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WD - Q4 2011 Walker & Dunlop Inc Earnings Conference Call

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CORPORATE PARTICIPANTS

Claire Harvey *Walker & Dunlop Inc - VP, IR*

Willy Walker *Walker & Dunlop Inc - Chairman, President & CEO*

Debbie Wilson *Walker & Dunlop Inc - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Bose George *Keefe, Bruyette & Woods - Analyst*

Mike Widner *Stifel Nicolaus - Analyst*

Brandon Dobell *William Blair & Company - Analyst*

Rochan Raichura *JMP Securities - Analyst*

Jason Stewart *Compass Point - Analyst*

Brian Hagler *Kennedy Capital - Analyst*

Ian McBain *Talcott Capital - Analyst*

PRESENTATION

Operator

Welcome to Walker & Dunlop's Fourth Quarter and Full Year 2011 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, Director of Investor Relations. Today's call is being recorded and will be available for replay beginning at 1.30 PM Eastern Time. The dial-in number is 800-374-1375. 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 call over to Claire Harvey. Please go ahead.

Claire Harvey - *Walker & Dunlop Inc - VP, IR*

Thank you. Good morning and thank you for joining the Walker & Dunlop Fourth Quarter and Full Year 2011 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. Our earnings press release and website provide details on accessing the archived call. This morning, we posted the earnings release and a presentation on the investor relations section of our website www.walkerdunlop.com. Both documents provide additional detail on certain topics, which will 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 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?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Thank you, Claire. Good morning and thank you for joining us to discuss Walker & Dunlop's extremely successful fourth quarter and 2011 financial results. These results clearly demonstrate the profitability of our business model and accelerate our progress towards building the premier real estate finance company in the United States. A year ago, we held our first earnings call as a public company. During that call, we delivered solid fourth-quarter and year-end results, affirming the confidence investors placed in us during our initial public offering. During that call we also outlined for investors what to expect from our company during the coming year. Specifically, we told investors that our quarterly results would likely fluctuate, but that we would deliver strong yearly results. We did just that.

In 2011, Walker & Dunlop increased revenues 25%, increased operating income 41%, and increased net income 324% over our 2010 results. Throughout the year, we asked investors to remember that during our IPO, we took a deferred tax charge and that the real comparison to 2010 net income would be on a pro forma basis. Normalizing for the IPO tax charge, pro forma net income increased 42% from 2010 to 2011. We also told investors that we would manage costs closely and work hard to scale our business in a profitable manner. We did just that, expanding the Company's operating margin from 33% in 2010 to 37% in 2011. This margin expansion bested even our own assumptions, due to economies of scale and some unique income during the year that dropped straight to the bottom line. We also told investors that we would embark on deploying the capital we raised in the IPO to expand the Company and diversify the sources of capital that fund our lending operations.

We added new offices in Irvine, California and Nashville, Tennessee and grew our employee base by 20%. We formed a partnership with Cushman & Wakefield to combine Cushman's national multifamily investment sales expertise with Walker & Dunlop's national multifamily financing platform. We started an interim loan program using IPO proceeds and credit facilities to lend on transitional properties not ready for permanent financing. All of this activity significantly expanded Walker & Dunlop's footprint and product offering, and along with our core business activities, produced a return on equity of 24%. We also told investors that, although the headlines would be filled with stories about Fannie Mae and Freddie Mac, that little would happen from a legislative or regulatory standpoint. There were 15 pieces of legislation regarding Fannie Mae and Freddie Mac introduced in 2011, yet not a single piece of legislation was brought to the House floor for a vote. The Obama administration's White Paper was little more than a trial balloon and Fannie Mae Freddie Mac and HUD all increased multifamily lending volumes significantly.

The GSEs are clearly going to change and we believe Walker & Dunlop is extremely well-positioned to adapt to those changes over the coming years. Finally, we told investors that our origination volumes would fluctuate quarter-to-quarter, but that on an annual basis, we would originate between $3.5 billion and $4.25 billion in commercial mortgages. We finished 2011 originating $4 billion, a 27% increase over 2010. We did this in a year when commercial banks, life insurance companies, and mortgage rates were all back on the playing field at full strength. We grew our Fannie Mae correction a 19% to $1.9 billion and earned the great distinction of being the second largest Fannie Mae [dust] lender in the country. We grew our Freddie Mac originations by 59% year-on-year with no new lending licenses. That growth was in the same markets we had in 2010.

Our HUD originations volumes were down 17% year-on-year. But given the complete change in leadership in our HUD team and recruiting of new talent during the year, we are extremely pleased with $512 million of HUD origination volume. Finally, we told investors that our capital markets business would grow significantly during 2011 as capital returned to most commercial real estate asset classes. Our capital markets grew origination volumes by 77% in 2011 without expanding into new offices. That 77% growth was all from our mid-Atlantic team. As impressive as our 2011 financial performance is, our performance as an operating company is what makes me most proud. The almost 200 employees at Walker & Dunlop are some of the most talented and dedicated professionals in our industry.

