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Walker & Dunlop, Inc. *(WD)*

Q2 2012 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Walker & Dunlop Second Quarter 2012 Earnings Conference Call and Webcast. Hosting the call today from Walker & Dunlop is Willy Walker, Chief Executive Officer. He is joined by Debbie Wilson, 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 11 a.m. Eastern Time. The dial-in number is 1-800-283-4799. At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. [Operator Instructions]

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

Claire Harvey
Vice President-Investor Relations, Walker & Dunlop, Inc.

Thanks, Doug. Good morning, everyone. Thank you for joining the Walker & Dunlop second quarter 2012 earnings call. Joining me this morning are Willy Walker, our Chairman, President and Chief Executive Officer, and Debbie Wilson, our Executive Vice President and Chief Financial Officer.

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 earnings release and a presentation on the Investor Relations section of our website, www.walkerdunlop.com. Both documents provide additional detail on certain topics that we will refer to during our prepared remarks. 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 SEC.

Due to the pending acquisition of CWCapital I am required to provide the following additional information. As previously disclosed, the company is expected to issue approximately 11.6 million shares subject to adjustment, of the company's common stock in a private placement to CW Financial Services LLC at the closing of the announced pending acquisition by the company's indirect wholly owned subsidiary, Walker & Dunlop, LLC, of CWCapital LLC, a direct wholly owned subsidiary of CW Financial Services LLC, and pursuant to the rules of the New York Stock Exchange, the stock issuance is subject to approval of the company's stockholders.

The company and its directors and officers may be deemed to be participants in the solicitation of proxies from stockholders of the company in connection with the approval of the stock issuance.

Information about the directors and executive officers of the company and their ownership of the company's shares is set forth in the definitive proxy statement for the company's 2012 annual meeting of stockholders, filed by the company with the SEC on April 26, 2012, and in the company's statements of changes in beneficial ownership filed on Form 4.

On July 26, 2012, the company filed with the Securities and Exchange Commission a definitive proxy statement related to the stock issuance and has mailed the definitive proxy statement and other relevant documents to the company's stockholders. The definitive proxy statement and other documents filed by the company with SEC may be obtained free of charge at the SEC's website at www.sec.gov or the company's website at www.walkerdunlop.com. Investors should read the definitive proxy statement carefully before making any voting decision because it contains important information.

Now, I will turn the call over to Willy.

William M. Walker

Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.

Thank you, Claire, and thank you everyone for joining us this morning's call to review Walker & Dunlop's Q2 2012 earnings. Q2 will be remembered as a transformative quarter for our company similar to Q1 2009 when we acquired certain assets of Column Guaranteed from Credit Suisse in the depths of the financial crisis and Q4 2010 when Walker & Dunlop was the first mortgage banking company to go public in almost four years. The acquisition of CWCapital dramatically accelerates Walker & Dunlop's progress towards becoming the premier commercial real estate finance firm in the United States.

On top of the CW acquisition, we achieved record quarterly loan origination volume of $1.34 billion, the second highest quarterly revenues in the company's history of $47 million and hired two new loan origination teams in Florida and Wisconsin that should triple our annual Capital Markets loan origination volume. Even with the significant acquisition and hiring costs running through our income statement, we produced the third most profitable quarter in our company's 74-year history. I will review these significant accomplishments in further detail. I'll turn the call over to Debbie to provide additional detail on our finances and then I will provide some insight into where we go from here.

The details of the CWCapital acquisition are described in the proxy statement filed with the Securities and Exchange Commission. Investors should know that CWCapital was not the first competitor to approach us about being acquired by Walker & Dunlop. This is important for several reasons. First, it says that Walker & Dunlop's management team and capital structure were being sought out by our competition. Second, it is not only Walker & Dunlop, but our competition that realizes scale matters in the commercial real estate lending arena. Finally, having looked at other firms, Walker & Dunlop moved very quickly to acquire CWCapital due to the company's reputation, people, client base, and cultural fit with our firm.

I would like to note that Walker & Dunlop is very fortunate to have a business development, legal and finance team that executed flawlessly on this acquisition in an exceptionally tight timeframe, all while managing their normal business demands doing a record loan origination quarter for our company. We are very fortunate to have such talented people at Walker & Dunlop.

Record loan origination volume was highlighted by our Capital Markets group growing their originations by 57% over Q2 2011. Our Capital Markets group originates loans on all commercial real estate property types and finances those loans with capital from various funding sources such as life insurance companies, Wall Street conduits and commercial banks.

