PARTICIPANTS

Corporate Participants

Claire Harvey – Vice President-Investor Relations, Walker & Dunlop, Inc.
Willy Walker – Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
Stephen P. Theobald – Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

Other Participants

Cheryl M. Pate – Analyst, Morgan Stanley & Co. LLC
Jason M. Stewart – Analyst, Compass Point Research & Trading LLC
Brandon B. Dobell – Analyst, William Blair & Co. LLC
Whitney D. Stevenson – Analyst, JMP Securities LLC
Bose George – Analyst, Keefe, Bruyette & Woods, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Walker & Dunlop's Second Quarter 2013 Earnings Conference Call and Webcast. Hosting the call today from Walker & Dunlop is Willy Walker, Chief Executive Officer. He's joined by Steve Theobald, Chief Financial Officer and Claire Harvey, Vice President of Investor Relations.

Today's call is being recorded and will be available for replay beginning at 10:00 AM Eastern. The dial-in number for the replay is 800-688-7339. At this time, all participants have been placed in a listen-only mode and the floor will be open for questions following the presentation. [Operator Instructions]

It is now my pleasure to turn the floor over to Claire Harvey.

Claire Harvey, Vice President-Investor Relations

Thanks, Zach. Good morning, everyone. Thank you for joining the Walker & Dunlop second quarter 2013 earnings call. Joining me this morning are Willy Walker, our Chairman, President and Chief Executive Officer and Steve Theobald, our Executive Vice President, Chief Financial officer and Treasurer.

This call is being webcast live on our website and a recording will be available later this morning. Both our earnings press release and website provide details on accessing the archived call. This morning, we posted our earnings release and presentation to the Investor Relations section of our website, www.walkerdunlop.com. These slides serve as a reference point for much of what Willy and Steve will touch on this morning. So participants who are interested in following along should pull those up and have them available.

Please also note that we may reference certain non-GAAP financial metrics such as adjusted net income, adjusted earnings per diluted share, adjusted operating margin, adjusted income from operations and adjusted total expenses during the course of this call. Please refer to the earnings release and presentation posted on our website for reconciliations of the GAAP and non-GAAP financial metrics and related explanation.

Investors are urged to carefully read the forward-looking statements language in our earnings release. Statements made on this call, which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, including statements regarding future financial operating results, involve risks, uncertainties and contingencies, many of which are beyond the control of Walker & Dunlop and which may cause actual results to differ materially from the anticipated results.

Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our reports on file with the SEC.

I will now turn the call over to Willy.

Willy Walker, Chairman, President and Chief Executive Officer

Thank you, Claire. And thank you everyone for joining us this morning. The second quarter marks another strong quarter of financial results for Walker & Dunlop with solid growth in loan volumes, revenue and net income. I will walk through our origination volumes and some of the macroeconomic and political issues impacting our business. Steve will then provide details on the quarter's financial results and I will close with an update on our strategic initiatives and what we see happening for the rest of 2013. During our remarks, we will make reference to slides posted on our website this morning.

I will start on slide four. We originated $2.6 billion of loans in the second quarter, up 91% over last year. This is fantastic growth for Walker & Dunlop and is dramatically higher than the industry growth rate of 7%. The mix of our business during the quarter with Fannie Mae at 30%, capital markets at 30%, Freddie Mac at 24% and HUD at 16% reflects the significant diversification of our business as we provide our customers with the very best execution for their financing needs. Let me discuss each of these executions in turn.

Fannie Mae is generally our largest and most profitable business. In Q2 2011, Fannie Mae was 42% of our origination volume. In Q2 2012, it was 46%. This quarter it is only 30% primarily due to Fannie Mae adjusting to their new lending cap and Walker & Dunlop working to understand what loans and what markets Fannie Mae wanted to be in.

It is our understanding that we are still neck and neck with one other lender to be Fannie Mae's largest partner. And if you look at our Fannie Mae volumes over the past three years, our aggregate Q2 originations with Fannie Mae have grown from $555 million in 2011 to $610 million in 2012, to $772 million in 2013, that's almost 40% growth over two years, which is fantastic, just not as rapid as the growth in our other executions.

We have a very strong partnership with Fannie Mae and understand today much more clearly how they are managing through the FHFA cap. Fannie Mae has plenty of money to lend throughout the balance of the year and we are extremely focused on remaining the number one Fannie Mae DUS lender in 2013.

Our capital markets originations were $758 million in the second quarter, up 87% from Q2 2012. During 2012, we made investments to add additional capital markets origination teams to the company and we saw the direct benefit of this investment during Q2 as life companies, CMBS and banks were all aggressively lending.

Our capital markets business is a key element of our growth strategy and we will continue to recruit talent to our platform. In July, we brought on industry veteran Bill Wein to lead and grow our capital markets business. Investors should remember that Walker & Dunlop's strategy is not to transform our lending platform into a brokerage platform.

The growth in our capital markets business is to expand our originations, gain access to new clients and deals and simultaneously to grow our proprietary capital solutions, so we not only can broker deals to other capital sources, but also lend on deals with capital we control.

Our HUD volumes in the second quarter were $414 million, a record high for us. The volumes in the quarter were due in part to the carry-over from the disruption we saw in HUD's commitment authority in March, but also due to our very robust pipeline of HUD business. We continue to see strong demand from our customers for the HUD product due to the relatively lower rates and longer term that HUD loans provide.

