A Coupon Is Not a Cost

Rethinking UWM's "expensive" Oaktree money

"I'm sure we could have gotten cheaper capital elsewhere, but is that the right long-term benefit?"
--Mat Ishbia, CEO of United Wholesale Mortgage (UWM)

Every figure ties to a companion Excel model, available on request through my website.

0. Introduction

On August 5, 2026, UWM Holdings Corporation (UWMC) sold $1.65 Bn of Series A preferred stock, with $1.5 Bn and $150 Mn going to Oaktree and SFS Group, an Ishbia family entity, respectively. The preferred pays a 10% dividend in cash or 13% in kind, carries a redemption premium that rises ten points a year, and comes with 330 Mn warrants. In addition to this, Oaktree received two board seats, strong covenants that can accelerate its rights, and a board majority and the right to force a sale of the company if the preferred is not redeemed by August 2033. Depending on the redemption date and how the dividend is paid, the preferred returns 16% to 24% a year before warrants. Strikingly, UWM Holdings, LLC's own senior notes yielded 6.7% to 9.1% at June 30, 2026. This elicits a standard question: why is the capital so expensive? Just what has gone wrong here?

This essay began when I was reading about the deal struck by UWM and Oaktree. The capital looked incredibly expensive, which was supported by Mat Ishbia's statements himself: "I'm sure we could have gotten cheaper capital elsewhere." This, combined with UWM's long fraught relationship with Hunterbrook and the various critical reports released on it, gave me grave concern, suggesting a version of the principal agent problem was playing out here. This was especially magnified by the underlying structure of the firm, through which the Ishbia family holds about 78.5% of the economics and 79% of the votes. The voting supermajority held by insiders raised concern about misaligned incentives and expensive capital being used for purposes other than new equity infusion (control, economic incentives, etc.). Was this a case of the largest shareholder having divergent incentives?

However, upon further looking into it, I found that coupon cost doesn't directly translate to fundamental cost to a firm. A coupon is a price, not a cost; what matters is what the company gave up against what it could actually have done. (My analysis doesn't even include how increased corporate governance pressures as a result of this deal might increase shareholder value or reduce it, although, given the overhedging or directional bets behind the derivative losses, oversight might help avoid non-operational losses.) This essay argues and uncovers how high coupon preferred equity might have actually been cheaper from a financial perspective for shareholders, given that a common issue would have had to be priced below fair value, and that debt would have added leverage rather than equity. It also shows where the answer for the family and the answer for the public part ways.

1. The background story and underlying puzzle

UWM is the largest wholesale mortgage lender in the USA. Its originations are almost always in the top 2 by volume share. In December 2025, in a deal UWM said would build its servicing book, it agreed to purchase Two Harbors Investment Corp. (TWO), a mortgage REIT with a large one. After agreeing to this deal, in order to stay interest rate neutral according to UWM, it took on a $27.5 Bn notional interest rate derivative position. However, TWO received a bid its board judged better and decided to terminate the purchase agreement with UWM in favour of an all-cash bid by CrossCountry Mortgage (CCM). UWM first reported a loss on this position in its Q1 2026 10-Q, and it has caused substantial losses since: $138.2 Mn in Q1, $603.2 Mn in Q2 and $481.5 Mn in Q3, about $1.22 Bn in all (the Q3 loss partly offset by a $470.3 Mn gain in the fair value of its servicing rights). According to UWM, this was the case of an overhedge, whereas Hunterbrook reported this was a directional bet gone wrong, citing Two Harbors' claim that the notional position was about 13 times the total rate exposure of TWO's servicing portfolio. In either case, this led to a deep fall in equity, from $1.6 Bn on March 31 to $985 Mn on June 30. Even though there was operating profit, net income became negative, and there was a large need for an equity infusion. In Q3, net income turned positive at $212.6 Mn, but mainly because the revaluation of its servicing rights more than offset the derivative loss. UWM's Adjusted EBITDA, which strips out both, was $178.3 Mn. Melody Wright suggested in her August 16 Substack that UWM was on the brink of breaching tangible net worth covenants, presenting it as a signal relayed by a client leaving the business; UWM reported covenant compliance at June 30, though the filings do support the roughly $3 Bn of 2026 maturities she cited on August 29.

