+10%/yr	\$2.55B and rising	Compounds annually

Combined with 10% cash dividend paid annually (or 13% PIK accrual if not paid cash), the total obligation compounds materially. **The economically rational path for UWMC is to redeem within the first two to three years** — but doing so requires either substantial cash generation (currently negative on an operating-cash-flow basis), a subsequent equity raise (further dilution), or a debt refinancing (dependent on credit markets accepting UWMC at improved terms). Extended holding of the Preferred is economically punishing for common shareholders.

3.3 Sources and uses — where the \$2.05B actually goes

Preferred Offering:

Sources	\$M	Uses	\$M
Preferred equity issuance	\$1,650	Debt repayment	\$1,625
		Transaction expenses	\$25
Total Sources	\$1,650	Total Uses	\$1,650

Rights Offering:

Sources	\$M	Uses	\$M
Rights offering	\$400	Debt repayment	\$388
		Cash to balance sheet	\$2
		Transaction expenses	\$10
Total Sources	\$400	Total Uses	\$400

Specific debt targeted for repayment per the investor deck: **redeem the 2027 Senior Notes** (\$500M @ 5.75% due June 15, 2027), **repay the SFS Line of Credit** (revolver from Ishbia entities), and **repay existing MSR financing facilities** (\$2.95B outstanding across the Conventional MSR Facility and Ginnie Mae MSR Facility).

Practitioner read on the use of proceeds. The \$2.05B raise adds only \$2M to the cash balance. Essentially 100% of the fresh capital goes to reducing existing debt. This is a **defensive deleveraging transaction**, not a growth-capital transaction. UWMC is not raising money to invest in operations, acquisitions, or new technology — the money is being used to relieve balance-sheet pressure. That is a material characterization the investor deck's marketing language does not fully surface.

4. Pre-and-post capital structure comparison — with intermediate adjustment columns

To show the adjustments precisely, the Institute presents the metrics with intermediate columns for each source and use rather than only the deck's beginning-and-end view. The Q2 2026 balance sheet flows through + **Preferred equity issuance**, + **Rights offering proceeds**, - **Debt repayment**, and - **Transaction fees** to arrive at the as-adjusted post-transaction position.

Metric (\$M)	Q2 2026 Actual	+ Preferred Issuance	+ Rights Offering	- Debt Repayment	- Trans. Fees	As Adjusted
Cash and equivalents	\$498	—	+\$2	—	—	\$500
Non-funding debt	\$6,040	—	—	-\$2,013	—	\$4,027
· 2027 Senior Notes (of which)	\$500	—	—	-\$500	—	\$0
· MSR facilities (of which)	\$2,950	—	—	~\$1,513	—	~\$1,437
· Other senior notes + lines (of which)	\$2,590	—	—	—	—	\$2,590
Preferred equity	\$0	+\$1,650	—	—	-\$25	\$1,625
Common equity	\$985	—	+\$400	—	-\$10	\$1,375
Total equity (Preferred + Common)	\$985	+\$1,650	+\$400	—	-\$35	\$3,000

Adjustment columns tie to the investor deck Sources & Uses (slide 9). Preferred issuance sources \$1,650M; uses \$1,625M to debt + \$25M transaction expenses. Rights offering sources \$400M; uses \$388M to debt + \$2M to cash + \$10M expenses. Debt repayment total = \$1,625M + \$388M = \$2,013M. MSR facility paydown is the residual after 2027 Senior Notes redemption; specific allocation between Conventional MSR Facility (\$1.875B outstanding) and Ginnie Mae MSR Facility (\$1.075B outstanding) is at management discretion.