During Q2, we also added two Capital Markets origination teams and we are thrilled with these additions. Both groups have exceptional reputations in the mortgage banking industry and come to Walker & Dunlop with longstanding client and lender relationships. They also fit perfectly with Walker & Dunlop's culture, client focused, unquestionable ethics and enjoy what they do. It is important to note that the 57% quarter-on-quarter growth in Walker & Dunlop's Capital Markets originations does not include any originations from these new teams.

As Walker & Dunlop grows this business line, we will expand our addressable market from the $850 billion multifamily finance industry into the $3.1 trillion commercial real estate finance industry. Our core multifamily finance business had another great quarter with Fannie Mae, Freddie Mac and HUD continuing their roles as the dominant sources of capital for multifamily properties. With low interest rates and continued strength in multifamily as an asset class, we are extremely well positioned to continue being one of the largest providers of capital to the multifamily industry.

One concern of Walker & Dunlop investors has been our concentration of multifamily originations with the GSEs. In the first half of 2011, 18% of Walker & Dunlop's originations were on non-multifamily properties such as office buildings, hotels and retail centers or properties financed with non-GSE capital. For the first half of 2012, the percentage of non-multifamily or non-GSE capital originations rose to 31%. We are not concerned about imminent change to GSEs, but we will continue diversifying our originations and capital sources to ensure that should something happen, Walker & Dunlop's core business is well positioned to react to the change.

During the second quarter, we rate-locked our first deal through a Cushman & Wakefield investment sales assignment and closed our second interim loan using Walker & Dunlop's balance sheet. The CWCapital acquisition bolsters Walker & Dunlop's financial strength and balance sheet providing additional capital for this type of lending. The development of proprietary capital to feed into our origination network is a key strategic initiative and the continued growth of our interim lending program is paramount to the growth in this area of our business.

After Debbie discusses the quarter's finances in more detail, I will finish our prepared remarks with some thoughts on the CWCapital acquisition and where our company will be positioned at the end of 2012. Debbie?

Deborah A. Wilson

Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

Thank you, Willy. Let me start by adding my enthusiasm about our growing business and the significant progress we've made on implementing our strategic initiatives. It certainly is an exciting time in the company's history.

Financially, the second quarter was characterized by record loan origination volumes, expanding origination fees and strong servicing fees, resulting in the company's second highest total revenues and third highest income from operations ever. We incurred new expenses due to the expansion of our origination platform and the CWCapital acquisition, and yet we delivered a solid 32% operating margin for the quarter. Our ability to absorb those costs and still deliver these results truly demonstrates the capabilities and profitability of our business model.

We originated $1.34 billion of loans, a 2% increase over Q2 of 2011, which drove a 10% increase in total revenues. We have focused on the diversification of our products in Capital Markets where non-GSE HUD originations has become a growing part of our business. In the second quarter, Capital Markets originations grew 57% and accounted for 30% of our total originations, compared to 20% in the second quarter of last year.

Origination fees continued to be strong across all product lines and the increased concentration of Capital Markets originations did not negatively impact our average origination fee or MSR. Origination fees actually increased 11% to $17.1 million and were 128 basis points of origination volume in the second quarter, up from 117 basis points in the second quarter of last year. Gains from MSRs increased 6% to $16.8 million and were 126 basis points of origination volume in the quarter, up from 122 basis points in Q2 of 2011. The expanding fees demonstrate that our core multifamily business continues to perform very well.

Record loan originations drove a 14% increase in the servicing portfolio since June 30, 2011. We have added $2 billion of net loans over the last year increasing the aggregate portfolio to $17.6 billion, average life to 8.8 years and the average servicing fee to 23 basis points.

The servicing portfolio produced $9.8 million of fee income during the second quarter, up 22% from the second quarter of 2011. Servicing income has comprised between 19% and 27% of quarterly revenues since Walker & Dunlop went public and accounted for 21% in Q2 of 2012. This long-term stable recurring revenue source is significant and important, especially in a transaction-driven business where revenues fluctuate in tandem with volumes. At June 30, 2012, the fair value of our mortgage servicing rights was $176 million, compared to $142 million at the end of the second quarter last year, a 24% increase.