It is likely that HUD will run out of commitment authority during the third quarter just as they did in March. This will impact our HUD volumes in Q3, but given our expectation that a continuing resolution will be passed by congress at the end of the quarter, our strong pipeline should position us well for a solid Q4 and total 2013 volume.

We are growing dramatically with Freddie Mac and it is great to see. We did $616 million with Freddy in Q2 2013, up from $213 million in 2011 and $223 million in 2012. We believe we have moved up from the fifth largest Freddie Mac seller servicer to third and we are very focused on continuing to gain market share. Our ranking at this time of year is not issued or confirmed by Freddie Mac, but simply our understanding of where our loan origination volumes rank us year to date.

Let's turn for a moment to the GSEs, the political debate and what we see happening along those lines. Q2 was the first quarter that the GSEs operated under the FHFA imposed cap of $26 billion of annual lending for Freddie Mac and $30 billion for Fannie Mae.

It is our understanding from both industry discussions as well as public filings that Freddie has lent $14 billion of its $26 billion and Fannie has lent $16 billion of its $30 billion. So both are over 50% of their annual limits halfway through the year, but it's important to understand how the GSEs in Walker & Dunlop account for loan originations to fully understand annual lending capacity.

When Walker & Dunlop rate locks a loan with Fannie or Freddie, we recognize the revenue associated with that loan. However, Fannie and Freddie recognize a loan when a loan is delivered to them by Walker & Dunlop, typically 30 days to 45 days after rate lock. Therefore, loans rate locked by Walker & Dunlop and other lenders during the last several weeks of the year will likely count do the GSEs' 2014 funding levels not 2013.

Two significant questions remain, will FHFA reduce Fannie and Freddie's multifamily lending businesses again in 2014 and will any legislation be enacted that could materially change the GSEs next year?

As it relates to FHFA, there are two issues we are tracking closely. First, the nomination of Congressman Mel Watt to Head of FHFA was voted upon by the Senate Banking Committee and is now awaiting a floor vote in the Senate. There will need to be significant political horse-trading to get Watt confirmed, but if confirmed he would likely bring a very new approach to FHFA and its annual scorecard.

Second, regardless of who the Director of FHFA is, there is a chance they propose continued reductions to multifamily in the 2014 scorecard. If FHFA is watching the political debate on Capitol Hill with regard to Fannie and Freddie reform, one would think they will not impose continued cuts to Fannie and Freddie's multifamily businesses, given the legislative framework currently gaining momentum.

Senators Bob Corker and Mark Warner have introduced legislation in the Senate that would wind down Fannie and Freddie over a five-year period and replace them with a new federally mandated entity to provide government mortgage insurance with one major difference: private capital must take the first loss position. And since Fannie Mae and Freddie Mac's multifamily businesses have private capital taking the first loss position today, the Corker-Warner Bill says that Fannie and Freddie's multifamily businesses should remain as is.

Now, there is clearly a disconnect between winding down Fannie and Freddie over five years, yet leaving their multifamily businesses as is, but those issues will likely be worked out as this legislative framework moves forward.

There are four very important themes that have developed during Q2 with regard to Fannie/Freddie reform. First, the bipartisan bill in the Senate is gaining momentum while the Republican Bill in the House has been described as extreme and not legislatively viable. Second, risk sharing where private capital takes the first loss position on federally insured mortgages, something we have been promoting since Fannie and Freddie went into conservatorship is on the table and gaining support.

Third, Fannie and Freddie's multifamily businesses performed exceptionally well during the downturn, have shared risk between the private sector and government and don't need to be reformed. And finally, with the distance between the Senate Bill and the House Bill, even if Corker-Warner did gain momentum, it seems unlikely any legislation will be passed before the 2014 mid-term elections and possibly not until after the 2016 Presidential Election if the Senate remains controlled by the Democrats.

In summary, although the political landscape appears headed in a positive direction with regard to Fannie/Freddie reform, we are not holding our breath that anything significant happens in the near future. We continue to watch the legislative process closely. Fannie and Freddie remain great partners. However, as you can see from our Q2 financials, we continue to invest in diversifying our business to minimize the impact of any future changes to the GSEs.

Let's turn for a moment to the macroeconomic environment and its impact on our business. Although interest rates ran up at the end of Q2 and clearly caused purchasers of properties and borrowers for refinancings to pause for a moment during the most volatile periods, the Federal Reserve has worked tirelessly to reinforce its low interest rate strategy and the 10-year treasury appears to have settled into a range of 2.50% to 2.70%. Most owners of the commercial real estate would like to finance as much as they possibly can at these rates.

At Walker & Dunlop's Annual Summer Conference in Sun Valley, Idaho in July, I asked the 250 conference attendees whether we were in the best of times or worst of times. 249 hands went up for best of times and one hand went up for worst of times. That may have been a somewhat biased poll as the conference attendees were sitting in beautiful Sun Valley. But I believe it reinforces a sentiment we get from the majority of our clients. Times are good, yet opportunities to deploy capital via acquisition are limited.

This is leading many of our clients to focus on development, as well as value add acquisitions and rehabs, which drives up demand for interim and bridge financing. This is exactly why we are so excited about the large loan bridge program we announced earlier this week.

Let me turn the call over to Steve to dive into our financial results and I will come back to discuss our outlook for the rest of 2013. Steve?

Stephen P. Theobald, Chief Financial Officer, Treasurer & Executive VP

Thank you, Willy, and good morning, everyone. I'm going to discuss our second quarter financial highlights, as well as provide some perspective on how our more diversified and sustainable business model is expected to perform going forward.