Adapting to life as a public company does not happen overnight, yet the professionals at Walker & Dunlop did it in a rapid manner that allowed us to expand operating margins by 4 percentage points during the year. Our IPO by tremendous brand awareness to Walker & Dunlop, helping our efforts to recruit both new clients, as well as talented professionals. The capital we raised in our IPO allowed us to launch new strategic initiatives, such as our interim loan program and engage in strategic discussions that were simply not available to us as a capital-constrained private company. The multifamily financing market was a great place to be in 2011 and should continue to provide significant growth opportunities for our Company in the coming years. I am asked quite often whether multifamily is going to be over-built soon. According to a research report by Institutional Property Advisors, although multifamily construction permits increased 91% between 2010 and 2011, new construction remains less than 1% of inventory; well below the 2.2% long-term average. The loans Walker & Dunlop is currently making all have significant equity invested by the owner-operator and the great majority have a debt service coverage ratio greater than 1.25.

We told investors last year that we believe that 60-plus day delinquencies in our portfolio hit their peak in June of 2010. We were correct in that statement and watched our 60-plus day delinquencies dropped to 0% at the end of Q3 2011 and we finished the year at 0.25% of our at-risk portfolio; a statistic we are extremely proud of. With an expanding economy, lower unemployment, and limited supply of new capacity, we feel very good about the credit quality of our portfolio over the coming quarters and years. I would like to turn the call over to Debbie to discuss our Q4 and 2011 financial results in more detail and then I will continue the call with color on what we expect to see in 2012. Debbie?

Debbie Wilson - *Walker & Dunlop Inc - EVP, CFO*

Willy, thank you. As Willy highlighted, 2011 was an exceptional year due to our revenue growth, expanding margins, and bottom line profitability. Net income was $11 million for the fourth quarter, or $0.50 a share; a 69% increase over pro forma net income for the fourth quarter of 2010. This dramatic growth in earnings was due to strong loan origination volumes, continued growth in the servicing income, a significantly lower provision for risk-sharing obligations, and other revenues that fell directly to the bottom line. Let me touch briefly on the major drivers of profitability. In the fourth quarter, we originated $1.3 billion of loans; a 22% increase over Q4 '10. This propelled us to record revenues of $47.6 million; a 32% increase over the fourth quarter in '10.

The revenue growth outstripped origination growth due to the significant contribution from servicing and other revenues, coupled with strong origination-related fees and MSR income. As we have previously discussed, in any given quarter, the composition of our loan originations is just as important of the volume of business we originate. In the fourth quarter of 2011, a large percentage of our volume was with Fannie Mae, Freddie Mac, and HUD and as a result, we saw robust origination fees and MSR income. Our 2011 originations fueled a 25% increase in servicing fee revenues, as servicing fee income for the fourth quarter eclipsed $9 million for the first time. At December 31, 2011, the servicing portfolio was $16.8 billion, with a weighted average servicing fee of 22 basis points. Other revenues increased 250% to $3.8 million in the fourth quarter and were significantly impacted by the collection of a $1.8 million breakage fee associated with a large portfolio refinancing.

Although the Company would have much preferred to successfully complete the transaction, it was nice to be paid in the fourth quarter for the significant time and resources that we dedicated to this deal in 2010 and '11. Let's turn to fourth quarter expenses, which were $29.7 million, up 17% over the fourth quarter of 2010. Personnel is our largest expense and was $17.7 million. About 67% of this personnel expense was variable and driven by origination volumes; so as volumes go up, personnel expense naturally increases as well. Fundamental to the quarter's profitability was a 32% increase in revenues, while expenses increased only 17%. This produced a 38% operating margin; a full 9 percentage points higher than Q4 of 2010. Generally speaking, when we originate more than $1 billion of loans in a quarter, with a large concentration of GSE and HUD, we create economies of scale and margins do expand.

Let me now turn to our 2011 full-year results. Simply said, 2011 was a record year across the board. Although being public brings with it additional corporate costs, our key operating statistics were excellent and we are reporting the most profitable year in the Company's 74-year history. Net income was $34.9 million, or $1.60 per share; a 42% increase over pro forma 2010 net income. These outstanding results were driven by record loan origination volumes and associated fees, record servicing fees, strong other revenue, improving credit performance, and focused expense management. In 2011, we originated $4 billion of loans for our borrowers; a 27% increase over 2010, which generated a 21% increase in origination-related revenues. There is no perfect correlation between the growth in origination volumes and related fees.

For the full year of 2011, origination-related revenue growth was strong, but it trailed overall origination growth due to the higher concentration of capital markets. As Willy mentioned, capital returned to the market in a big way in 2011 and our brokerage business took advantage of that by growing their production 77%, providing alternative funding sources for our borrowers and demonstrating our ability to access capital outside of the GSEs and HUD. Our originations continued to grow our servicing portfolio and drove 2011 servicing fees to a record $33.6 million, up 24% over the prior-year. Scaling our servicing portfolio to $16.8 billion provides more than just servicing fee income. As the number of borrowers and properties within our portfolio increased, they make asset level decisions that provide us with more frequent opportunities to earn fees outside of the origination and recurring servicing platform, such as assumption fees and prepayment fees. Since these decisions that drive those revenues are largely out of our control, the timing and amount of fees are difficult for us to predict.

These fees are included in other revenues, which were up 162% in 2011 and included a $2.5 million assumption fee in Q1 and a $1.8 million breakage fee in Q4. Credit quality within our portfolio continues to improve and had a significant impact on 2011 profitability. The provision for loan losses was $4.7 million in 2011, down 37% from 2010. The provision was 6 basis points of our at-risk portfolio, down from 11 basis points in '10. To reiterate Willy's comments, we are extremely proud of our credit loss performance. Being public carries additional costs of approximately $4 million to $5 million annually. Even with these additional expenses, opening two new offices, and incurring operating expenses to support our increased scale, we managed costs tightly and produced a 37% operating margin, a full 4 percentage points over 2010.