As a reminder, during our Q1 earnings call, I walked through how we book MSRs and the relative value of these mortgage servicing rights. One data point to remember from that discussion is that Walker & Dunlop servicing portfolio as of December 31, 2011 will produce at least $308 million in fee income over the next 10 years, 90% of which represents prepayment protected revenues from Fannie Mae and Freddie Mac.

Net income for the second quarter was $9.3 million, a 17% decrease from the second quarter of last year. As Willy and I have both mentioned, the quarter's profitability was impacted by the hiring of new origination teams and the incremental expenses associated with CWCapital acquisition.

Total expenses were $31.6 million in the second quarter, a $7.4 million or 31% increase over the second quarter of last year. Although significant, the increase was due to investments that will grow our business and associated revenues over time.

Personnel expense grew $4.5 million over Q2 2011 and there were two primary reasons for the increase. $1.7 million of the increase is variable commission expense related to the 11% growth of origination fees. As origination volumes and fees grow, commission expense naturally increases as well. The remaining $2.8 million increase in personnel expense is related to fixed compensation expense stemming from the growth of our origination platform.

We have grown our origination sales force by 32% over the past 12 months and added four significant origination teams across the country. We have grown our company by 41 full-time employees during the same period, 76% of which are directly related to our origination efforts. In connection with these hires, we also paid third-party recruiting cost of $500,000 in the second quarter. The increase in fixed compensation expense along with the recruiting fees impacted earnings per share by $0.09 this quarter.

Other operating expenses increased $2.3 million this quarter. Included in other operating expenses is $1.1 million in fees related to the CWCapital acquisition which impacted earnings per share by $0.03. The remaining increase reflects expenses incurred as we add offices and grow the business.

So, in summary, our investments in people and the cost of a major strategic acquisition increased expenses by 31% over Q2 of 2011 and impacted earnings per share by $0.12 in the second quarter. These are exactly the types of investments we should be making in our business today and I'm very pleased with the 32% operating margin we produced given these additional costs.

The dramatic growth of Walker & Dunlop since going public has not negatively impacted the exceptional performance of our credit portfolio, and credit continues to be a major focus of the firm. The company's at-risk servicing portfolio grew 18% to $8.3 billion at the end of the quarter with 60-plus day delinquencies dropping to 5 basis points at June 30, 2012.

During the second quarter, we recorded a $750,000 provision for risk-sharing obligations, down from $1.8 million in the second quarter of 2011. In addition, during the quarter, we had net write-offs of $1.6 million on losses previously accrued.

Let me turn for a moment to our year-to-date results. We achieved a milestone during the first six months of the year by originating $2 billion of loans, an 11% increase over the first half of 2011. We often discussed how our revenues are largely impacted by the mix of loans originated, so it is important to look at how the diversification of our originations has impacted our financial performance.

Capital Markets originations grew 87% in the first six months of 2012 and represented 31% of originations during the period. Fees on Capital Markets' transactions are typically less than our GSE and HUD originations and we do not book MSRs for this servicing. Yet, during this time of diversification, we actually increased our average origination fee by 9% and total revenues by 14%.

Year-to-date expenses were $57 million, up from $42 million during the first six months of 2011. Compensation expense as a percentage of total revenues for the first six months of 2012 was 36%, up from 31% in the first half of 2011, and reflects the investments we made in origination teams and our origination platform.

Net income for the first six months of the year was $15.1 million, a 15% decrease from $17.8 million in the first six months of 2011. The decrease was primarily attributable to the investments in our origination platform and acquisition-related expenses. For the first six months in 2011, after going public, we did not make any major strategic investments benefited from increased origination volumes and produced a 41% operating margin. As we said at the time, a 41% operating margin was not sustainable and we guided investors and analysts to a mid-30s operating margin. I'm very pleased that we ended the first six months of 2012 with a 30% operating margin and a net income margin of 19% given the many strategic investments we made this year.

Let me close with some general commentary on Walker & Dunlop's financial position and the CWCapital acquisition. The core business is extremely healthy and we continue to generate robust top line growth and strong bottom line results. We have plenty of cash along with a stable long-term asset which produces a significant amount of income.

We are using a combination of cash and stock to acquire CWCapital. We will finance a portion of the cash component with debt and even with the addition of this debt our business will continue to have very low leverage. Using debt leaves us with a strong cash position and the flexibility to continue investing in our business and developing new lending products.

Lastly, I would like to reiterate Willy's comment about the outstanding performance of our team during the quarter. The finance team at Walker & Dunlop played an integral role in the CWCapital acquisition, all while managing a rapidly growing business. I am especially grateful for and truly impressed by my team and their contributions this quarter.