The firm operates through an Up-C structure. The two levels are the listed parent company, UWM Holdings Corporation (UWMC), and the operating company, UWM Holdings, LLC (UWM LLC). The parent company owns about 21.5% of UWM LLC, and SFS Corp. (Ishbia family entity) owns 78.5% of the LLC units, which come with paired 1-1 interests in the parent UWMC, with 1 Class D share for each LLC unit they hold. The public has access to Class A shares (345.1 Mn shares total) in UWMC, which give it 1 vote each and an economic interest through UWMC's stake in the LLC, while SFS Corp.'s Class D shares (1,261.9 Mn shares total) have no economic interest but 10 votes each. The charter also caps any single holder at 79% of total voting rights. Class D converts into one-vote Class C shares on transfer outside the family's circle. SFS Group is the Ishbia family entity that participated with Oaktree to get $150 Mn of Series A-2 preferred and 30 Mn warrants. This legal structure is highly important, as the preferred was issued by the parent but at the same time mirror preferred units were created in the LLC, so the cost falls on the LLC's owners in proportion (78.5% to SFS Corp. and 21.5% to the public), and only then is there a pass through of profits. SFS Group's A-2 returns about 9% of the cost to the family, so the Ishbia entities' net share is about 69%.

According to Hunterbrook, in its August 11, 2026 report, UWM paid out roughly $3 Bn of dividends since 2021, with over 80% going to the Ishbia family via SFS. On July 14, 2026, KBRA downgraded the credit rating of UWM's operating company from BBB- to BB+, due to dividends paid out even though there were declining earnings. UWM's secured borrowings

against mortgage servicing rights (MSRs) also rose, from $1.2 to $2.95 Bn between December 31, 2025 and June 30, 2026, which was within $300 Mn of their ceiling. Fitch, on August 7, 2026, 2 days after the Oaktree deal, downgraded UWM from BB- to B+ due to a sharp increase in leverage, treating the preferred itself as debt. These downgrades heavily suggest debt was not a way out for UWM's cash troubles.

Exhibit 1. Selected cash flows ($M)

Item	Amount ($M)	Source
Out: dividends paid since 2021, over 80% to the Ishbia family	3,000.0	Hunterbrook Media, Aug 11, 2026 (secondary)
In: Series A preferred, total	1,650.0	8-K, Aug 5, 2026
of which SFS Group's Series A-2	150.0	8-K; 424B7
In: rights offering, which the Ishbia parties must fund if the public and Oaktree do not	400.0	424B5; Backstop Agreement s.1(e)

Exhibit 1 above showcases the inflow and outflow of selected capital at UWM. The obvious reading suggests a dividend recapitalization of sorts gone wrong, with the interest rate derivative leading to financial losses. The family took on a rescue lender at a contractual return of 16-24%, about 2-3x what its senior notes yielded in the same time frame, after taking out dividends and increasing the fragility of the business through high dividends. However, as we look deeper, while certain components of the above statement might be true, the choice of taking on preferred equity might have been cheaper than issuing common for shareholders, depending on fair value and discount rates, though less clearly so for the public.

2. The cost of Common Equity, the only (un?)reasonable alternative

In the previous section, we saw that relevering the firm was an untenable solution for UWM. Falling credit ratings, an increasing interest rate regime (due to both macro and micro drivers), and already high financial leverage (Fitch had leverage at ~6x in Q2 2026) made borrowing its way out infeasible. UWM was in need of new equity. Suspending the common dividend, which UWM did, keeps earnings inside the business, but retained earnings rebuild equity only slowly; Fitch expects leverage to decline over time this way, with earnings in excess of the $165 Mn annual preferred dividend. Selling MSRs adds equity only when the price exceeds carrying value. UWM has planned an MSR sale for Q4 2026 at more than $1.8 Bn (October 23, 2026 press release), but there would only be a ~$195 Mn gain according to KBW's estimate via National Mortgage News (priced at 240 bps vs a carrying value of 214 bps: (240 - 214) bps x $75 Bn = $195 Mn). This is insufficient to rebuild its equity, and acts as a complement but is not a complete solution in itself. A convertible preferred, on the other hand, is a close substitute to what UWM elected to do. Its main advantage is that it offers a lower coupon than a straight preferred. However, if a recovery occurs, it would lead to dilution upon share recovery, which doesn't fit UWM's account of the loss as an over-hedge rather than an operational issue in the firm. The Series A preferred, on the other hand, never converts to common equity (although the warrants give Oaktree some upside participation, diluting holders on exercise). UWM instead issued a preferred plus warrants (at strikes of $2 and $6). The preferred takes on three

different forms depending on the beholder: UWM's own presentation looks upon it as equity that can decrease its leverage from 5.6x to 1.2x, whereas Oaktree looks at it as a debt-like claim, with mandatory cash dividends after the fifth year, strong covenants and a claim on the board, plus an equity kicker in the warrants that makes its returns more convex. Lastly, rating agencies like Fitch treat it as debt. The only real alternative was issuing common equity, which we will discuss in detail in this section.