Finally, I'd like to provide some color on our finances from my perspective. We finished the year with a strong cash position, little debt, and valuable servicing assets. Overall, a very strong balance sheet. We have a scaled origination platform that has demonstrated its ability to grow in a fiercely competitive landscape. We modeled pricing pressure into our business in 2011 and it did not materialize. Given the sporadic performance of CMBS lenders last year, I believe we will see minimal pricing pressure this year in our core multifamily business with Fannie Mae, Freddie Mac, and HUD. We expect almost $40 million of servicing revenue this year, which will cover every fixed cost in our business.

Substantially all of those servicing revenues are prepayment-projected for the next 8.5 years. As a CFO, I love having a growing and stable revenue source that more than covers all of our fixed costs. In summary, fourth quarter and full year 2011 delivered extraordinary results for the Company, including a 24% return on equity coupled with a 24% stock price appreciation for our shareholders. With that, I'll turn the call back over to Willy.

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Thank you, Debbie. After executing extremely well in 2011, what should be expected from Walker & Dunlop in 2012? First, we will continue to expand our lending platform by adding mortgage origination talent across the country. The Company has a clear strategic goal to be a top five lender with Fannie Mae, Freddie Mac, and HUD and we will continue growing our origination volumes to achieve that objective. We are providing guidance that Walker & Dunlop will originate between $4.5 billion and $5.25 billion of commercial mortgages in 2012. First quarter is generally a slow quarter for mortgage originations and our current guidance is between $600 million and $900 million; up between 18% and 78% from the $507 million of originations done in Q1 2011.

Second, we will build out our capital markets group into new geographies. We currently have limited capital markets lending activity beyond the mid-Atlantic. We will focus on adding new origination talent into other offices and also bring into Walker & Dunlop origination teams with long-standing relationships with new sources of capital for Walker & Dunlop's lending operations. Although this business line is not as profitable as our existing agency lending business, building out this platform and gaining access to additional deal flow for new sources of capital is important to the Company's long-term strategic growth model. Third, the Company will continue to focus on raising proprietary sources of capital to lend on commercial real estate across the country. The interim loan program launched in 2011, which made its first loan in February of 2012, is the Company's first foray into this arena. Our skill sets and experience position us well to execute on our strategy of raising funds and creating proprietary sources of capital.

We've been taking credit risk for 23 years with de minimus losses. This year, we lent $4 billion, made thousands of credit decisions and serviced and asset managed 1,800 commercial loans worth $16.8 billion. Our team manages in excess of $1 billion in annual payments, more than $250 million in escrow deposits, and evaluates the financial conditions of over 1,800 assets on a monthly and quarterly basis. Whether we raise capital on our own balance sheet through a mortgage REITs or via investment funds, Walker & Dunlop's scaled asset management platform and impressive credit track record will enable this transformation of our business over the coming years. There has been significant discussion over the past two weeks since the Federal Housing Finance Agency, FHFA, issued a White Paper to Congress on proposed reforms to Fannie Mae and Freddie Mac. The future of Fannie and Freddie is an extremely complex debate and as everyone knows, there is no clear reform or solution that has gained political support on Capitol Hill or within the Obama administration. I would emphasize, however, that the FHFA White Paper did something that those of us in the multifamily lending space have been hoping for, for quite some time -- a differentiation between the way Fannie Mae and Freddie Mac lent money in the single family mortgage market versus the multifamily mortgage market.

As FHFA's report clearly states, Fannie and Freddie's multifamily businesses have performed extremely well throughout the downturn and include a very significant amount of private capital that greatly mitigates the risk of loss to taxpayers. Where the debate goes from here as hard to determine, but having legislators finally understand the significant differences between single family and multifamily, in conjunction with the Obama administration's statements in their White Paper about the importance of affordable multifamily housing, are significant and, we believe, encouraging signs about where this debate is headed. Since 2008, Walker & Dunlop's originations have grown from $2.2 billion in 2009 to $3.2 billion in 2010 to $4 billion in 2011 -- a 22% compound annual growth rate. That growth is also reflected in the number of loans and number of clients working with Walker & Dunlop. It is our client's trust in our people, process, and execution that has allowed us to grow so rapidly. I have just provided origination guidance for 2012 of $4.5 billion to $5.25 billion; a 12% to 25% year-on-year increase. We are confident in our ability to continue growing our origination volumes and revenues due to market fundamentals and our Company's strong market position.

A recent Keefe, Bruyette & Woods analyst report estimates that close to $480 billion of commercial real estate mortgages mature in 2012 and approximately $2.2 trillion over the next five years. To put that refinancing opportunity into perspective, in 2007, at the height of the last commercial real estate cycle, $518 billion of capital was applied to commercial real estate. Of that $518 billion, CMBS accounted for $230 billion of capital. So 2012 requires similar amount of capital to meet the refinancing needs of the market, yet estimates are that CMBS will originate around $50 billion this year. So if every other source of commercial real estate capital takes its pro rata share of the financing market in 2012, what sources of capital will fill the gap between $230 billion from CMBS in 2007 and $50 billion in 2012? The point I'm trying to make is that there is a massive refinancing market for Walker & Dunlop to address this year and over the next five years.