And with that, I'll turn it back over to Willy.

William M. Walker

Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.

Thank you, Debbie. So, let me turn for a second to our industry, the CWCapital acquisition and what investors should expect over the coming months. Our industry faces roughly $1.9 trillion of commercial real estate debt that must be refinanced over the next five years. That is close to $400 billion a year in an industry where increased bank regulation and a sputtering CMBS market make many people wonder who will provide the needed financing. All indicators are that market fundamentals remain strong and outlooks are positive for continued growth. The second quarter was a good one for commercial real estate and multifamily in particular. With the Mortgage Bankers Association reporting last week, the commercial multifamily mortgage origination volumes rose 25% over a year ago.

The apartment market is seeing low vacancies at levels not seen since 2001 and in Q2 2012 at 4.7%. This bodes well for Walker & Dunlop's credit portfolio which as Debbie mentioned, finished Q2 with only five basis points of the at-risk portfolio 60-plus days delinquent. Although there are pockets of the country where new development is bringing on significant inventory, there is plenty of velocity in rental growth to be lost before credit becomes a concern with regard to Walker & Dunlop's financial performance. As we outlined in our earnings release, on a standalone basis, we are providing Q3 origination guidance of $1.1 billion to $1.4 billion, which is 21% to 54% growth over Q3 2011 originations of $907 million.

I'd like to turn for a moment to Walker & Dunlop's competitive positioning. The combination of CWCapital and Walker & Dunlop would have been the eighth largest commercial real estate lender in the United States based on 2011 Mortgage Bankers Association league tables. That is eighth among such household names as Wells Fargo, MetLife and J.P. Morgan. The combined entity will be the largest Fannie Mae DUS lender in the country, the third largest Freddie Mac seller servicer, sixth largest HUD FHA lender, and second largest multifamily lender in the country. The added scale of the CWCapital acquisition, coupled with the refinancing wave that is upon us, position us exceptionally well over the coming years. Dodd-Frank, Basel III and too-big-to-fail concerns on Capitol Hill make the commercial banking landscape extremely challenging.

Our recent Keefe, Bruyette & Woods research report entitled Basel III could provide boost to non-bank mortgage companies, highlights the uncertainty in the commercial banking sector. Record default rates and significant market volatility are presenting strong headwinds for CMBS originators on Wall Street. CMBS may secure ties between $35 billion and $45 billion of commercial real estate loans in 2012, but that is a long way away from providing the same amount of liquidity and capital to commercial real estate as Wall Street did in the mid 2000s. And although, life insurance companies invested record levels of capital and commercial real estate debt in 2011, even at record volumes, life insurance companies provided less than $50 billion of capital to the marketplace. This landscape presents a phenomenal opportunity for a non-bank publicly traded finance company like Walker & Dunlop.

Our origination scale is on par with the largest competitors in the country. Our track record and reputation speak for themselves, and our growth both top line and bottom line as an entrepreneurial market-focused company has been consistent and strong. Walker & Dunlop's operating income has grown at a compound annual growth rate of 59% from 2008 through 2011. And with our added scale and strong market fundamentals, there is no reason we shouldn't continue growing rapidly and profitably.

The major strategic accomplishments that we have discussed today are worth repeating, because individually they are impressive, but collectively they paint a very strong picture for where our company is going. We posted record origination volumes, the second highest revenues and the third highest quarterly profits in the company's history. We dramatically diversified the mix of our originations, growing non-multifamily and non-GSE financed originations from 18% of volume in the first half of 2011 to 31% of volume in the first half of 2012. Yet, while diversifying, we actually experienced fee expansion in both origination and servicing fees.

We added over $2 billion to our servicing portfolio since Q2 2011 and expanded the weighted average servicing fee to 23 basis points and the weighted average life to almost nine years. The acquisition of CWCapital is fantastic from a strategic and cultural standpoint and makes us a major force in the multifamily finance business, which is growing, profitable and exceedingly strong from a credit standpoint. Yet, while adding huge scale to our multifamily business, we also added scale to our non-multifamily origination business, which means the diversification achieved in the first half of 2012 from an asset class and capital source standpoint will be maintained over time.