Derived ratios pre and post — walked with the adjustment context above

Ratio	Q2 2026 Actual	As Adjusted	Change
Net non-funding debt / equity (deck framing — treats Preferred as equity)	5.6x	1.2x	-4.4x
Non-funding debt / common equity only (Institute framing)	6.13x	~2.93x	-3.20x
Available liquidity	\$1,056M	\$2,681M	+\$1.625B
Regulatory net worth cushion above \$743.6M minimum	\$242M (24%)	~\$632M (85%) est.	Materially widened

Institute practitioner note on the "1.2x" leverage figure. The investor deck's dramatic 5.6x-to-1.2x transformation counts the \$1.65B of Preferred as equity in the denominator. That is technically correct under GAAP presentation, but from a common shareholder's perspective, the Preferred behaves closer to debt than equity: it drags cash at 10% annually or dilutes further at 13% PIK, it must eventually be redeemed at ratcheting premiums, it has priority in liquidation, and it carries protective provisions plus board seats. On a common-equity-only basis, non-funding debt-to-common-equity is approximately 2.9x post-close — materially better than the 6.13x pre-close but not as dramatic as the 1.2x headline number.

4.1 The full dilution stack for a common shareholder

Component	Class A Shares	Trigger
Class A currently outstanding	342M	Baseline (August 4, 2026)
Rights offering issuance	+200M	Nov 12, 2026 expiration (assumes \$2.00 pricing)
\$2.00 strike warrants	+165M	If UWMC common reaches \$2.00+
\$6.00 strike warrants	+165M	If UWMC common reaches \$6.00+
Total potentially outstanding	872M	Full dilution — 2.55x current
Non-participating common holder economic dilution at full exercise	-61%	From 100% of 342M base to 39% of 872M base

5. The suspended dividend — and the Ishbia family cash-extraction pattern

UWMC operates as an "Up-C" structure. UWM Holdings Corporation (the public company) owns Class A Common Units of UWM Holdings, LLC ("Holdings LLC"), the operating entity. SFS Corp. (a Michigan corporation controlled by CEO Mat Ishbia and the Ishbia family) owns Class B Common Units of Holdings LLC representing 78.7% of the economic interest, plus Class D common stock of UWMC that provides 10 votes per share.

The specific consequence: **every dividend UWMC declares on Class A common stock triggers a proportional distribution from Holdings LLC to SFS Corp. on the Class B Units.** The distributions are structurally symmetric. Suspending the Class A dividend suspends both flows.

5.1 The dividend history and suspension

Period	Class A dividend	Distribution to SFS Corp.	Total
Q1 2026 declared	\$31.4M (\$0.10/share)	\$129.1M	\$160.5M
Q2 2026 declared	\$34.2M (\$0.10/share)	\$126.2M	\$160.4M
Annualized run rate (recent)	~\$137M/yr	~\$505M/yr	~\$641M/yr
Post-suspension (Aug 5, 2026 →)	\$0	\$0 *	\$0 *

Discretionary distributions suspended. The Holdings LLC operating agreement still requires mandatory tax distributions to SFS Corp. sufficient to cover taxes on SFS Corp.'s allocable share of Holdings LLC taxable income. In the current loss environment, the tax distribution obligation is minimal to zero. Once Holdings LLC returns to profitability, mandatory tax distributions resume even before discretionary dividends are restored.

5.2 The Ishbia family cash extraction pattern beyond the distributions

Per 10-Q Note 14 (Related Party Transactions), the Ishbia family has extensive commercial relationships with UWMC beyond the Class B / D holdings:

Ishbia family cash stream	Recent annual estimate	Notes
Holdings LLC distributions (SFS Corp.)	~\$505M/yr	Now suspended
Real estate leases (buildings and land owned by Ishbia-controlled entities)	~\$20M/yr	Related-party lease payments; one facility on finance lease
Aircraft leases (aircraft owned by CEO Ishbia-controlled entities)	Not separately disclosed	Facilitates executive travel; occasional personal use authorized
Stadium naming rights (Ishbia entities holding stadium rights)	~\$11.5M/yr	10-year, ~\$115M contract; terminable after 2 years; Mortgage Matchup brand
Legal services (law firm with UWMC director as partner)	\$0.6M/yr	Ordinary course legal services
SFS Corp. revolver (unsecured)	\$500M facility; \$0 drawn at Q2	Now subordinated to senior notes; being repaid with Oaktree proceeds
Total (pre-suspension recent run rate)	~\$535M+/yr	Dominant driver was Holdings LLC distributions

The Series A-2 Preferred position — Ishbia family's post-transaction cash stream. With the Holdings LLC distributions suspended, the Ishbia family put \$150M into the Series A-2 Preferred. That position produces \$15M annually in cash dividends (10%) or \$19.5M/yr in PIK accretion (13%). This is a fraction of the pre-suspension distribution flow but importantly it sits **ahead of the Class D common-equivalent Class B Units in the liquidation waterfall**. The family effectively converted a small portion of their operating-entity exposure into preferred stock ahead of their own common-equivalent position.