Net income for second quarter was $14.5 million or $0.42 per share. Adjusted net income, which excludes selected expenses relating to the acquisition of CWCapital, was $15.3 million or $0.44 per share. Operating margin for the quarter was 26% and adjusted operating margin was 28%. This compares to net income of $9.3 million or $0.42 per share and operating margin of 32% in the second quarter of 2012.

Total origination volume of $2.6 billion was up 91% from Q2 2012 and right in the middle of our guidance of $2.3 billion to $3 billion. Total revenue was $90.7 million, a 94% increase over Q2 2012. Our origination volumes this quarter demonstrated not only our industry leading growth, but also the improved diversity of our business model.

We are pleased with our overall production levels and continue to see strong demand from our customers and great execution from our producers. Going forward, we expect that capital markets will continue to be a high percentage of our overall volume and, of course, we will still do as much business as we possibly can with Fannie, Freddie and HUD, as they are still the dominant providers of capital to the multifamily industry at very attractive rates and terms.

On slide five, you can see the trends in our mortgage banking gains, which were at 246 basis points for the second quarter, down from 254 basis points in the prior year quarter and off our 3-year historical average of 262 basis points. Origination fees have held steady over time, while the decline in the relative volumes of our Fannie originations has resulted in lower gains attributable to mortgaging servicing rights.

Additionally, our diversification is taking place not only with respect to our sources of capital, but also at the underlying product level. For example, since the CW acquisition, we have originated a significant amount of adjustable rate loans due to the GSEs. These structured ARM loans have lowered mortgage servicing rights and fixed rate loans due to their prepayment flexibility.

Due to these factors, we expected our overall gain on sale margin going forward will look like it has the last two quarters at 245 basis points. It is important to point out that we have not seen margin or servicing fee degradation at the individual product level, but rather the mix of loans we are selling in the current market environment is driving our margin trends. The point of all this is that the company has never been more diversified in terms of its access to capital and product offerings to customers.

Diversification means less reliance on the GSEs, broader capabilities, we can offer to customers and continued opportunities to grow. The impact of diversification is lower margins than we have reported historically when we were predominantly a fixed rate Fannie Mae lender. But we had all our eggs in one basket and our increased scale and diversified product offering makes our business far more durable, while still being highly profitable.

Another important element of our diversification is the continued growth in our servicing portfolio. As shown on slide six at $37.9 billion, our servicing portfolio is 116% larger than a year ago and continues to grow, adding net loans of $1.1 billion during the second quarter. We are now the ninth largest commercial mortgage servicer in the country.

Our weighted average servicing fee remains at 24 basis points and the portfolio generated $22.4 million of revenues during the quarter. Our servicing portfolio produces not only annuity like income, but also a steady and growing stream of cash flow to the company.

Total expenses during the quarter were $66.9 million, an increase of 112% from the second quarter of 2012. The increase in total expenses when compared to the year ago quarter was driven by investments made in growing and diversifying our business and the amortization expense and write-offs associated with the servicing portfolio.

Let me walk through these in more detail. As you can see from slide seven, personnel cost as a percentage of revenues was 41% in Q2, higher than the 37% from the prior year quarter, but in line with our expectations. Personnel expense was $37.3 million, up from $17.4 million in the second quarter of 2012 as our employee base more than doubled from a year ago, largely as a result of the CW acquisition.

During the last 12 months, we have added 27 producers to our team. Our business relies heavily on the relationships and talent of our production team. And over the course of the last year we have taken the necessary steps to retain, as well as attract some of the best talent in the industry.

The incremental cost of these retention efforts in the first half of 2013 was $1.8 million with half of that expense recognized in the second quarter. In addition, we have invested $2 million in our proprietary capital initiatives year-to-date, a $1.7 million increase from the same period last year, $1.5 million of this expense occurred in the second quarter. These expenses are primarily for the salaries of the additional personnel brought on to lead our proprietary capital efforts.

We expect to incur additional expenses as we continue to invest in these initiatives, but with the launch of the large loan bridge program and expected growth in our interim loan program, we will begin reporting increased revenue from these investments as well.

Slide seven also shows that amortization and depreciation expense has grown from $6.7 million or 14% of total revenue to $17.7 million or 19% of total revenue in the second quarter of 2013. The increase was primarily due to the 116% increase in the servicing portfolio and related mortgage servicing rights and a 74% increase in mortgage servicing rights prepayments. As the servicing portfolio grows and our servicing revenue increases, so will the amortization expense associated with the portfolio.

The remainder of our operating expenses totaled $9.8 million for the quarter, an increase of 49% from the prior year. Included in the current expense is an $825,000 fee for the restructuring of CWCapital's former headquarters office, which will save us more than $500,000 annually on rent expense. Absent that one-time expense, other operating expenses are up only 37% year-over-year and represent 10% of revenue in the second quarter of 2013, down from 14% of revenue in Q2 2012 as we leverage the increased scale of our business.

Turning now to slide eight, our credit risk remains at benign levels. Our provision expense of $751,000 was in line with provision expense in Q2 2012, but note that this year's is against a portfolio that has almost doubled in size.

During the quarter, we settled on six loans with Fannie Mae for slightly less than what we had previously reserved for; 60 plus day delinquencies increased slightly to 6 basis points of the portfolio from 5 basis points in the second quarter of 2012. When times are good it is easy to forget about credit risk, but we don't take our stellar performance for granted. We remain very focused on continuing to make sound credit decisions, which has served us well, especially during the worst of times.