We have issued our proxy to Walker & Dunlop's shareholders and plan to hold a Shareholder Meeting on August 30 for approval of the CWCapital acquisition. We have completed our Hart-Scott-Rodino filing and received early termination from the Department of Justice and Federal Trade Commission. Therefore, we're currently targeting August 31 as the closing date and we plan to open for business on September 4 as a combined firm. We are very excited to start working with our CWCapital colleagues and realizing the power of this combination.

Pro forma financials for Walker & Dunlop and CWCapital were filed with our proxy. We will not get into detailed discussions with regard to synergies between the two firms at this time. We'll have a conference call after the acquisition closes to provide updated origination guidance and other general commentary on the integration of the two firms. And as we realize synergies between the two firms both on the revenue side due to our added market presence and on the cost side due to overlap between the two platforms, we will discuss and explain what we have done.

We are quickly approaching Walker & Dunlop's 75th anniversary in November of this year. The combination of Walker & Dunlop with a firm like CWCapital is a wonderful way to cap off this historic year for our company. I could not be more pleased with all we accomplished since going public and particularly during the second quarter, and must thank everyone at Walker & Dunlop for all their exceptional work.

With that, I would like to thank you for your time this morning and open the call to any questions.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Thank you. Our first question is coming from Bose George from KBW. Please go ahead. Your line is open.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hello, good morning.

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

Good morning, Bose.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.
Q

I had a couple of questions. First, you guys noted that the personnel expenses were up on the new hires. Just wanted to see when we can start seeing the revenue side of that come in?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

So, Bose, we just gave very strong Q3 guidance on a year-on-year growth basis. So, I don't think you get to that type of growth on a year-on-year basis if the new hires that we've added aren't contributing to that. So, I think the bottom line is that it varies as we've discussed in the past on how quickly producers kind of, if you will, get up to speed, but we are very pleased with the groups that we've added over the last 12 months. As Debbie pointed out, we have invested significantly in origination talent. And I think that the guidance that we've just given as far as Q3 shows that those are hires are already starting to make a difference.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, that's fair. Thanks. And then actually just switching to the timeline, you have the – sort of the strategic plans still developing some of the new others – those other funding sources. I was wondering if there is a specific timeline for that or, how you guys are thinking about that?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

So, we started 2012 with three strategic initiatives. One was to be a top five Fannie, Freddie and HUD lender; two was to grow our Capital Markets business; and three was to develop proprietary products. The CWCapital acquisition checks the box on strategic initiative number one. The significant hires in Q2 of teams in Florida and Wisconsin gets us about two thirds of the way towards achieving strategic objective number two, and we continue to work diligently on strategic objective number three. I would say at the beginning of the eighth month of the year, I am absolutely thrilled with the progress we've made on our strategic plan. From my standpoint, the progress we made in Q2 is amazing.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. And then actually let me just – one last political question. We found it interesting, the FHFA strategic plan the other day put out, didn't mention the multifamily side while their earlier letter to Congress did. So, I was just curious if there was any, you guys had any thoughts on that?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.

A

No, you know that there is a study going on inside of both Fannie and Freddie as it relates to their multifamily business and I believe that there will be a report out in the month of September as it relates to whether those businesses could be spun-off, whether they can stand on their own with a guarantee, without a guarantee and both Fannie and Freddie are – their teams are working very hard on that analysis. So, beyond that and waiting to see what they come out with, I think we wait to find that out.

And then as you know, Bose, if it has anything to do with the guarantee it is not something that either Treasury or FHFA can do, it has to go to Congress. So, if the report comes out and says that they either can be spun-off with guarantee, without guarantee or they have to stay part of it, anything that deals with the guarantee obviously needs legislation and it's our assumption that any legislation on multifamily would be tied in with single family and the single family debate as you know better than I do is somewhat protracted.

Bose George
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks a lot.

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.

A

Yeah.

Deborah A. Wilson
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Thank you, Bose.

Operator: And we'll go next to the site of Will Marks with JMP Securities. Please go ahead.

William C. Marks
Analyst, JMP Securities LLC

Q

Thank you. Good morning, Willy, Debbie, Claire. Hello. I wanted to start with – you mentioned the industry growth figure of 25%, I believe the number was, and just to clarify, does that refer to any multifamily refinancing or a new loan?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.

A

It's an MBA stat, Will, and I'm assuming it includes all loan originations of members of the Mortgage Bankers Association, so I'm assuming that includes construction, it includes bridge, it includes on-balance sheet, securitized, agency, life, CMBS and REIT.