Our client base, platform, reputation, and access to capital position us well to grow aggregate origination volumes and also market share. As I look back on the past year, I could not be prouder of Walker & Dunlop's performance and the spectacular results our team posted -- 25% revenue growth, 41% operating income growth, 42% pro forma net income growth, 24% return on equity, and stock price appreciation of 24%. Quite a first year. We will continue to grow our business in a measured profitable manner on our mission to create the premier real estate finance company in the United States. With that, I'd like to thank all of you for participating in today's call and I'd like to ask the operator to open the line for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bose George, KBW.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Congratulations on a great first full year. A couple questions, the first is on the Freddie Mae licenses. You noted that your Freddie volume is up sharply, but the licenses are the same. I was just wondering, what could create a situation where you get more licenses? How often does that happen, the potential of that increasing next year?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Good question. To be honest, Bose, we were very fortunate to pick up two great new, if you will, areas back in 2009 and 2010. In 2009, we picked up the greater Washington area, which included Maryland, Virginia, and the District and then in 2010, we picked up greater New York of New York, New Jersey, and Connecticut. As we noted, we did not add any licenses in 2011. Really what Freddie Mac is looking for is to make sure that they are not taking a market and, if you will, just slicing the pie up with one more lender. What Walker & Dunlop needs to do is convince Freddie Mac that there are markets where we can expand their market share and not just take market share away from their existing lender base. As you can imagine, we've had conversations with them and we are hopeful that we can get some new licenses in 2012, particularly given the growth of our origination volumes in 2011 in the markets where we have licenses.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Okay, great. Just a question on the interim loan program, you guys launched it in mid-year and I guess there were none made to date. I was just curious, has the demand been different or any color on the outlook for that program?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Bose, we actually made our first loan in the interim loan fund in February and there was a press release around that. It was a loan that we did in Lexington, Kentucky. It's a $7 million loan. We actually have done our first deal in that program and we continue to look at a significant pipeline of deal flow there and feel very confident that we will both deploy the capital that we have in that facility, as well as potentially look to expand the facility in the coming year.

Bose George - *Keefe, Bruyette & Woods - Analyst*

Okay, great. Thank you.

Operator

Mike Widner, Stifel Nicolaus.

Mike Widner - *Stifel Nicolaus - Analyst*

Let me also say congrats on a solid first year. The one question I had is looking at the origination fee margin, the 123 basis points, normally that's something that we see seasonality in and as you guys pay out the higher commissions in Q4, our expectation was it would go down. 123 basis points, I think is the second highest number that you've posted in the past six quarters. Just wondering if you could comment on that and how we should think about that particular line item next year, well this year?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Mike, there are two things to keep in mind there as it relates to Q4. The first is, Q4 had a, as Debbie outlined, a significant amount of Fannie, Freddie and HUD, so our capital markets group, if they had done a significant amount of originations in Q4, their origination volume or fees would have driven that number down a little bit. But because of the predominance of Fannie, Freddie, and HUD, that number stayed up. The second thing is that, as I think we've talked about previously, it really depends on who does originations when throughout the year. What we have in the fourth quarter was a number of originators who got into strong volumes in the fourth quarter, but weren't at the, if you will, at the highest point in their variable, or their splits, if you will. And so by having a number of originators who hadn't had a ton of production during the year really hit it in the fourth quarter, what ends up happening is that the company pays out less on a percentage basis to them, rather than the people who had been doing very, very well throughout the year who are at the top, top, top point of their splits getting very, very high fees. It really just had to do with who did the production in the fourth quarter, as well as what execution it was done with.

Mike Widner - *Stifel Nicolaus - Analyst*

Got you. You mentioned the mix and then Fannie/Freddie/HUD was about 85%, it looks like this quarter, which is in line with where you were on average for the whole year in 2010. You also give some guidance on origination volumes for 2012. What are your expectations there for mix? 85%-ish or more in the other category?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

I think you know what my answer's going to be to that, Mike, which is that we're giving broad origination guidance and people can go back and look at it from a historic basis, as you have, and draw their own conclusions. But to be honest with you, as I have spoken to investors about in the past, Q3, we had a huge amount of capital markets business and we had investors who sat there and said, hey, I saw this big number as far as an aggregate origination volume, but it didn't flow through to the bottom line. Where was the profitability behind it? We explained to people, hey, we had a very strong quarter on our capital markets business, but it is not as profitable a business line as our others. You've just seen what the fourth quarter is as it relates to doing a lot of agency business and what that does to our bottom line. We are not giving guidance on a, if you will, per execution basis. But as we did in 2011 very effectively, we've given a range of aggregate origination volumes and as you know, we came in not the middle, we actually came in a little bit higher than the middle on our annual origination guidance, but that's as far as we're going, Mike.

Mike Widner - *Stifel Nicolaus - Analyst*

Okay. If I look at the 2012 guidance, if I take the midpoint of that range, it's what 4.85 or thereabouts? It's looking about 20% growth, just off the top of my head, versus where you finished 2011. That's a little higher than the 15%-ish guidance, I think, if we go all the way back to the IPO that you guys were talking about. I realize it's all in broad ranges and everything, but from that standpoint, you guys hit toward the higher end of the range you guided to before.