I want to briefly discuss our balance sheet and capital structure. As you will see from slide nine, our balance sheet shows significant growth from a year ago. We ended the second quarter with $66 million of operating cash, tangible net worth of $317 million, and a debt-to-equity ratio of 0.2; all improved from a year ago. Because of our strong earnings growth, stable and growing cash flows and extremely low leverage, we have a tremendous amount of financial flexibility.

We are exploring ways to take advantage of the strength of our balance sheet as we look at how to best fund our strategic initiatives while optimizing our capital structure around the twin objectives of sound risk management and creating shareholder value. Despite the recent run-up in rates, the debt markets remain very attractive, not just for our customers, but for us as well, and we will be looking to take advantage of these markets.

Before I turn the call back over to Willy, let me make one more comment about our operating margin. Since joining the company at the beginning of the second quarter, I've been looking at our margins relative to our competition. As I'm sure all of you discovered well before I did, it is difficult to find exact comparisons to Walker & Dunlop, as we are one of the few public pure-play commercial real estate finance companies out there.

And while we have no direct comparative set, we have looked at the financial statements of various real estate services firms, mortgage REITs, and our bank competitors. I believe our combination of growth rate and margin is among, if not the best in our industry.

The key to maintaining attractive growth in margin is to continue making investments in our production capabilities, leveraging our scale in back office and overhead expenses and maintaining the fantastic culture that made me decide to join this company. I believe we've created a compelling story by doing exactly that and we will continue to manage the organization that way going forward.

With that, I will turn it back to Willy.

Willy Walker, Chairman, President and Chief Executive Officer

Thank you, Steve. So where are we headed with this fast growing company that has fantastic clients, exceptionally talented people and strong macro drivers as it relates to investors' desire to own commercial real estate and strong loan refinancing volumes between now and 2018?

I believe our Q2 results underscore the scale and diversification we have been building since going public and investors should know, as Steve just said, that we're extremely focused on maintaining industry-leading growth rates and profitability going forward.

As you will see from slide 10, Walker & Dunlop's originations grew at a compound annual growth rate of 47% between 2007 and 2012, the highest in the industry. So we've had the highest growth rate of any commercial loan originator since the downturn and we are consistently told we are one of the best managed companies in the industry. We take both of these not as compliments to rest upon, but rather a challenge to remain so.

As we discussed earlier in the call, our strategy is to build out our capital markets business to gain access to new clients and deal flow, but also to raise capital so we can either broker those deals off to other money sources or lend on those deals with capital we control.

Earlier this week, we announced the successful raising of capital to launch our large loan bridge program, a joint venture with a Canadian institutional investor and a U.S. real estate investment manager. We are thrilled to partner with firms of this caliber and the $850 million in new bridge lending capacity is a significant addition to our product offering. The appetite for bridge lending is strong as borrowers shy away from buying properties at sub five caps and instead focus on value-add investments and development.

Another source of capital we have discussed with investors in the past is CMBS. We were very close to launching our CMBS platform in June, but our selected equity partner materially changed the terms of our partnership agreement so we backed away. We are currently engaged with several institutions to form a partnership that will allow us to launch our CMBS platform in 2013.

Despite the volatility in CMBS at the end of Q2, we are still strong believers that CMBS will be an important capital provider to our industry over the coming years and we remain focused on adding this capability to Walker & Dunlop and to our clients.

With regard to a public mortgage REIT, we have completed almost all the work to file with the Securities and Exchange Commission, but have decided to wait for now given the recent run-up in rates and overall market dynamics for a mortgage REIT IPO. We believe a mortgage REIT vehicle would be very beneficial to Walker & Dunlop as a form of off balance sheet financing, but for now that strategy is on hold.

Finally, as we announced in May, we hired Brian Casey to spearhead our initiative to raise capital to provide long-term fixed rate financing to our clients. Brian's extensive experience running one of the largest life insurance company lending platforms in the country is hugely valuable to our capital raising and capital deployment strategies. We have a tremendous origination platform that institutional capital appears to want to access. We're hopeful that we will have a separate account up and running before the end of the year.

I'd like to loop back to where we started this call highlighting the terrific loan origination growth we experienced in Q2 by originating $2.6 billion of loans. That's more than we originated in all of 2009. As we look at Q3, which is typically a slower quarter for originations, we're faced with the challenge of HUD's commitment authority and the GSEs potentially slowing down originations to ensure they have adequate capital for Q4.

We're establishing Q3 origination guidance of $2 billion to $2.5 billion and revising our 2013 annual guidance to $9 billion to $11 billion. We remain extremely focused on retaining our position as the largest Fannie Mae DUS Lender moving up in the lead tables with HUD and Freddie Mac and continue to diversify our lending platform by growing capital markets and raising proprietary capital. We're still clearly on the path to creating the premier commercial real estate finance company in the United States and our current quarter's financial and operating results show this.

Two and a half years ago, we went public at a market cap of approximately $220 million and near complete dependence on Fannie Mae and Freddie Mac at a time when most people thought the GSEs were about to be shut down. Since then we have invested time and capital to maintain our highly valuable GSE businesses, yet also expanded our platform by growing our HUD and capital markets businesses.

We acquired CWCapital last year and plenty of people doubted whether we could acquire, integrate and grow our platform post acquisition. We have done just that while maintaining the exceptional culture and management practices that make Walker & Dunlop what it is today.