William C. Marks
Analyst, JMP Securities LLC
Q

And I guess where I'm getting on, I know you're diversifying away from multifamily. I'm curious how reliant you are within your multifamily business on the hot transaction environment, meaning apartments trading hands or is your business really a factor of just refinancing rather than new loans?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

So, the majority of our business – first of all, we did our first deal with Cushman & Wakefield during the quarter, which I know a number of people have been asking us when you guys can do a deal with them, so we did that. The second thing is that, I wouldn't say that we're diversifying away from multifamily. If you think about the additional scale that we're adding with the CWCapital acquisition, the interesting thing there is with the investments we've made in non-multifamily origination teams in Q2, as I said in my comments, even with the significant growth that we're going to achieve through the CWCapital acquisition in the multifamily space, with the additions of those new teams, the non-multifamily component of our business continues to grow and so the diversification that Debbie and I both spoke about, will continue over time.

But it's my great assumption that when we put CWCapital and Walker & Dunlop together in Q3, that the percentage of our business that is focused on multifamily will jump back up to where it was historically just because we're taking on such huge amount of originations at CWCapital in multifamily space. The one other piece I'd add to that, is that CWCapital you may know, Will, has a very robust joint venture partnership with ARA, Apartment Realty Advisors, and we are in the process of meeting with ARA executives and CW executives and understanding what the partnership does and how they've originated loans through ARA's investment sales into CW's financings and we'll have further commentary on that as we figure out how we move forward with that partnership.

Deborah A. Wilson
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.
A

Will, it's Debbie. Over time, most of the volume does come from refinances. Clearly, transaction activity in construction does have an impact. But if you look at it, there is always a base of refinancing just based on the structure of the loans that can be increased or decreased slightly given the activity in construction as well as transactions.

William C. Marks
Analyst, JMP Securities LLC
Q

Yeah, thank you. Two other things, is the comp structure the same for CW and you all in terms of originating, employees who originate?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

Yes.

William C. Marks
Analyst, JMP Securities LLC
Q

Okay. And then actually, whether, does it vary by market or some salary bonus, some commission?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

No, I mean as a general comment there, the way they pay their originators is very similar to the way that we do and quite honestly, very similar to the way that most of our competitors do.

William C. Marks
Analyst, JMP Securities LLC
Q

Okay. Thank you. And I guess next question on looking at your originations this year on maybe a same head basis versus maybe last year or the peak, how are your originators doing?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

I don't have that stat.

William C. Marks
Analyst, JMP Securities LLC
Q

It's what, sorry?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

I don't have that, I don't have that stat on a person by person basis. As we've said previously, Will, I mean one of the things that scale brings us is the ability for one person to have a very strong year at one point and they've got a client base that's very active and then somebody else steps in. And I think we've actually discussed previously with you about the lack of concentration in sort of one or two huge ten ton gorilla originators. That doesn't mean we don't have people who show up at the top of our league tables every year who have big books of business. But that varies significantly. I would also point out that as it relates to our, if you will, producer rankings of origination volumes given the growth of our Capital Markets business, we have a number of Capital Markets originators who have moved up in our internal rankings as it relates to the volume of business that they've originated in 2012.

William C. Marks
Analyst, JMP Securities LLC
Q

Okay. Thank you. Just one final question on the homebuilding market, how should we look at any kind of relationship with perhaps a pick-up on – I've been looking for this for this over a long time, but in home sales versus or how does that impact your business, okay?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

So, I guess everyone's been looking for some reason to have multifamily as an asset class sort of fall off. I think for a while when there were all these buy-to-lease programs going on and lots of people raising capital, about everyone said well, there is this big overhang. And all these people were going to come in and buy up these big portfolios and start leasing them out and that's going to impact rental occupancy levels, and as we know that has not happened or materialized yet. And I think now that the single-family world, home prices are starting to show some rebound. Everyone all of a sudden is sort of saying, oh, we're going to have a recovery in the single-family space and that's going to start to put a drag on occupancy levels at multifamily properties. We have – in our portfolio, we have not seen any letup as it relates to either very, very solid occupancy numbers or very, very impressive net operating income growth.

Now, that's just our portfolio. And if you talk to some of the developers that we finance properties for, as I said in my comments, they believe that there are pockets across the country from a multifamily standpoint that are getting – that have a significant amount of construction starts or inventory that's coming online and there are even some that are getting back into the condo business. And anyone who was smart enough to go and start building single-family homes a year or two ago has been selling that inventory of new homes very rapidly, particularly in markets like here in Washington DC.