Your new guidance for 2012 is north of 15%, which was the original. All else equal, it looks like you guys are sort of becoming more bullish on growth opportunities and wondering if you could just talk about, is that a market thing? Is that you guys just getting better hires than you expected? Why are things falling better into place than maybe you had expected a year ago or a quarter ago or whatever?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

I think I'd just reiterate a couple of points that I made in my comments, Mike, which is just that we've benefited from the brand recognition that Walker & Dunlop has across the country, from both going public, growing our origination volumes, being the second-largest Fannie Mae dust originator. That brand awareness helps us every single day. As I said in my comments, it's helped us both attract great talent, as well as attract new clients. I would say the second thing is that if you look at the Fannie Freddie debate during 2011 and the fact that we have an election coming up in November, there's a very broad consensus that nothing is happening to Fannie Mae and Freddie Mac for 2012. We know that those are stable, great sources of capital where we're one of the largest lenders in both of those two programs.

The third thing is that the multifamily market, as well as other real estate markets, there's a lot of deal activity. We are one of the largest providers of capital to it. As you have deal activity, as you have improving fundamentals, we feel very good about what the market looks like in 2012. I think you can, if you will, draw your assumptions as it relates to where we'll end up in that range. But we've given that range after a lot of studying on what we think our production force can do across the country and how we feel about the overall macro conditions in 2012.

Mike Widner - *Stifel Nicolaus - Analyst*

Thank you. If we just basically straight-line things, take the center point of your range and apply it to that 20% origination volume growth, if I straight-line $1.60 times 1.2, I come out in the $1.90 range and I'll just leave the question at that. The question is, does that sound like an appealing number to you?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

I think that what Walker & Dunlop demonstrated in 2011 is that we are very focused on growing our Company and providing outstanding shareholder value and returns. Our margin expansion in 2011 is emblematic of that. With all the additional costs we took on, all of growing our platform and having 4 percentage point margin operating margin expansion in the year, I think it says a lot about the way we manage the platform, about the way we originated business and about the strength of our brand. We feel good about 2012. We've given you the projections. As I know you and another analysts will do, you will make your assumptions and sit out there and put a very, very high bar for us to try and clear, as you always do. As I think you know, we will continue to manage our business to the best degree that we can and continue to provide great shareholder value, we hope. That's really the strategy.

Mike Widner - *Stifel Nicolaus - Analyst*

Thanks, Willy. I think so far, you guys have hit and surpassed all the bars that we've put out, at least as far as the $1.60 goes. I think that was probably higher than high on the street. Not that I pay too much attention to what my peers think, but so we'll put out a higher number and we'll hope you beat it again next year. Thanks and congrats on a solid year.

Operator

Brandon Dobell, William Blair & Company.

Brandon Dobell - *William Blair & Company - Analyst*

I want to focus first on a two-part headcount question. In terms of producers, where did you finish out 2011 and any expectations on where that number may go in 2012? I think I've talked about or asked in the past what the market looks like for lateral hires or acquiring talent, maybe you could address that part as well?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

We're right around 30 producers, which is, if you will, pretty steady from where we ended 2011. As you know, we're actively out recruiting, looking for both origination talent, as well as potential acquisitions. We haven't provided any guidance on what that number moves to, but if you do your math as it relates to our origination volume guidance, we can't sit back and say to the same originators, go do 20% or whatever the number that Mike just threw out there, increase volume in 2012 with the exact same team. We're very focused on adding origination talent and continuing to grow the platform.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. A related question in terms of non-producer headcount, how did that look during 2011? Obviously with the IPO some things changed, obviously, but how should we think about that part of the cost structure looking for 2012, non-producer headcount?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

As we said in the script, we increased headcount by about 20%, which is 30 people in aggregate during the year, something around there. A bunch was due to things such as compliance and the components, if you will, of the $4 million to $5 million that Debbie said in her comments on our cost to be a publicly traded company. As she also, quickly, pointed out and even with those additional costs for a company of our size, we were able to expand margins by 4 percentage points in an operating income level. We're also adding underwriters because of the volume of work that we're processing right now and so that's another area where we're adding people. Then as the portfolio continues to grow, we have to add asset management talent to make sure that we're effectively asset managing the more than 1,800 assets we have across the country that are in our servicing portfolio.

It's hard for me to say to you of the adds that we had in 2011, how many are just due to becoming a public company and how many are due to the overall growth of the company in general. But I would put forth that growth in, if you will, support and back-office from here on forward is going to be predominantly origination-related. In other words, underwriting and asset management and not as much on accounting, legal, finance control. We've got most of that, not most of it, we've got it all in place. I'm thrilled with the way that we operated as a public company in our first year from a compliance standpoint, from a filing standpoint, from a [Sox] standpoint, et cetera, et cetera.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. I know during the course of 2011, there was a number of instances where the marketplace felt there was going to be some shakeouts either from commercial banks or investment banks or other companies trying figure out what to do with their agency assets or their multifamily lending assets. Did those scenarios play out like you thought they would? Are there more opportunities on the horizon now for talent or for books of business then you may have thought back 2011? Or is it just the uncertainty kept people from doing what you thought they would do?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

There wasn't any significant M&A activity in 2011 other than Deutsche Bank exiting the space and Lew Ranieri and Wilbur Ross buying that business. My understanding of that, Brandon, is that they're still working through regulatory approvals on that, but that should probably happen. But other than that one deal, there really wasn't a significant amount of M&A activity in the space last year. Not exactly sure what happens in 2012. As you know, many of our competitor firms are owned by big private equity firms and then also big banks. Those are the two competitive forces out there -- big private equity-backed companies and big banks. I know that BASEL III has some impacts on the banks as it relates to the capital they need to put against this business.