Institute practitioner observation on the family's structural risk-management move. The fact that the Ishbias structured their \$150M as a new Series A-2 Preferred vehicle rather than committing more directly at the SFS Corp. level or through the existing revolving credit facility tells you the family wanted their new capital to sit ahead of their existing Class B / D common-equivalent units in the capital structure. That is a meaningful family-office risk-management move by the controlling shareholder — and it is a small tell that the family itself sees enough downside risk to want their new dollars protected differently than their legacy position.

6. Why the raise was so large — the compound problem the reported loss does not fully explain

A \$451.9M Q2 net loss against \$1.6B of pre-loss equity is painful but not existential — the company would still have \$1.15B equity after absorbing it, roughly 55% above the \$743.6M regulatory floor. That situation warrants a smaller raise (\$500-800M) at normal preferred pricing (7-8%), not a \$2.05B raise at 10% cash / 13% PIK plus 330M warrants plus board seats plus escalating redemption premiums.

Something in that gap needs to be explained. The equity destruction actually run for H1 2026 was larger than the reported net loss:

- Dec 31, 2025 total equity: \$1,593.6M
- June 30, 2026 total equity: \$985.3M
- Actual equity decline: \$608M
- H1 net loss: \$281.5M
- H1 dividends paid (Class A + SFS Corp. distributions): \$322M

So H1 2026 lost \$282M AND distributed \$322M to shareholders while losing money — total equity destruction ~\$604M. That is why the dividend suspension was announced concurrently with the raise. But even \$604M does not explain a \$2.05B raise. The remaining ~\$1.4B needs a story. Six specific factors likely explain the gap:

Factor	Institute practitioner read
The 2027 Senior Notes wall	\$500M @ 5.75% mature June 15, 2027. Refinancing at current spreads for a BB-rated mortgage originator would cost 9-11%. UWMC's own longer-dated notes trade at 89-93 cents (implied YTM 8-9%). The deck earmarks these notes for redemption from the raise — avoiding a market refinancing at hostile terms.
MSR portfolio valuation risk	\$5.31B of MSRs with sensitivity analysis showing ±\$200-400M potential moves on 10-20% shifts in prepayment or discount rate. Q3 could produce a substantial MSR write-down or a warehouse-loan hit. Either scenario needs a capital cushion.
Regulatory net worth headroom	24% above the \$743.6M floor is not comfortable. Regulators can force operational restrictions or capital contributions if the cushion thins. Management may have received specific regulatory expectations privately.
Litigation reserves potentially under-provisioned	Rep & warranty reserves at \$104M against \$247.6B servicing portfolio. Weatherill broker-steering class action, Rocket Mortgage contract breach suit, three separate TCPA class actions, three separate Mercadien cyberattack class actions. Not fully reserved.
Q3 2026 likely to be ugly	Companies raise BEFORE bad news, not after. The concurrent timing (raise announced Aug 5, simultaneous with earnings) suggests management wanted this done before more information could hit the market. If Q3 shows additional hedging losses on residual Two Harbors positions, MSR write-downs, purchase-volume weakness, or litigation charges — the raise being in-hand prevents a fresh emergency.
Warehouse lender covenant concerns	Warehouse facilities include covenants on tangible net worth and debt-to-equity. At 6.13x, UWMC likely near covenant thresholds. Losing warehouse capacity would be catastrophic — a wholesale originator cannot fund loans without them. This is the "must-have" reason, not the "nice-to-have" reason.

The composite picture. Companies that raise expensive backstopped preferred at 10%/13% from a specialist distressed investor with warrants, board seats, escalating redemption premiums, AND simultaneously launch a \$400M rights offering AND suspend the dividend AND continue opportunistically selling MSRs AND redeem short-dated senior notes AND repay a related-party revolver — do not do all of that to plug a \$450M one-time loss. They do it when there is a compound problem: near-term debt maturity + hedging discipline questions + regulatory cushion pressure + litigation overhang + warehouse covenant concerns + expectation of continued near-term losses. Any one of those alone would be manageable. All at once explains the raise size and the price they were willing to pay.