Exhibit 2. Common against the preferred: what each does to SFS and to the public

Route	New Class A shares (M)	Multiple of float	SFS economic share	Public share	SFS vote: before cap / after	Discount to Aug 5 close	Cost to existing holders if shares worth $1.84: SFS Corp. / public ($M)
Common at $1.20 (Aug 6 close)	1,375.0	3.98x	42.3%	11.6%	88.0% / 79.0%	34.8%	$372.4 / $101.8
Common at $1.30 (assumed)	1,269.2	3.68x	43.9%	12.0%	88.7% / 79.0%	29.3%	$300.7 / $82.2
Common at $1.40	1,178.6	3.42x	45.3%	12.4%	89.2% / 79.0%	23.9%	$234.9 / $64.2
Common at $1.50	1,100.0	3.19x	46.6%	12.7%	89.7% / 79.0%	18.5%	$174.3 / $47.7
Common at $1.60	1,031.3	2.99x	47.8%	13.1%	90.2% / 79.0%	13.0%	$118.4 / $32.4
Common at $1.84 (Aug 5 close)	896.7	2.60x	50.4%	13.8%	91.0% / 79.0%	0.0%	None
Rights issue, SFS defends its share (at $1.30)	1,269.2	3.68x	78.5%	21.5%	79.0%	29.3%	None: every holder buys at the same price; SFS funds $1,295.7M
Series A preferred, as done	None (330M warrants)	-	78.5% (65.1% at full warrant exercise)	21.5% (17.8%)	97.3% / 79.0%	-	Depends on the fair discount rate; see Exhibit 3

Ownership is shown if SFS buys none of the common on the public market. Common's cost is the value its units hand to the new buyers; it is the same per unit for SFS and the public (23.8 cents at $1.30) and shrinks as the issue price rises toward fair value. Below an issue price of $1.80, SFS falls under 50% of the economics; only below $0.55 would it fall under the 79% vote cap. At full warrant exercise SFS Corp. holds 65.1%, or 66.7% counting SFS Group's 30M. The preferred's cost depends on the fair discount rate on its cash flows; Exhibit 3 sets it against common's. Source: author's model; 424B5; 424B7; Q2 10-Q.

The standard cause for concern would be that a $1.65 Bn issuance of common equity would hand over control or dilute the family's control over UWM. However, upon looking at the above table, we can see that would not be the case due to the sheer amount of votes Class D shares provide. The above table conveys that voting control was never a worry; however, economic control being lost is a real, likely outcome of the new issuance if the family did not participate, which might exacerbate the situation, as with no promoter participation the issue price might get further depressed. The fight to keep the majority of the votes and the fight to keep the majority of the economics were separate. This preferred issuance, on the other hand, gives them the possibility of having both, but creates a foreseeable situation where a forced sale or refinancing (a Liquidity Transaction) might occur. It puts handing over majority board control on a strict timeline if the preferred isn't redeemed and gives Oaktree approval over the hedging policy now. UWM also ran a smaller $400 Mn rights offering alongside the preferred, discussed in Section 5.

3. Price, coupons, cost, and an attempt to understand value

Myers and Majluf (1984), with the pecking order theory, provide a deep corporate finance reason as to why company insiders prefer debt over equity. As we saw above, the least intrusive

form of raising capital was preferred equity, so the theory is consistent with its choice. However, while that might be optimal for insiders, a natural question we can ask is whether this value translated to public shareholders too. If insiders think the shares they would issue are undervalued, then issuance would transfer value to new buyers, so senior capital can be cheaper despite its coupon. Mat Ishbia's remark that a new issue would lead to "significant and immediate dilution" is consistent with this theory.

Observe that issuing new shares at fair value doesn't lead to a financial loss, just a dilution of economic and voting shares. It is the discount (or premium) to fair value that drives a value transfer between new and existing shareholders. The preferred shares combined with warrants raised $1.65 Bn. We can value what was paid for the preferred itself at $1.65 Bn less the value of the 330 Mn warrants, with the warrants valued as long-dated call options using Black-Scholes-Merton; the preferred's cost to existing holders is then the value of its cash flows at a fair discount rate, less that price. This, however, does not include the cost of covenants, board seats, and hedging and sale rights, so it acts as a floor; the change in the value of the firm due to the deal itself, and UWM's choice of when to redeem, could cut either way. We discount at different rates and use different volatilities for modeling the warrants. Details are in the model; Exhibit 3 contains a few highlights. It is interesting to note that due to the 30 Mn warrants and $150 Mn of A-2 preferred held by Ishbia family entities, there are situations where the public's and the family's interests might diverge. We modelled this at a fair value of $1.84 and found such a situation (Exhibit 3, Panel A, at a 15% fair rate); depending on different fair values and your belief about the price at which the issuance would occur, the answer might change.