Our market cap has increased nearly 3x since our IPO. We are one of the fastest growing commercial real estate platforms out there. We've invested in new business lines to continue meeting our customers' needs and all the while we've grown the size of our servicing portfolio from $14.6 billion at the end of 2010 to $37.9 billion today.

We have produced dramatic growth in sales, significantly diversified our lending platform, maintained high profitability margins and continue to build a long-term pre-payment protected servicing asset that will benefit investors in good times and bad.

Finally, we remain the seventh best small and medium- sized company to work for in the U.S. in 2012 and we hope to be on that list again in 2013 with the addition of our terrific colleagues from CWCapital.

With that, I'll thank all of you for participating in today's call and open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Our first question will come from Cheryl Pate with Morgan Stanley. Please go ahead.

<Q – Cheryl Pate – Morgan Stanley & Co. LLC>: Hi, good morning. Just a question on – given the rate environment and the move we saw in the second quarter. Can you speak to the benefit perhaps that you received from prepayments in the second quarter and sort of how to think about the year ahead and sort of now that rates seem to have stabilized a little bit at this level?

<A – Willy Walker – Walker & Dunlop, Inc.>: Good morning, Cheryl. So as it relates to prepayments in Q2, the majority of the prepayments in Q2 were in with HUD loans and so as a result of that, we did not get prepayment penalties during Q2 for the majority of the payoff that we had because it was very focused in our HUD portfolio. But you are raising an issue that we've discussed before, which is that as rates do move up, many of our customers are looking at, if you will, what's the strike point to pay a prepayment penalty and refinance at these lower rates. We haven't seen a lot of that in the Fannie and Freddie portfolio so far. But there are plenty of clients of ours who have 2014, 2015 maturities who are pretty engaged on running calculations with us to figure out what the sweet spot is, if you will.

<Q – Cheryl Pate – Morgan Stanley & Co. LLC>: Okay, great. And then just on the lower guidance for the full year, is that being driven sort of entirely by the lower Fannie/Freddie volumes or how should we think about capital markets and potentially HUD being back on line as potential offsets?

<A – Willy Walker – Walker & Dunlop, Inc.>: So I guess there are a couple of things there, Cheryl. First of all, as you know, we can grow our capital markets business dramatically and we plan to do that, but as it relates to the overall financial model, it is not as profitable to us as our agency execution. And so what we did in bringing the guidance down, there are a couple drivers there. First of all, as we've said before, Fannie and Freddie's 10% reduction in 2013 is not a massive change except as you saw in Q2, we had a lot of work to do on figuring out what markets Fannie wanted to be in and what deals they wanted to do. We, as we just said, have been very engaged in getting a better understanding of where they want to be for the rest of the year and they have plenty of capital to put out.

But I wouldn't be surprised, given that both of them are over halfway through their annual allocations and Q4 is typically the largest loan origination quarter of the year, that both of them are looking at deals in Q3 and wondering whether they want to put a ton of capital out in Q3 or wait and hold on to Q4. That is mitigated somewhat by the point we made in the call as it relates to how they account for loans and how we account for loans and their deliveries towards the end of the year – well, the loans we rate lock at the end of the year will be pushed over to being deliveries to them in 2014.

So we see a very robust environment out there. There is a lot of financing activity going on. But I think by bringing the guidance down, we are just trying to say to people, look, we are still very focused on doing as much business as we possibly can, but if you look at the volume we did in Q2 which we are extremely pleased with and also the guidance we've given for Q3, there are a lot of moving parts out there that we are working very hard to manage with, but we thought that we would establish that guidance for the rest of the year.

<Q – Cheryl Pate – Morgan Stanley & Co. LLC>: Thanks very much.

Operator: And our next question comes from Jason Stewart with Compass Point. Please go ahead.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Hi, good morning, thanks. On the large loan bridge program, Willy, could you give us more details around what expectations you have for leverage, your fees, when you expect to start funding?

<A – Willy Walker – Walker & Dunlop, Inc.>: Sure. Jason, first of all, congratulations on your note the other day on taking a look at the overall environment and understanding that things are moving around out there, if you will. I would – the large loan bridge program, as I said, we are thrilled with our two partners there. And I want to underscore how big an accomplishment it is for Walker & Dunlop to have gone out and raised that much capital from two very established institutional investors to spearhead this effort. I think there's going to be a tremendous amount of opportunity going forward for us to raise capital in this manner and I think this is just the first step that investors will see of us growing our relationship both with these two investors and also other investors.

There is a significant amount of demand for bridge or interim financing due to what I mentioned in the call; lots of people are sort of shying away from buying assets at a sub-5 cap and just holding onto them. Many people are looking both at the development world as well as the acq/ rehab world and this fund plays perfectly into that. This is a large loan fund and we are fortunate to have an origination sales force that has access to lots of large deals. I would underscore that because in the CW acquisition we picked up a number of very large relationships with some producers now at Walker & Dunlop, who have access to larger loans, which will play right into this strategy.

And then as it relates to the specific fees, Jason, we haven't sort of issued a press release, if you will, on all the different components to it. We will make asset management fees on the fund and we will make origination fees as well as servicing fees. And the – I'm trying to – as it relates to leverage, we are not looking to lever this. We are getting 65% leverage I believe, on it, is that right Steve?

<A – Steve Theobald – Walker & Dunlop, Inc.>: That's right.