7. Twelve downside risk factors

#	Risk factor	Practitioner note
1	Hedging risk management competence	Q2's \$603M loss on Two Harbors-related positions. Q3 (Nov 5) is the specific test of whether the discipline changed.
2	Capital structure now distressed-adjacent	Oaktree's 10%/13% terms tell you specialist distressed capital sees real downside. Common sits behind \$3B senior notes, \$2.95B MSR facilities, \$8.6B warehouse lines, and \$1.65B Preferred.
3	Leverage on common-equity basis	6.13x pre-transaction. ~2.9x post-transaction on common-only basis (materially better but still stressed).
4	Regulatory net worth pressure	Pre-transaction 24% cushion. Post-transaction materially wider — but one bad quarter can rapidly thin it.
5	Operating cash flow deeply negative	H1 2026 net cash used in operations: (\$1.9B). Not self-funding operationally.
6	Dividend suspension signal	Management conserving cash. Real signal of stress.
7	Litigation overhang	Weatherill broker-steering class action, Rocket Mortgage MSR breach suit, multiple TCPA class actions, three Mercadien cyberattack class actions. Each separately manageable; collectively material tail risk.
8	Related-party governance concerns	Ishbia family controls via Class D shares (78.7% Holdings LLC), \$500M SFS Corp. revolver (subordinated), \$115M stadium naming, aircraft and real estate leases. Common shareholders sit alongside controlling shareholder with related-party cash streams.
9	Rate volatility exposure	MSR sensitivity ±\$200-400M on 10-20% assumption shifts. Combined with hedging discipline concerns, sustained volatility is expensive.
10	Housing affordability & volume forecast	Q2 purchase originations down 13% YoY. MBA forecast market origination volumes flat through 2028; refi peaks 2026E then declines. MBA revised 2027 mortgage rate upward to 6.50%.
11	Two Harbors terminated merger	UWMC received termination fee — suggests counterparty walked. Additional strategic execution risk had it proceeded.
12	Cybersecurity operational risk	October 2025 Mercadien vendor cyberattack producing multiple class actions. Repeat events would compound litigation exposure.

8. Downside scenarios — probability-weighted 12-month view

Scenario	Probability	Trigger	12mo return
A: Muddle through	40%	Rates stabilize; hedging discipline improves; Preferred paid cash; litigation manageable; regulatory cushion restored	+30% to +65%
B: Continued rate volatility	25%	Additional hedging losses Q3/Q4; MSR volatility; Preferred flips to PIK; another equity raise possibly needed	-20% to +20%
C: Housing recession + operational stress	20%	Purchase volume drops 20-30%; gain margins compress; Weatherill certified; regulatory floor briefly breached	-20% to -50%
D: Chapter 11 tail risk	5%	Cascade of losses + litigation + covenant breach; Preferred PIK compounding erodes common; restructuring	-80% to -95%
E: Rate rally beats expectations	10%	Rates decline materially; refi wave strong through 2026-2027; margins expand; Preferred redeemed at par	+100% to +165%
Probability-weighted expected return	100%	Modestly positive expected value with substantial variance around the mean	~+6% to +12%

The Merton option-pricing framing. Common equity in a leveraged firm is structurally a call option on enterprise value, struck at the debt level (Merton 1974). UWMC common at \$1.51 is a textbook instance — deeply out-of-the-money-adjacent common on a high-volatility (beta 1.85) underlying with substantial senior obligations ahead of it. The frame is **a perpetual call option with a moving strike**: preferred dividends at 13% PIK if not paid cash, redemption premium schedule ratcheting +10%/year after Year 6, and warrants diluting when the stock goes in-the-money. Position sizing should match option-like character — small, tolerate total loss, hold for asymmetric upside if catalysts break correctly.