Exhibit 3. Who bears the cost: common against the preferred (shares worth $1.84; $M)

Panel A. Where each cost comes from (common at $1.30)	Family (Ishbia entities, net)	Public	Total
Common at $1.30: value handed to new buyers by selling 29% below $1.84	300.7	82.2	382.9
Preferred at a 15% fair rate			
Cash flows worth more than the $1,650M raised	63.2	19.5	91.0
Warrants: value handed to their holders, diluting on exercise (70% vol.)	242.9	75.1	349.9
Preferred total	**306.1**	**94.7**	
Preferred minus common	+5.4	+12.4	
Preferred at a 12% fair rate			
Cash flows worth more than the $1,650M raised	258.2	79.9	371.9
Warrants	242.9	75.1	349.9
Preferred total	**501.1**	**155.0**	
Preferred minus common	+200.4	+72.8	
Preferred at Oaktree's own all-in rate (~21%)	0	0	

The family bears 78.5% of every cost through the LLC, less about 9% returned through SFS Group's A-2 and its 30M warrants, so 69.4% net; the public bears 21.5% and receives nothing back. Both routes cost existing holders through dilution: common by selling shares below their value, the preferred through its warrants, on top of any excess in its cash flows. Positive 'preferred minus common' means common would have been cheaper.

Panel B. Preferred minus common, by issue price (family / public; $M; positive = common cheaper)			
Common issued at	**At a 12% fair rate**	**At a 15% fair rate**	**At Oaktree's own rate (~21%)**
$1.20 (Aug 6 close)	+128.7 / +53.2	-66.3 / -7.2	-372.4 / -101.8
$1.30 (assumed)	+200.4 / +72.8	+5.4 / +12.4	-300.7 / -82.2
$1.40	+266.2 / +90.7	+71.2 / +30.4	-234.9 / -64.2
$1.50	+326.8 / +107.3	+131.7 / +47.0	-174.3 / -47.7
$1.60	+382.7 / +122.6	+187.7 / +62.3	-118.4 / -32.4
$1.84 (fair value)	+501.1 / +155.0	+306.1 / +94.7	0 / 0

The preferred's cost does not depend on the issue price; common's does, so a higher issue price favours common and a higher fair rate favours the preferred. At Oaktree's own rate the preferred costs nothing and wins whenever common must be sold below fair value. At 12%, common wins at every issue price shown. At 15% the answer turns between $1.20 and $1.30: common beats the preferred above about $1.29 for the family and $1.24 for the public. The board, hedging and sale rights are not priced, so each preferred cost is a minimum. Source: author's model.

The model shows that if the common issuance were to occur at $1.30 and the fair value was $1.84, then the two routes would cost the family the same at a discount rate of 15.1%, and the public the same at 15.7%. A similar relationship occurs as volatility changes the value of the warrants: across 50% to 90% volatility, the family's break-even moves from 14.1% to 15.9%, as shown in the companion model. While no filings can provide a fair rate for the above, Oaktree effectively paid an estimated $1.18 Bn for $1.5 Bn of A-1 preferred, once its 300 Mn warrants are valued at issue. If UWM pays cash dividends, this gives Oaktree an IRR of about 21% (20% to 22% depending on volatility, and about 22% to 25% if redeemed at year five; details in the model). Since 15.1% and 15.7% are below 21.3%, if we assume Oaktree's price is fair, then we have about 6.2 and 5.6 points of room for the family and the public respectively, which is how much of Oaktree's return could be rescue premium before the preferred becomes the dearer capital, and this suggests the preferred was the cheaper capital from a value perspective.

However, the assumption that Oaktree's rate reflects the fair rate may not hold. The funds were not raised through a highly competitive process: given the time-sensitive nature of raising this capital, the fact that there was one large rescue investor (which decreases the investor universe), a recent quarterly loss of $452 Mn and KBRA's July downgrade (with Fitch following two days after the deal), Oaktree may have charged a rescue/crisis premium to UWM. Hence, we can condition on the amount of crisis premium to determine which method of raising capital was more expensive for the public and the Ishbia family (note there is a slight difference between the two, with the Ishbia family having more room due to their participation in this capital raise via A-2 preferred shares and warrants). If the premium exceeded about 6.2 points for the family, or 5.6 points for the public, the preferred was the dearer capital for that group. The result also rests on two further conditions, that the shares were worth $1.84 and that the dividend is paid in cash, which Section 4 examines.

4. Evaluating headroom drivers: PIK elections, redemption year, and more

An assumption we made on the headroom, or the amount of crisis premium that could have been paid to Oaktree, depends on what the fair (or market, which may not be the same but is the closest we have) value of UWM shares was. The shares closed at $1.84 before the loss announcement and at $1.20 after the announcement of the loss and the preferred rescue. Therefore, there is no clean value for the market value of UWM shares without the Oaktree

investment. Different values would lead to different amounts of headroom for the family and public investors, as seen in the exhibits below. The true determinant is the gap between the issue price and fair value after the loss, which is what drives the actual cost of each financing method. Other factors, such as whether payment in kind (PIK) or cash is chosen for dividends, which is elected by UWM (after year 5 cash becomes mandatory; its first election was cash, see Panel B), the redemption year, warrant volatility, and other non-priced factors (covenants, control, etc.), drive value. In the below exhibits we can see how the most important factors translate to the break-even rates and where divergent interests might lie.