My understanding is that those capital changes don't come into effect until 2014, so you've got '12 and '13, for all practical purposes, business as usual. But if they have to start building up accruals or putting additional capital on their balance sheet to meet those heightened standards of BASEL III in 2014, that could start to change the landscape or the attractiveness of the business to some of the big banks. Don't know. As it relates to talent and people, it's a fiercely competitive market. It is an absolutely fiercely competitive market. The great talent in this market know that they are great talent and they demand a pretty penny to make a move.

One of the things that, I think, Walker & Dunlop has been very blessed with is the fact that we went public at the end of 2010, we have performed exceptionally well since going public and we have a real vision on where we're going and what we're trying to build. As I think you can appreciate, that helps recruiting efforts tremendously and differentiates us from both many of the private companies we compete with, as well as many of the big bank competitors that we compete with where their agency lending business is clearly important, but is not all they do. That helps us when we go out to try and recruit people.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Final question for me, you mentioned a little bit about the Cushman alliance. Can you give me an update on where you guys are with that in terms of potential volumes or has it tracked relative to your expectations?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

It hasn't tracked relative to my expectations. When we have significant deal volume to announce, we will do so. As I've said previously, we're focused on it, we're trying to make sure that we've got the proper people and the proper way of executing on it. But as of right now, it's not nearly as significant a source of new deal flow for us as I would like it to be.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Appreciate the comments. Thanks, guys.

Operator

Rochan Raichura, JMP Securities.

Rochan Raichura - *JMP Securities - Analyst*

I just wanted to follow-up on a question that's already been asked, but just in terms of by investor type and you commented on the growth of through the year. Where do you see the greatest opportunity by investor type?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

If you look at 2011, and you look at the volumes that we did in 2011, we clearly benefited from our scale and expertise in the Fannie Mae space, growing those origination volumes 19% year-on-year and coming in as the second-largest Fannie Mae dust lender in the country. We'll continue to focus on that and as I said just a moment ago, it's going to be business as usual for the agencies in 2012. When I say business as usual, my understanding of the multifamily financing volumes last year, it was about an $80 billion financing market in 2011. Of that, Fannie and Freddie have announced that Fannie did about $24 billion, Freddie did about $20 billion. The two of them did about $44 billion of an $80 billion market, so 53%, 54% of the market. Life insurance companies did $11 billion of multifamily financing in 2011. That's a number that I've been giving anecdotally.

I don't have an analyst report or actual numbers to back that up, so please put an asterisk by that. But about $11 billion, which is an all-time record if they did do $11 billion in life last year. Then CMBS didn't touch multifamily last year. The pricing was such that they couldn't get down to it. I think pricing was coming in to get close to CMBS being able to win some deals for multifamily and then you had the Q3 implosion of CMBS and then CMBS started to get back to business in Q4. And as we've all seen, CMBS is back and running in Q1 of 2012, very similar to where they were in Q1 of 2011.

I think the bottom line that I'd say is just that all of the sources of capital that we work with, whether it's the agencies, whether it's HUD, or whether it's our capital markets business that's working with CMBS vendors as well as life insurance company lenders, there is a great desire for mortgages. It's a great risk-adjusted return today and many treasures at life insurance companies or buyers of CMBS bonds or buyers of agency-backed paper think it's a great way to invest and get a terrific risk-adjusted return. I wouldn't say that anybody right now is saying, hey, come over here, we're the hottest source of capital and we're going to take over the market. It's a pretty even supply of capital, which, quite honestly, is a wonderful thing for us, because we have such skilled originators in all of the various executions that we have.

Rochan Raichura - *JMP Securities - Analyst*

Okay. Obviously, the growth this year for your company has been impressive. If you could qualify or maybe speak to the mix between inorganic growth and organic growth in terms of, obviously, there's been an increase of brand awareness, but you've also added people to your platform, so maybe if you have some comments around that?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

2011 was all organic in the sense that we didn't acquire anybody. There was no acquisition in there whatsoever during the year. The team that we had on the playing field pretty much put up that year-on-year growth. Did we hire in 2011? We certainly did. Are we expecting significant originations from the people that we hired in 2011 and 2012? Certainly. But the 2011 numbers were pretty much put up, although clearly there was deal flow that was done by new originators in 2011, the majority of the 2011 deal flow and origination volume growth was done by the same team that did it in 2010.

Rochan Raichura - *JMP Securities - Analyst*

Okay, thank you.

Operator

Jason Stewart, Compass Point.

Jason Stewart - *Compass Point - Analyst*

On the interim financing facility, the one loan, now that you've closed it, are you able to give us any color on terms or economics there?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

I don't know, I don't think so. I don't think beyond the actual press release. We both issued a press release on it and the information that we released on it as it relates to the actual deal is all we're giving out. Just because on our other deals, sometimes we put out there what the term was, we rarely put out what the actual rate was. Sometimes we talk about some IO here or there.