<A – Willy Walker – Walker & Dunlop, Inc.>: Yes. So, we are getting 65% leverage on it, Jason, and so we will have a moderate leverage for a fund of this nature. And looking at low teens returns given where coupon rates are today and the type of leverage we will put on it.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Okay. And so we could expect you to start funding these in the third quarter?

<A – Willy Walker – Walker & Dunlop, Inc.>: We spoke to our – we announced it day before yesterday and I had three emails with one of our co-investors yesterday saying we are cranking and let's get some deals in here and let's get going. So we are very focused on it and getting as much as we possibly can going with them. It's a great opportunity.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Okay. I appreciate the color there. And then one follow-up on the expenses. It sounds like a lot of the hiring and building for these business diversification efforts has occurred. Would there be an expectation that the growth rate there slows or is there still a little bit more building to do, a little more expense to come in the second half of the year for those initiatives?

<A – Willy Walker – Walker & Dunlop, Inc.>: So we talked about, and I'll let, Steve, if you want to add anything here. We talked about the fact that we've hired some super, super talented people and I'm thrilled with the hires that we've made both on our CMBS platform as well as our separate account platform and also for this large loan bridge program. And Jeff Goodman, who runs all those efforts should be congratulated for all the talent that he has attracted to our platform.

One of the big expenses that we were modeling, Jason, was the mortgage REIT. And as we said in the call, we put that on hold for now. So we invested a bunch of time and effort in both our own resources as well as external, particularly legal help in getting all that put together. And so that is now on hold, so that doesn't kind of continue to burn for a period, we might add an appropriate time, look at that again.

And then we will really be looking at it from a capital standpoint. Really now that we've got the people here, we're putting the partnerships in place, it really kind of turns back to Steve as it relates to how much capital that we have are we putting into these ventures. And as Steve highlighted in his comments, our balance sheet right now is in such a form that he's got plenty of both cash on the balance sheet as well as borrowing flexibility to be able to potentially raise capital to put into these initiatives should we need additional capital.

<A – Steve Theobald – Walker & Dunlop, Inc.>: And the only things I would add are one, we also to continue to recruit capital markets and origination teams. So I would expect that we'll still continue to see expenses related to those efforts as we find the right folks to fit here. And then with respect to a CMBS platform, which Willy mentioned, once we get that signed up and up and running, there'll be some investment associated with that as well. But I think that rounds out what Willy had to say.

<Q – Jason Stewart – Compass Point Research & Trading LLC>: Great. Thank you.

<A – Steve Theobald – Walker & Dunlop, Inc.>: Yes.

Operator: And our next question comes from Brandon Dobell with William Blair. Please go ahead.

<Q – Brandon Dobell – William Blair & Co. LLC>: Thanks. Good morning. I want to make a couple of quick follow on comments on the expense structure. Given the pacing of the GSE origination, it doesn't sound like you guys are going to make any change to the expense structure. I know commissions flex up and flex down, other than the investments you guys are continuing to make or have made in the diversification efforts, anything to talk about with the expense structure in the back half of the year relative to the pace of originations now versus your prior expectations?

<A – Steve Theobald – Walker & Dunlop, Inc.>: Brandon, I think I mean, we're going to, as we would always do, look at expenses and where we think we're spending too much, we're going to take action on that. But at this point from an origination perspective, I don't think we're looking at any adjustments to our expense base.

<Q – Brandon Dobell – William Blair & Co. LLC>: Okay, gotcha. And then, Steve, in your comments on the balance sheet, you talked about taking advantage of the balance sheet. Maybe some more color on what you guys are thinking of. I know there's putting capital work in the large loan fund is an example of that, but what other kinds of things are you guys looking at to take advantage of your financial position right now?

<A – Steve Theobald – Walker & Dunlop, Inc.>: Yes, so Brandon, I think if you look at the structure of our balance sheet and the cash flow that we're producing right now, I think we're underleveraged. And so I think there's an opportunity for us to accomplish a couple things. One is take advantage of interest rates and provide – and we're not talking about crazy leverage, but – so don't anybody get too excited there. But we're looking at increasing the leverage in the company, which will make us more efficient on the capital side.

<Q – Brandon Dobell – William Blair & Co. LLC>: Okay.

<A – Steve Theobald – Walker & Dunlop, Inc.>: And then that will also then give us the increase in capital necessary to support some of these proprietary capital efforts. So the large loan bridge program, the CMBS platform, our interim loan program all require capital contributions from us.

<Q – Brandon Dobell – William Blair & Co. LLC>: Yes.

<A – Steve Theobald – Walker & Dunlop, Inc.>: And this will be a way for us to finance those contributions over a longer period of time.

<Q – Brandon Dobell – William Blair & Co. LLC>: Got it. And then, maybe, Willy, given all the political footballing back and forth, what's your sense of next year, a potential one more downtick in the commitment levels or ceilings from Fannie and Freddie? And I guess if there is a change in the answer depending on who is – whether it's Mel Watt or somebody else that's put in that position.

<A – Willy Walker – Walker & Dunlop, Inc.>: Yeah, it's – it's a perfect question, if you will, Brandon, and obviously one that we don't know the answer to. As it relates to trying to read the tea leaves, as I mentioned in my comments, if FHFA is watching the political debate on Capitol Hill, one would think that they wouldn't ask for a continued decrease.

<Q – Brandon Dobell – William Blair & Co. LLC>: Okay.