Section 4 table, Panel A. The preferred's return by redemption year and dividend path

Redeem at year	Cash-pay IRR	Cash-pay MOIC	PIK to year 5, then cash: IRR	PIK to year 5, then cash: MOIC
2	19.1%	1.40x	24.5%	1.55x
5	17.1%	2.00x	23.3%	2.84x
7	16.1%	2.40x	20.3%	3.60x
7, Oaktree all-in (counting its warrants)	**21.3%**	**-**	**24.5%**	**-**

Contractual rows exclude warrants, on a $1,000 share. PIK means dividends paid in kind, added to the stated value at 13% rather than paid in cash at 10%. The last row counts Oaktree's 300M warrants at their value on issue ($1.84, 70% volatility), on an effective price of about $1.18B for the A-1. Source: author's model.

Section 4 table, Panel B. The first dividend: which path UWM took ($M, August 5 to September 30)

Reported in Q3 results	At the 10% cash rate	At the 13% in-kind rate	Election
26.1	26.1	34.0	Cash

$1,650M x rate x 57/360 days. The reported figure matches the cash rate, carried as a dividend payable rather than added to stated value. UWM elects again each quarter. Source: UWM Q3 2026 results, Nov 4, 2026; author's model.

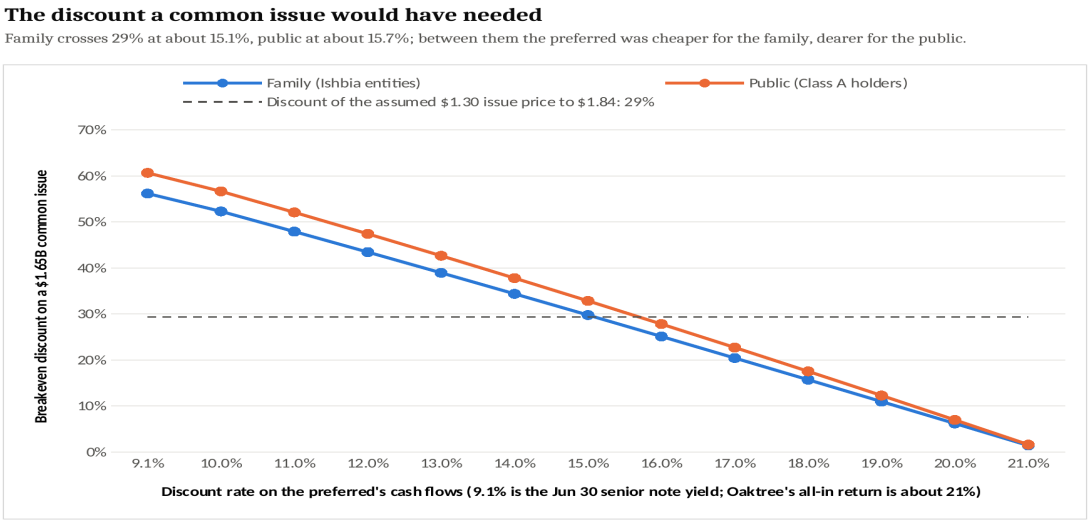
Exhibit 4. What the answer turns on, for the family and for the public

Driver	Plausible range	Family: break-even; room against Oaktree	Public: break-even; room against Oaktree	Direction
Fair value of the shares after the loss	$1.84 / $1.70 / $1.60 / $1.50 / $1.40	15.1% / 16.1% / 16.9% / 17.7% / 18.5%; room 6.2 / 4.7 / 3.5 / 2.3 / 1.2 points	15.7% / 16.6% / 17.2% / 17.9% / 18.6%; room 5.6 / 4.2 / 3.2 / 2.1 / 1.1 points	Lower value, dearer preferred
Fair value at or below the issue price	$1.30	Common cost nothing; the preferred ties at best	Common cost nothing; the preferred ties at best	Dearer preferred
Issue price of the common counterfactual	$1.20 / $1.30 / $1.40 / $1.50 / $1.60	14.0% / 15.1% / 16.3% / 17.5% / 18.6%; room 7.3 / 6.2 / 5.0 / 3.8 / 2.7 points	14.7% / 15.7% / 16.8% / 17.9% / 18.9%; room 6.6 / 5.6 / 4.5 / 3.4 / 2.4 points	Higher issue price, dearer preferred
Fair rate on UWM junior capital	9.1% (senior note yield, a floor) to Oaktree's 20% to 22% all-in	Preferred cheaper above the break-even, dearer below	Same test, against the higher break-even	Higher rate, cheaper preferred
Dividend paid in cash or in kind	10% cash, or 13% in kind to year five	15.1% in cash, 19.5% in kind; room 6.2 / 5.0 points (Oaktree in kind about 24.5%)	15.7% in cash, 20.0% in kind; room 5.6 / 4.5 points	In kind, dearer preferred
Warrant volatility	50% to 90%	14.1% to 15.9%	14.7% to 16.6%	Higher volatility, dearer preferred
Redemption year	5 or 7	15.8% at year five, 15.1% at year seven	16.6% at year five, 15.7% at year seven	Earlier, slightly dearer
Non-price terms	2033 board majority, quarterly hedging approval, mandatory cash after year five, covenant triggers	Not in any figure above	Not in any figure above	Dearer, on the crisis-premium branch