But we're not talking more specifically about the actual terms of that deal. But I would say, generally speaking, it is exactly where we have told people we would put money out in our interim facility, which is for a term of something between 12 and 24 months on a floating rate basis. The coupon, I'm not going to give you the exact coupon, but the coupon that we're looking at is very competitive to what banks are lending at on bridge and interim loans. I think we definitely have filed in our filings, the line that we have from TD Bank that is funding the majority of that lending and then we're obviously using capital from our own balance sheet for the balance of that.

Jason Stewart - *Compass Point - Analyst*

Okay. I appreciate that. In 2012, if you're able to give any general commentary about marginal competition for loans. During your commentary, you mentioned REITS, you've talked about insurance companies, capital markets. Has that mix shifted at all in terms of marginal competition? Any color you can give us?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

I don't think there's any shift. I think that the Fannie Mae dust lenders and the Freddie Mac seller servicers that we compete with every single day are all right there competing as hard as they ever compete and trying to win as much business as they possibly can. And I would say that when we were going public and on the IPO roadshow, lots of investors sat there and said okay, great, during the downturn, Walker & Dunlop had access to Fannie Mae and Freddie Mac and HUD and therefore, you guys did really, really well. But when real capital comes back to the market, how are you guys going to compete? I will tell you very directly, there was a lot of real capital back in the market in 2011 and you can see how Walker & Dunlop competed. I would just put forth that there's not a day that goes by where we don't have lots and lots of competitive pressures. We have put up numbers that show that we know how to do with those competitive pressures.

I would say that the revival of the brokerage world and the CBREs and the JLLs of the world and the HFFs of the world, they're out there, they're doing their darndest to tie investment sales into financing. When there is an acquisition, many times they will take that off the market by tying the financing with the investment sale. But we get out there, we try and win as much of the business as we possibly can. As our numbers demonstrate, in a year last year that had huge investment sales activity, even with those competitive pressures out there, we still grew origination volumes to the degree that we have just posted and done very, very well in focusing on the way that we go about originating business. I don't think there's anything really that is going to change much in 2012, other than I would expect that conduits increase their origination volumes.

As I said, they did about $34 billion, $35 billion in 2011, is the number that I've seen and estimates are that they probably will do $50 billion in 2012. That's nice growth for the conduit lending space, it isn't anything close to the $230 billion they did in 2007. Conduits have a long way to go as it relates to being both the market presence that they were back in 2007 and then also, distorting pricing the way that they distorted pricing back in 2007.

Jason Stewart - *Compass Point - Analyst*

Okay. Last real quick question, Willy, in your commentary you mentioned a very high-level remarks about credit. I was wondering if you could add anything about the potential geographic concerns or parts of the country where you might be more concerned about credit versus others?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

When we look back at the downturn in '08 and '09 and '10, when Walker & Dunlop, for the first time, had any kind of losses and we really didn't have significant ones, but we did have loans that went bad on us during that period of time, there was no specific geography that said, oh, we shouldn't have done as much lending in ex-place. It was very, very much focused on individual borrowers. They were clearly the 1031 exchanges to the borrower who was in California that bought an asset in Texas because they wanted to deploy the capital in the 1031 exchange, didn't have experience operating in Texas and that loan went bad. But that was much more of a statement about lending to a 1031 exchange borrower, doing a deal out of market, then it was on the Texas market. Right now, there's nowhere in the country that we say, whoa, let's not go there.

Clearly, Fannie Mae has certain areas of the country that are on pre-review where if you're going to deal in that area of the country, you have to get a Fannie Mae approval to do the deal. There are clearly areas of the country where Fannie doesn't want to put out additional capital without taking another look at it. But Walker & Dunlop doesn't have any geographic limitations or feelings right now, because of the end of the day, we do very, very diligent underwriting. It really is down to the specific asset and ownership of asset and the management of the asset that gets us comfortable with either lending or not lending.

Jason Stewart - *Compass Point - Analyst*

Thanks and good quarter.

Operator

Brian Hagler, Kennedy Capital.

Brian Hagler - *Kennedy Capital - Analyst*

I was just hoping to get a little more color on how much of the 20% year-over-year origination guidance this year, how much of that growth could be driven by growth in your HUD platform? I know you mentioned there were some leadership changes, some disruption in 2011. It looks like you did, like you stated, a little over $0.5 billion in originations. Then you said they were poised for significant growth. I was just hoping to get a little more color on what we could maybe expect this year?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Yes, Brian, I think you know, back to the question that I was asked previously, I'm not going to give you the actual number that we're expecting from our HUD team for 2012. I will say that, under the leadership of Michelle Warner, who came to us in August of 2011, we have really put together a first-class HUD team. Michelle has joined Walker & Dunlop and done a fantastic job of not only working very closely with the team that we had on board when she got here, but also attracting to Walker & Dunlop some exceptional talent and she has a fantastic reputation in the industry. You heard me correctly, which is that we have great hopes and expectations for the growth in our HUD business. But just as I didn't do before, I'm not going to give you an actual number on what we see that growing to.