<A – Willy Walker – Walker & Dunlop, Inc.>: And at the same time, you sort of – you never know, and we won't know until they come out with the 2014 scorecard. And so there's really – it's almost – right now, for us, it's almost impossible to handicap. What I look at is the disruption, if you will, or the difficulty in understanding where Fannie was in Q2 was something of a one-time event, as they, for the first time in their history, had to deal with a cap and what's their strategy to deal with that cap. They have now done that and now are figuring out how they are deploying capital.

As you saw in our numbers with Freddie Mac, I would put forth that Freddie really didn't skip a beat. They've stayed consistent in the markets and stayed consistent to the types of deals that they wanted to do. And as you saw, our quarterly volume with Freddie was at an all-time high, over $600 million, and Freddie continues to deploy capital at a very, if you will, effective and efficient rate.

So, if they took another 10% out in 2014, that's bringing Fannie down to $27 billion and bringing Freddie down to $24 billion, $23.5 billion. And so you still have in the two of them, if they just did the same thing again, well over 50% of the capital that's going to go into multifamily in 2014. So they're still going to be huge players regardless of whether they get changed in that manner or, hey, they may come up with something else, but let's just say that they do a redo. It's still a huge amount of capital, and I think that the agencies will be better, particularly Fannie, at managing through any potential reductions.

The final thing I'd say on all of it, Brandon, is just that the agencies because FHFA came out with their scorecard in March, the agencies were sort of already into Q1 when the scorecard come out...

<Q – Brandon Dobell – William Blair & Co. LLC>: Right.

<A – Willy Walker – Walker & Dunlop, Inc.>: ...so, they have put in a request FHFA to come out with their scorecard earlier this year, so to come out with the scorecard in 2013, so they sort of know what they are planning and budgeting to in 2014. I don't know whether FHFA is going to live up to that request and whether we'll see something in the next couple of months or whether they are going to wait as they historically have done into the fiscal year that they are actually setting a scorecard for, but we could know sooner rather than later. That's I guess at the end of the day what I'm trying to say.

<Q – Brandon Dobell – William Blair & Co. LLC>: Got it. Okay. And then kind of one follow-on from that. Given the portfolio construction, I guess, with at-risk loans versus loans without risk at Fannie, and your – I think your comments, Willy, about trying to figure out where Fannie wanted to be with different types of programs, should we expect an uptick or a downtick or no change with that at-risk portfolio proportion looks like kind of going forward?

<A – Willy Walker – Walker & Dunlop, Inc.>: So the at-risk portfolio, as you've seen, has grown dramatically over the past couple years...

<Q – Brandon Dobell – William Blair & Co. LLC>: Yes.

<A – Willy Walker – Walker & Dunlop, Inc.>: ...both through organic originations as well as the acquisition of CW. I think that really as we look at the percentage of our business that we do with Fannie Mae, it's – everything we're doing with Fannie Mae is generally speaking full risk. As you know, Brandon, if we do larger deals, they are capped at $65 million of aggregate risk to Walker & Dunlop, and then everything above that we don't take risk sharing on. And so, I think, the issue there is that they will still be – all the deals we do with Fannie Mae will still be at a full risk.

I think the point that I would underscore from Steve's comments was that we have done a number of structured arms since acquiring CW. And we didn't do a lot of structured arms prior to acquiring CW, but some of our larger clients and CW's past clients, like the dynamics of these structured adjustable rate mortgages. And so when we're doing those deals, they are typically five- and seven-year deals. And because they have greater prepayment flexibility to them than a standard 10-year fixed rate loan, we're not – we book an MSR for the first year's mortgaging servicing rights, but beyond that we don't book the servicing income as an MSR when we put them on the books.

<Q – Brandon Dobell – William Blair & Co. LLC>: Okay.

<A – Willy Walker – Walker & Dunlop, Inc.>: What that means is that when we actually originate those loans we're getting our origination fee and we're booking a small MSR, but because all those loans have caps on them, the chance that they prepay in this market environment is very low and therefore what you will see is we pick up just the servicing income that comes in over the life of the loan and doesn't have an offsetting amortization expense of having set up an asset that we're in the process of depreciating.

<Q – Brandon Dobell – William Blair & Co. LLC>: Okay.

<A – Willy Walker – Walker & Dunlop, Inc.>: So, the bottom line there is you don't see it today, but we see it tomorrow if those loans stay on our books, because they've got very healthy servicing fees, just like a standard fixed rate deal, except we are just not booking non-cash income when we are originating them, we are just taking the cash flows off of them as they stay on the books, for three, five, seven years.

<Q – Brandon Dobell – William Blair & Co. LLC>: Got it. That's very helpful, appreciate the call. Thanks.

<A – Willy Walker – Walker & Dunlop, Inc.>: Yes.

Operator: And we'll go next to Whitney Stevenson with JMP Securities. Please go ahead.

<Q – Whitney Stevenson – JMP Securities LLC>: Hi, there, everyone, Willy, Steve and Claire. So I think you usually have some top line seasonality with revenue ramping as the year progresses and I am just wondering if you can give us an idea of what percentage of personnel comp is fixed salaries and what percent is commission driven?

<A – Willy Walker – Walker & Dunlop, Inc.>: Whitney, we have that, we have a slide. Everyone's diving for our slides. I don't have it right in front of me, but we – let's see. Do you want me to pause for a second or do you want to just send it to her?

<Q – Whitney Stevenson – JMP Securities LLC>: No that's fine. Is it in here?