But at the end of the day, the general trend of multifamily as being a higher percentage than historically, as you know single family home ownership got up to 68% at the peak of the cycle is now in the mid-60s and many people are saying that to stay in the mid-60 – to drop down to the low 60s. I think that trend will, for right now – either remains in place in the mid-60s or continues to move down. There is nothing we're seeing right now that there is a big move back towards single-family homes. And as I said from a credit standpoint, which is the only implication to all that for Walker & Dunlop right now because the maturities that we pointed out are there for us to refinance.

So, to Debbie's point, there is a huge wave of refinancings that are coming up. So the opportunity is right there in front of Walker & Dunlop for us to go get new loan originations. So that, you could grow single family all you want, you still have that refinancing wave in front of you. So the only implication of any change in home ownership from multifamily if you will, to single family is credit. And as we have said, our credit portfolio has been performing wonderfully and there's got to be a lot of movement in that area if you will, and lots of people buying single family homes before we might see anything that starts to put any pressure on the credit performance of our portfolio.

William C. Marks
Analyst, JMP Securities LLC Q

Okay, that's great. Thank you. I appreciate it.

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc. A

And I'd put one final caveat on that, Will, which is just that what we saw during the last downturn as we've discussed previously is that the defaults we've had in our portfolio have been far less market driven and far more specific borrower driven. And so therefore, even in some of the softest markets in the country from an overall macro statistic standpoint, where you had high occupancy levels and you had poor performance in multifamily generally, we generally speaking, didn't have poor performance in those markets. Yet we did have some poor performance on specific assets due to just borrowers not performing properly or getting themselves overextended. So, the macro trends have not impacted Walker & Dunlop's portfolio, it's been much more borrower specific issues.

William C. Marks
Analyst, JMP Securities LLC Q

Great. Thank you.

Operator: And our last question comes from Brandon Dobell with William Blair. Please go ahead. Your line is open.

Brandon B. Dobell
Analyst, William Blair & Co. LLC Q

Good morning, thanks. I was wondering if you could give us some color on where you expect the non-GSE, let's call it non-multifamily in kind of scale of originations to exit the year? You talked about where you kind of finished the first six months. And I guess excluding CW, since it hasn't closed yet, where should we expect that number to finish out 2012?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

Yeah, Brandon, as you know we haven't – we've not given guidance in the past on the break-out between Fannie, Freddie, HUD and Capital Markets, and don't plan to start giving that now. So, we're not in the guidance breaking out between the various executions if you will at this time.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Okay. All right, fair enough. And then from a servicing fee point of view, given I guess the sight of human capital out of the agencies, any discussions with your counterparts especially at Fannie in terms of what the fee structure may look like on service loans or any moving back and forth there or changes in how they are viewing risk versus no risk?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

Nothing.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Okay. Fantastic. And then from an originator point of view, given the strength in multifamily, how do we think about where you guys are putting your efforts in terms of attracting new talent? Are you still going after the multifamily origination guys or should we expect kind of future head count additions to come in different parts?

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

It's a very good question, Brandon. I would just put forth that the CWCapital acquisition and the additional scale that it brings to us and where we will be the largest combined Fannie, Freddie, HUD originator in the country, we'll be the second largest multifamily finance company in the country. We'll continue to add talented people to that, but we don't need a whole lot more scale there if you will. And so the continued additions will be to the broadening of our platform to adding origination talents that may focus on other asset classes and then also the growth of our proprietary products to be able to build up new products inside of Walker & Dunlop and our own capital sources. So, it's a good question. We obviously are always looking for good talent and if good talent – if we come across good talent, we will work hard to get them on to our platform. But investors, I don't think should expect W&D to be looking at other major acquisitions in, if you will, agency multifamily space for now.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Okay, good enough. Thanks everybody. I appreciate it.

William M. Walker
Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.
A

Thank you.

Operator: And we have no further questions at this time. I would like to turn the conference back over to Mr. Willy Walker for any additional or closing remarks.

William M. Walker

Chairman, President & Chief Executive Officer, Walker & Dunlop, Inc.

Great. Thank you all for participating this morning. I think this was a fantastic quarter for Walker & Dunlop. We made some very important strategic investments. I think our financial performance is reflective of an extremely strong quarter and appreciate your interest in hearing about the quarter and we will talk to many of you in the coming days. Thank you very much.

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