8.1 The purchase price implies a perpetual call option premium

The specific practitioner framing that the Institute considers the cleanest way to think about entry at these levels:

Institute Framing — The Perpetual Call Option Read. The \$1.54 purchase price is functionally the premium paid for a perpetual call option on UWMC's residual enterprise value with no expiration date. Downside is capped at the premium paid (the \$1.54 you cannot lose

more than). Upside is uncapped — if UWMC survives, redeems the Preferred, refinances the senior notes, and returns to normalized operating margins, the common could 3x-5x from these levels. In between, the position sits and waits, with the specific mechanism that the position has no forced-expiration date the way a listed option does.

Why this framing is the correct one for entry at these levels

Traditional value-investing analysis applied to UWMC common at \$1.54 does not work well because the standard value-investor discipline — book value floor, dividend yield support, earnings multiple discipline — is compromised by the distressed-adjacent capital structure. Book value of \$985M gets diluted before the common accrues residual. The dividend is suspended. Earnings are negative. The value-investor toolkit is the wrong toolkit for this security at this price.

Option-pricing intuition is the correct toolkit. Deep-out-of-the-money long-dated call options on high-volatility underlyings have positive expected value when the position has time to work and volatility is high enough to produce meaningful upside outcomes. Beta of 1.85 confirms high volatility. "Perpetual" nature (no formal expiration) confirms long duration. The setup fits the option-pricing intuition cleanly.

What makes UWMC different from a standard long-dated call option

Three specific wrinkles the practitioner should understand:

Wrinkle	Mechanism	Practitioner interpretation
The strike moves upward over time	Preferred at 13% PIK compounds. Redemption premium ratchets 10%/20%/30%/40%/50%/60% (+10%/yr after Y6). Warrants dilute when the position goes in-the-money.	Effective annual "theta" of 15-20% on the implied strike. Time works against the position modestly unless UWMC generates operating cash to service and eventually redeem the Preferred.
The "no expiration" has small-probability exceptions	Chapter 11 reorganization can wipe common. Regulatory net worth breach at Fannie/Freddie/Ginnie can trigger operational restrictions. NYSE delisting if stock falls below \$1 for extended periods.	Not baseline scenarios but each is non-zero. Small-probability "forced expiration" tail.
The underlying pays dividends to holders senior to the "option"	Preferred dividend of ~\$165M/yr in cash extracts cash from the operating entity that would otherwise accrue to common residual.	Every year of Preferred outstanding is another ~\$165M of cash-flow-to-common that gets diverted.

Practical implication of the framing

Option pricing theory says the value of a deeply out-of-the-money long-dated call on a high-volatility underlying is meaningfully positive but the position should be sized small enough that a total loss does not matter. **UWMC common at \$1.54 should be sized like a long-dated OTM call option, not like a value equity position.** Fire-and-forget mentality. Small allocation (~1-3% of speculative capital). No adding on drawdowns (that is the wrong instinct for option-like positions). Watch the near-term catalysts (Q3 hedge results, rights offering resolution) as the events that determine whether the option firms up or drifts.

Institute practitioner conclusion. If the Q3 hedge line comes in clean and the rights offering completes without incident, the "premium" paid at \$1.54 has a real chance of turning into \$3-4/share equity over 18-24 months (option going in-the-money). If Q3 shows another hedge loss and the rights offering prices at 85% of a depressed VWAP, the position drifts lower and the position holder either sits on it or lets it go — the same way one would treat a long-dated OTM option that failed to move into the money. That is the trade.

9. Watch items and near-term catalysts

Date	Event	Practitioner interpretation
October 2, 2026	Rights offering record date	Class A holders as of this date receive one subscription right per share. Sell before to forfeit rights; hold through to retain.
October 5, 2026	Rights offering commences	Offering period begins. Rights become tradeable in the market (usually briefly).
October 27 - November 9, 2026	VWAP measurement window	Ten-day VWAP × 85% determines whether offering prices at \$2.00 floor or higher.
November 5, 2026	Q3 2026 earnings release	Specific test of hedge discipline improvement. Watch derivative line, MSR fair-value marks, purchase volume, litigation reserves, regulatory net worth compliance.
November 12, 2026	Rights offering expiration	Dilution finalized. Post-offering stock trades with full dilution reflected. Backstop by Oaktree and Ishbia absorbs any shortfall.