At $1.84 and 70% volatility unless stated. "Room" is Oaktree's all-in return less the break-even, in points: how much of Oaktree's return could be crisis premium before the preferred becomes the dearer capital. If Oaktree's price was fair, the preferred was the cheaper capital for both in every row above $1.30, by the same amount per share. Any overpayment falls

about 13% harder per share on the public, because the A-2 and SFS Group's warrants return part of it to the family alone. Source: author's model.

Chart 1. The discount a common issue would have needed



Reference price $1.84 (Aug 5 close), warrants at 70% volatility, cash path, redemption at year 7. d* equates each group's loss on a $1.65B common issue sold at a discount d with its cost from the preferred. The family bears about 69% of the cash flows' value above $1.65B and 78.5% of the 330M warrants less SFS Group's 30M; the public bears 21.5% of both and receives nothing back. The board, hedging and sale rights are not priced, so each line is a minimum on the crisis-premium branch. Source: Certificate of Designation; 424B7; Q2 10-Q; author's model, Cost of staying majority tab, section K.

Breakeven discount by discount rate, for the family and for the public, against a 29% discount, the assumed $1.30 issue against the August 5 close. Warrants included at 70% volatility, cash path, year seven. The family's line crosses 29% at about 15.1% (14.1% to 15.9% across the volatility range), the public's at about 15.7%; at any fair rate between the two, the preferred was the cheaper capital for the family and the dearer for the public. A threshold, not an estimate of what UWM could have raised; the board, hedging and sale rights are not priced, so each line is a minimum. Source: author's model.

Exhibit 5. Room for a crisis premium, family, cash path (points): common issue price (rows) against what the shares were worth (columns)						
Issue price \ fair value	**$1.50**	**$1.60**	**$1.70**	**$1.84**	**$1.90**	**SFS share after**
$1.20	3.6	4.7	5.9	7.3	7.9	42%
$1.30	**2.3**	**3.5**	**4.7**	**6.2**	**6.8**	**44%**
$1.40	1.1	2.3	3.5	5.0	5.6	45%
$1.50	common free	1.1	2.3	3.8	4.5	47%
$1.60	common free	common free	1.2	2.7	3.3	48%

Each cell is Oaktree's all-in return on the cash path at year seven, at that fair value, less the family's break-even rate for a common issue at that price (70% volatility). The larger the number, the more of Oaktree's return could be crisis premium before the preferred becomes the dearer capital: room grows as the shares' value rises above the issue price. "Common free" means the issue price is at or above fair value, so common costs existing holders nothing and the preferred ties at best. The public's room is 0.2 to 0.7 points thinner in every cell. "SFS share after" is SFS's economic share had common been issued at that price. Bold is the essay's central case. In kind, the room is lower in every cell (Exhibit 6, Panel B).

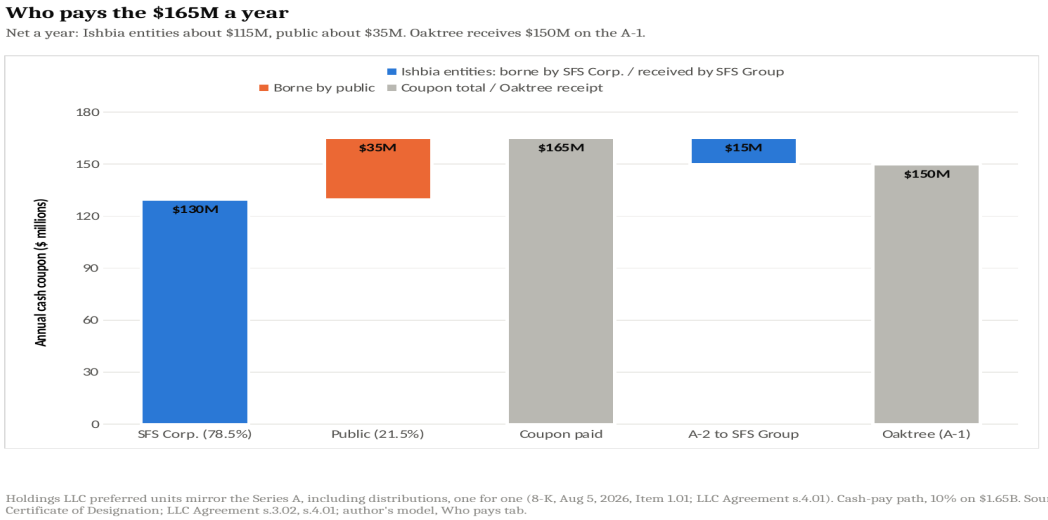
Both of the above numbers are observable, with one being in hindsight and the other one being reflected in each quarterly filing. At $1.84 and in cash, the preferred had about six points of room against Oaktree's return (Exhibit 5), whereas at $1.50 and with in-kind (PIK) dividends, there was under two points of room (Exhibit 6).