<A – Willy Walker – Walker & Dunlop, Inc.>: We've got it, Whitney. We have shown the – there's been a historic slide that we had in past presentations, which shows quarter-by-quarter the fixed versus the variable. And as you look at our history, if you will, in Q4 typically because that's such a large origination quarter, the variable kind of sky rockets up because you are paying a lot of commissions and then in quarters like one and three where you have lower volumes, your fixed expenses as a percentage of expenses comes up. But do you have the actual number or do you want to send it to her?

<A – Steve Theobald – Walker & Dunlop, Inc.>: Yes, I mean the split right now is about 55% fixed 45% variable. The variable includes not just the commissions, but it's also our discretionary bonus pool et cetera for the non-sales force, but it's 55%-45%.

<Q – Whitney Stevenson – JMP Securities LLC>: And so – so is that 55%-45%split for first half or second quarter.

<A – Steve Theobald – Walker & Dunlop, Inc.>: That's for the first half.

<Q – Whitney Stevenson – JMP Securities LLC>: Okay. Okay, perfect. Thank you.

<A – Willy Walker – Walker & Dunlop, Inc.>: Yes.

Operator: We'll go next to Bose George with KBW. Please go ahead.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Everyone, good morning. To the extent that the GSEs are not providing financing because of their caps, where do you see some of those borrowers getting their funding or is it too early to tell?

<A – Willy Walker – Walker & Dunlop, Inc.>: Good morning, Bose.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Hi, Willy, good morning.

<A – Willy Walker – Walker & Dunlop, Inc.>: They – the markets are plenty active as everyone talks about private capital coming back to the U.S. mortgage markets and the fact that Fannie and Freddie are dominating the single-family space, I wish members of Congress would come and hang out in our offices and see the competitive set that go after deals that we are lending on.

As you have seen in the volumes from our competitors, there are – CMBS is back, was really cranking pre-interest rate run-up and took a pretty significant pause, Bose, in sort of the last six weeks of the quarter as rates started to move and we got some significant volatility in the markets. CMBS is back making quotes and actually processing business. But that sort of, that's the typical cycle, right? They are cranking when things are pretty stable and then the moment there's some significant volatility they are taking a pause, seeing where the markets kind of shake out and then coming back in.

The banks are still aggressively lending because they are looking for yield. Some bank competitors have gone to doing longer term fixed rate loans. My attorney would tell me that their CFOs and treasurers at some point are going to walk in and say our capital structure is not designed to be doing seven- and ten-year fixed rate lending and we're to get back to doing construction loans and three- and five-year variable rate loans or adjustable rate loans. But for right now, some of the banks are going long and going fixed, which is a competitive, if you will, a significant competitor out there.

And then the life insurance companies got out of the gates extremely fast in 2013, put a lot of capital to work in Q1 and continue to put capital to work in Q2. We know a couple of the smaller programs have pulled back because they have basically run out of money.

But you may have just seen announced this week that MetLife got a big separate account from SunTrust, I think it was about $5 billion that MetLife got from SunTrust in a separate account. So someone like MetLife, who I believe put out $9.5 billion last year, just got a separate account allocation from SunTrust for – I don't know how much they plan to put out of that $5 billion in 2013. But the life insurance companies and particularly the big guys like MetLife and New York Life and others, don't have plenty of capital to continue to be an active lender in the market this year.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay, great. That's helpful. Thanks. And then actually on the CMBS is it – initially you guys are going to be a conduit, but could that tie into the commercial mortgage REIT as well where you essentially hold some of that risk, is that the idea?

<A – Willy Walker – Walker & Dunlop, Inc.>: That's clearly the idea given that the REIT is on the shelf right now not something that we'd get to right away. But sure that – the flexibility, if you will, that the REIT would provide us with as it relates to a funding source for potentially the conduit and then for all of our lending operations would be great.

And we're still – we would love to have that vehicle, but we've also got a lot of – and I think right now if you think about it from a prioritization standpoint, Bose, as Steve underscored, our platform is more diverse today than it's ever been. But we underscore that diversification with making sure that we're raising proprietary capital that we can feed into our distribution network.

And the source of capital, if you will, or the type of capital that is most needed today is that long term fixed rate capital that Fannie and Freddie provide that we need to have in case Fannie and Freddie continue to shrink their operations. And so we are very focused on both the CMBS platform as well as the separate account because that type of capital matches up perfectly with the customers need for that type of capital.

<Q – Bose George – Keefe, Bruyette & Woods, Inc.>: Okay, great, thanks.

<A – Willy Walker – Walker & Dunlop, Inc.>: Yes.

Operator: And I would now like to turn it back to Mr. Willy Walker for any closing or additional remarks.

Willy Walker, Chairman, President and Chief Executive Officer

I appreciate all the questions and all the focus that the analysts have on W&D. Q2 was a great quarter. Everyone at Walker & Dunlop had a fantastic quarter and we are already solidly into Q3. And I'd just close the call by saying we haven't even come up on the one-year anniversary of the acquisition of CW and we have a company that is operating at a very efficient and a very integrated level right now well within a year of having brought on basically doubling the size of the company.

And as an individual, I have tried exceptionally hard and spent a lot of time on making sure that we bring these two companies together and maintain a very consistent culture and continue to do things the way that both Walker & Dunlop and CW did them previously to meet our customers' needs, continue to grow rapidly and maintain a high profit margin in our core business and we've done just that. So thanks everyone for joining us today. And we will be talking to you soon.

Operator: Thank you. This does conclude today's conference call. Please disconnect your lines at this time. And have a wonderful day.