Brian Hagler - *Kennedy Capital - Analyst*

Okay. Secondly, the interim loan program's still obviously ramping up with your first loan just recently. Should we assume that while that will continue to grow and ramp up, it probably won't be a significant contributor this year?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

I don't know that I'd go there. First of all it depends on how quickly we deploy the capital. Clearly, as you know and as everyone knows, we've got $50 million of lending capacity there. If we've just given guidance for $4.5 billion to $5.25 billion of annual originations, that's a small fraction of what we're going to do. But the real issue there is that it's extremely helpful to us from a defensive/offensive play of working with clients who need financing on interim deals that we would then take out with permanent capital. The second thing is that when we first got it launched, as with any new product, your sales people don't show up in meetings and immediately lead with the new thing. They, generally speaking, are brought into meetings to talk about the old thing, if you will, of what we have a historic brand in.

At the beginning, it took a while to go out and say to people, hey, we've got this interim loan fund and do you want to work with us? What we've seen is some significant opportunities there as it relates to underwriting deals and putting capital out in that, I don't want to call it an asset class, assets that are in that stage of stabilization, if you will. I think from a financial standpoint, unlikely it's going to move any needles, but from a company standpoint and from a growth standpoint, it's going to be a significant focus during 2012.

Brian Hagler - *Kennedy Capital - Analyst*

Okay, great. That's helpful. Finally, going back, touching on the Cushman partnership again. You mentioned that it's currently maybe not hitting your original expectations. Is that just not getting the volume of referrals that you had hoped? Is there more education that needs to be involved as far as that process? What you hope to do to maybe get that back to expectations?

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

We have not gotten the referrals that we thought we were going to get. I think the biggest challenge up until now has been that the way that we structured it was that the deals that we would come into work on were coming through Cushman & Wakefield's, their brokerage arm Sonnenblick Goldman and not directly from their investment sales professionals. As a result, I think that, that added layer and also, somewhat of a, I don't want to say a conflict, but the Sonnenblick Goldman brokers are out there trying to do a deal themselves. For them to pass a deal along to Walker & Dunlop in some cases, I'm assuming they say, hey, I'd like to do this myself and make the money on it. As a result of that, we're working to try and figure out how we can make it so that the investment sales professionals are dealing directly with the Walker & Dunlop originators and not having a Sonnenblick broker sitting in the middle. We're very focused on that and hope that we can get that worked out so that it both is beneficial to Cushman & Wakefield as well as to Walker & Dunlop.

Brian Hagler - *Kennedy Capital - Analyst*

Great. I appreciate the color.

Operator

[Ian McBain, Talcott Capital].

Ian McBain - *Talcott Capital - Analyst*

I was just hoping we could focus for a second on the MSR. Obviously it's a substantial portion of your book value and over the last couple of weeks, we've had a couple of IPOs of various new structures introduced to the market to capitalize MSRs on the residential side. I was just hoping you could provide some clarity as to what the differences between your MSR asset?

Debbie Wilson - *Walker & Dunlop Inc - EVP, CFO*

Sure. The biggest difference between residential and multifamily is prepayment protection. If you think about, on the residential side, there's generally loan when the house is bought and then after that, it's opportunistic activity depending on interest rates and there's a free [put], so it doesn't cost them anything to prepay. Whereas in the multifamily space, as we mentioned earlier, we've got prepayment protection on our loans. In the servicing, we have a portfolio with an estimated life remaining with a weighted life remaining of about 8.5 years and the vast majority of that time is payment projected. I don't have the exact number, but I'm going to look at my -- is it over 90% of our servicing revenues are prepayment projected such that if it's pays off, I get a check. The check's based on the present value of the servicing at the risk-free treasury rate. The biggest difference is prepayment protection and if, in a single family, if it pays off, it just goes away and our side, in over 90% of our revenues, I get a check.

Ian McBain - *Talcott Capital - Analyst*

Okay and you said that's discounted at the risk-free treasury rate?

Debbie Wilson - *Walker & Dunlop Inc - EVP, CFO*

Right. When we get the payment, that's right.

Ian McBain - *Talcott Capital - Analyst*

How does that compare to the discount rate used to actually calculate the value of the MSR?

Debbie Wilson - *Walker & Dunlop Inc - EVP, CFO*

That's a great question. Our discount rates for the MSRs are between 10% and 15% depending on the product.

Ian McBain - *Talcott Capital - Analyst*

If your whole portfolio were to prepay on you tomorrow, you would presumably get back more than the MSRs being carried for?

Debbie Wilson - *Walker & Dunlop Inc - EVP, CFO*

For the ones that I get checks, absolutely. That's right.

Ian McBain - *Talcott Capital - Analyst*

Contrast that with the way it works for the residential side?

Debbie Wilson - *Walker & Dunlop Inc - EVP, CFO*

What happens is when the prepayment happens on the residential side, they don't get anything. They spend a fair amount of energy and cost hedging that portfolio, from a duration perspective. For example, if you just pay off your loan, the MSR on the single family just goes away and they generally write it off.

Ian McBain - *Talcott Capital - Analyst*

That's great. That was my question. Thanks.

Operator

There are no further questions, so I'd like to turn the floor back over to Mr. Willy Walker for any closing remarks.

Willy Walker - *Walker & Dunlop Inc - Chairman, President & CEO*

Great. Thank you. Thanks to all of the people who asked questions. We appreciate your focus and interest in Walker & Dunlop. I'd just reiterate it was an absolutely fantastic Q4 and first year as a public company for Walker & Dunlop. We will continue to grow our business in a measured and profitable manner. Appreciate all of you taking the time. Have a great day. Goodbye.

Operator

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