5. Costs borne, benefits gained, and divergent interests

A large confounding factor here is that the Up-C structure of the firm, and the large voting share held by the Ishbia family, who are clearly the controlling shareholder and who also

participated in the rescue, suggest that while the public's interests and theirs might differ, the possibility of this should already have been priced in when one first invests in UWM or any other promoter-led firm. This process was approved by the audit committee (August 4), the board, and, for the shares issued to the Ishbia entities, by SFS's own written consent as majority stockholder in lieu of a special meeting (September 1), but there was no special committee or fairness opinion disclosed that I could find. When one party holds such large voting and economic interests, does corporate governance even come into play, or should opacity just be priced in?

Chart 2. Who pays the $165M Preferred Coupon?



Who pays the annual cash coupon. Source: Certificate of Designation; 8-K, Aug 5, 2026 (Item 1.01, Preferred Units); LLC Agreement s.3.02, s.4.01; author's model.

We can see above that this rescue was co-funded and partially paid for by the Ishbia family itself, who also bear the large majority of its costs, given that the cost is paid at the UWM LLC level, with the public not being handed the entire bill.

If Oaktree's price and coupon rate were fairly valued, then the family and the public were aligned. However, in the case where UWM overpaid due to urgency or an excessive crisis premium, we see that, due to increased access and participation by Ishbia family entities, they received a rebate of sorts and access to preferred shares (the A-2, and potentially A-3 through the backstop), which was not an opportunity extended to the public. Even though this is partly offset by a family-backstopped rights offering, if the family backstops it in common, there is still a potential divergence of interests. In Exhibit 6, Panel A below, we see how for every $100 Mn overpaid there is a lower cost per unit for the family, and in Exhibit 6, Panel B, we see how the instrument chosen was one where insiders were less exposed to overpaying for it. A primary factor behind this asymmetry between the public and SFS was access. The ability to purchase A-2 shares and get 30 Mn warrants leads to a slight divergence in values.

Exhibit 6, Panel A. Per $100M that Oaktree is overpaid: who bears it		
	SFS Corp. / family	**Public**
Paid at the LLC, in proportion to ownership	$78.5M	$21.5M
Returned to the family through SFS Group's A-2 and 30M warrants	-$9.1M	-
Net cost	**$69.4M**	**$21.5M**
Units / shares bearing it	1,261.9M SFS units	345.1M Class A shares
Cost per unit / per share	**5.5¢**	**6.2¢ (about 13% more)**

Overpayment means anything Oaktree receives, in excess cash flows or warrants, above a fair price. The A-2 is 150 of the 1,650 preferred shares and SFS Group holds 30 of the 330M warrants, so 9.1% of any overpayment returns to the family. The $100M is for scale only; the per-share split does not depend on it. Source: author's model.

Exhibit 6, Panel B. The family and the public across fair values					
Fair value of the shares	**Common-route loss per unit**	**Family break-even: cash / in kind**	**Public break-even: cash / in kind**	**Room in cash: family / public (pts)**	**Rights premium at $2.00 / to SFS Corp.**
$1.50	8.8¢	17.7% / 21.6%	17.9% / 21.8%	2.3 / 2.1	$89M / $70M
$1.55	11.0¢	17.3% / 21.2%	17.6% / 21.5%	2.9 / 2.6	$80M / $63M
$1.60	13.2¢	16.9% / 20.9%	17.2% / 21.2%	3.5 / 3.2	$71M / $56M
$1.65	15.4¢	16.5% / 20.6%	16.9% / 21.0%	4.1 / 3.7	$62M / $49M
$1.70	17.7¢	16.1% / 20.3%	16.6% / 20.7%	4.7 / 4.2	$53M / $42M
$1.75	19.9¢	15.8% / 20.0%	16.3% / 20.4%	5.2 / 4.7	$44M / $35M
$1.80	22.1¢	15.4% / 19.7%	16.0% / 20.2%	5.7 / 5.1	$36M / $28M
$1.84 (Aug 5 close)	**23.8¢**	**15.1% / 19.5%**	**15.7% / 20.0%**	**6.2 / 5.6**	**$28M / $22M**
$1.85	24.3¢	15.1% / 19.4%	15.7% / 19.9%	6.2 / 5.6	$27M / $21M
$1.90	26.5¢	14.7% / 19.1%	15.4% / 19.7%	6.8 / 6.1	$18M / $14M

Issue held at the assumed $1.30 (Exhibit 5 varies it); warrants at 70% volatility; Oaktree's all-in return in cash rises from 20.0% at $1.50 to 21.5% at $1.90, and in kind from 23.5% to 24.7%. The rights columns assume the subscription price stays at the $2.00 floor and take the same value for the shares before the offering; the text's $76M uses the October 30 close of $1.57. At $1.30 or below, common costs nothing and the preferred ties at best. Source: author's model.