Post-entry watch items (eight-point checklist)

1. **Q3 hedge line item** — any material derivative loss above ~\$100M is a warning.
2. **Regulatory net worth cushion at Q3** — should be materially wider post-Oaktree close.
3. **First Preferred dividend payment mode** — cash is positive signal; PIK is warning.

4. **Rights offering final pricing and take-up** — below-\$2 pricing on VWAP alternative is negative.
 5. **Rocket Mortgage suit calendar** and any interim rulings.
 6. **Weatherill class certification decision** timing.
 7. **Purchase originations volume Q3** — housing market pulse.
 8. **Ishbia family transactions in the public market** — buys positive; sells negative.
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10. Institute practitioner takeaway

UWMC at \$1.51 is a distressed-adjacent perpetual call option on the residual enterprise value that remains after the senior notes, MSR facilities, warehouse lines, and Preferred stack get paid. Oaktree Capital Management's involvement at 10% cash / 13% PIK with warrants, board seats, and escalating redemption premiums is distressed-adjacent pricing — that is Oaktree's core discipline (Howard Marks, Bruce Karsh, roots in the 1988 distressed group at TCW). Sophisticated distressed capital demanded material downside protection because they see material downside risk. Retail common holders at \$1.51 sit behind that stack without those protections.

The dividend suspension is the most rational move management has made in this cycle — and it arguably should have happened earlier. The Ishbia family had been receiving approximately \$505M annually via Holdings LLC distributions before the suspension; the entire \$641M annual distribution stream is now frozen. That is the specific mechanism by which UWMC frees up cash to service the new Preferred stack and, hopefully, eventually redeem it.

The reported Q2 loss does not fully explain the \$2.05B raise size. A compound of near-term debt maturity (\$500M 2027 Senior Notes), warehouse covenant pressure, litigation reserves, regulatory net worth cushion, MSR valuation risk, and Q3 uncertainty likely drives the sizing. Practitioners entering the common should assume the reported bad news is not the full bad news and that Q3 (Nov 5) will surface additional issues.

Position sizing should match the option-like character of the trade — small, tolerate total loss, hold for asymmetric upside if the near-term catalysts (Q3 hedge results, rights offering resolution) break correctly. If Q3 hedge line comes in clean and rights offering completes without incident, the thesis firms up materially. Add exposure then, on confirmation, not on hope.

Sources

Primary filings reviewed:

- UWM Holdings Corporation, Form 10-Q for the quarterly period ended June 30, 2026 (filed August 7, 2026).
- UWM Holdings Corporation, Q2 2026 Press Release (Exhibit 99.1), August 5, 2026.
- UWM Holdings Corporation, August 2026 Investor Presentation.
- Market data as of August 12, 2026, 1:30 PM ET (Yahoo Finance / NYSE-Nasdaq real-time).

Specific 10-Q sections referenced: Note 3 (Derivatives); Note 5 (Mortgage Servicing Rights); Note 6 (Warehouse and Other Secured Lines of Credit); Note 7 (Other Borrowings); Note 8 (Commitments and Contingencies); Note 12 (Regulatory Net Worth Requirements); Note 14 (Related Party Transactions); Note 18 (Subsequent Events); Item 2 (MD&A); Item 3 (Quantitative and Qualitative Disclosures About Market Risk); Item 1 (Legal Proceedings).

Investor presentation slides specifically referenced: Slide 3 (UWM Strategic Update, including the Two Harbors framing of the \$603M derivative loss); Slide 8 (Overview of Strategic Partnership Key Terms); Slide 9 (Summary Sources and Uses); Slide 10 (Overview of Key Financial Metrics as-adjusted).

Academic reference: Robert C. Merton, "On the Pricing of Corporate Debt: The Risk Structure of Interest Rates," *Journal of Finance* (May 1974) — the formal derivation of equity in a leveraged firm as a call option on the underlying assets.

Final Disclosure Statement

The author of this case study, Philip A. Baratelli, purchased UWMC common stock at \$1.54 per share on August 12, 2026. The author is a long holder as of the publication date. This case study reflects publicly available information from UWMC's SEC filings and investor materials and the author's practitioner interpretation of those materials.

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conduct independent due diligence and consult qualified investment, tax, and legal advisors.

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