The public is then also offered a rights offering, where every Class A shareholder has the right to purchase about 0.58 additional Class A shares per share held, at the greater of $2.00 and 85% of the ten-day volume-weighted average price (VWAP) ending November 9, 2026. Since the share price was about $1.57 on October 30, 2026, it is fair to assume this goes unsubscribed and expires out of the money. Note that the average share price would have to exceed about $2.35 in order to raise the offering price above $2.00. This offering is backstopped, with Oaktree having the first optional right to purchase any unsubscribed shares and the Ishbia entities then being obliged to buy the remainder, up to $400 Mn, in common or in Series A-3 preferred. At $2.00 and a market price of $1.57 (October 30, 2026), this backstop in common would overpay by about $76 Mn. 78.5% of this returns to SFS's own units, so only about $16 Mn reaches the public. There is a large amount of circular financing that benefits them, as the family funds equity in a company it is the controlling shareholder of. The default in this case is that it is deemed to take Series A-3 preferred equity instead, which is an instrument the public cannot hold, with warrants on up to 80 Mn shares. In this case, whether any value moves between the family and the public depends on whether the A-3 and its warrants are worth more or less than the $400 Mn paid (again depending upon how much Oaktree and the public elect to participate).

Exhibit 7. Party by party, on the documents			
Party	**What it gave**	**What it got**	**On the documents**
Ishbia entities (SFS Corp., about 78.5%; SFS Group)	About $115M a year net of the coupon; about 69% of the preferred's excess; 78.5% to 65.1% at full warrant exercise (66.7% with its own 30M); two board seats and the hedging approval now, the board majority on Aug 5, 2033 unless redeemed	78.5% of the economics kept (common at $1.30 would have left about 44%); every vote kept; $150M of A-2 at 16% to 24%; 30M warrants; the decision	Cheaper than common at $1.30 if the fair rate was above about 14% to 16% at $1.84 in cash, about 18% at $1.50, about 19.5% in kind; Oaktree's terms imply 20% to 22% in cash, about 24% in kind
Public float (about 21.5%)	About $35M a year of the coupon; 21.5% to 17.8% at full warrant exercise; about $3M a year net on the A-2	Spared up to about $82M if the preferred was the cheaper capital; no access to the A-2 or the warrants; common at a $2.00 floor in the rights offering; no say in the choice	Break-even about half a point above the family's; pays about $70M of the difference if the fair rate was below the family's break-even
Oaktree (A-1 holders)	$1.5B, of which about $1.18B for the A-1 net of its warrants	16.1% to 24.5% contractual IRR if redeemed in years two to seven; 300M warrants; two seats now, a majority on Aug 5, 2033 or after a Special Event; the Liquidity Transaction right; hedging-policy approval	About 20% to 22% all-in at year seven in cash, about 24% in kind

6. Conclusion

The preferred deal was likely more expensive in coupon, but is likely to have been the cheaper capital for existing shareholders from a fundamental perspective. This is clearer for the Ishbia family entities, but depending on what the shares were worth, how dividends are elected to be paid, and the redemption period, it is not clear whether the same applies to the public. MSR revaluation, prepayment trends, and the operational excellence of UWM are key to seeing how this deal affects the firm. Strong covenants and a path to a forced sale or refinancing (the Liquidity Transaction) have opened a large potential downside risk in the future. The choice between senior capital and issuing common equity is a bet on what the shares are fundamentally worth and on the future operational capability of the firm. This was a decision made for all shareholders by a controlling shareholder, and this risk should have been priced in. The rights offering attempted to bridge access and increase fairness, but only up to $400 Mn, and its being out of the money means participating requires conviction. The theoretical parallels to pecking order theory are uncanny, and I am excited and nervous, given macro factors and my own views on residential real estate in the USA, about the pathway this creates for a large shift in the firm.

The future is incredibly exciting, and one takeaway is about hedging itself. UWM's loss came from a hedge that did not depend on the Two Harbors deal closing, so when the deal fell through, the position remained. A deal-contingent hedge, or a prediction-market contract that paid out on whether the deal completed, would have matched the exposure UWM actually had. Would that have been the better instrument, and is there a role for such contracts in promoter-led firms, where one holder's decisions carry everyone's risk? *Somewhere in California, a goat herder is better hedged than UWM was in March.*

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