WALKER & DUNLOP

Moderator: Claire Harvey
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7:30 am CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Walker & Dunlop Second Quarter 2011 Earnings conference call. During the presentation all participants will be in a listen-only mode.

Afterwards we will conduct a question and answer session. At that time, if you have a question, please press the 1 followed by the 4 on your telephone. If at any time during the conference you need to reach an operator, please press star 0. As a reminder, this conference is being recorded Thursday, August the 11th, 2011.

I would now like to turn the conference over to Claire Harvey, Vice President of Investor Relations. Please go ahead, ma'am.

Claire Harvey: Thank you. Good morning and thank you for joining the Walker & Dunlop Second Quarter 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 Web site and the recording will be available later this morning. Our earnings press release and Web site provide details on accessing that archived call.

We have posted a presentation on our Web site this morning that provides additional detail on certain topics, which we will be referred 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 fact 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'll now turn the call over to Willy.

Willy Walker: Thanks, Claire. Good morning and thank you all for joining us. I hope everyone is enjoying their summer and has had the opportunity to spend some time in environs cooler than Washington, D.C.

During the first quarter earnings call, we discussed the growth of the company and the overall strength and profitability of our business model. The second quarter is no different as we hit several financial milestones, including the highest quarterly loan origination volume, quarterly revenues and quarterly income from operations in the company's history.

As I have said before, loan origination volumes will fluctuate quarter to quarter and while this quarter produced record origination volumes, our focus continues to be on the long-term growth and profitability of Walker & Dunlop.

Based on our year-to-date performance and outlook on the rest of 2011, we are reaffirming our annual origination guidance of $3.5 billion to $4.25 billion and establishing third quarter 2011 origination guidance of $750 million to $1.1 billion.

If we back up a year to second quarter of 2010, we had successfully integrated the business we acquired from Credit Suisse in 2009 and embarked upon the path to an initial public offering under the backdrop of a nascent economic recovery and a clouded IPO landscape.

When looking at our profitability, investors should keep in mind Walker & Dunlop today carries all of the additional costs of being a public company, yet has expanded our operating and pro forma net income margin significantly.

This doesn't just happen. It comes from focused and proactive day-to-day management of our origination platform as well as every detail of our operations.

We raised capital in our IPO and immediately embarked upon several strategic initiatives. Our [recruiting]* efforts have been very successful, particularly given the extremely active market for mortgage origination talent.

We recently announced three significant hires of originators in New York and Southern California, who come to us with exceptional experience and client relationships. By adding one originator in New York and two originators in California, we have effectively doubled the size of our direct origination sales force in the country's largest and second largest multi-family markets.

** This word was misspoken on the call and the Company has replaced it with the correct word in order for the sentence to make sense.*

We also announced last week new co-heads of our FHA finance division. We were able to quickly react to the departure of our FHA finance group head and installed two new leaders in less than a week.

This outcome is reflective of Walker & Dunlop's management capabilities and the company's reputation in the marketplace. I am confident our new FHA leadership team will take our FHA platform to a new level of success and market leadership. We will continue to focus on recruiting top talent across the country to grow our platform and origination volumes.

During the second quarter we also announced our strategic alliance with Cushman and Wakefield to bundle their multifamily investment sales with Walker & Dunlop's agency financing. Given the volume of multifamily investment sales activity we are seeing in the marketplace today I am certain this alliance will bring incremental deal flow to both firms in the coming quarters.

The final strategic initiative worked on during the second quarter was our interim loan program. As we have discussed with analysts and investors, multifamily assets being acquired and repositioned at this time in the economic cycle often do not meet the underwriting criteria for long-term agency financing. Walker & Dunlop's interim loan program will provide financing to our best clients while they are repositioning and leasing up their multifamily assets.

The interim financing will be replaced by permanent financing from the agencies or other sources of permanent capital once the asset is fully leased. This is not a minor development for Walker & Dunlop. Although we have designed the program to limit our credit exposure with initial size of approximately 50 million, this program will be the first time Walker & Dunlop originates loans for investment rather than immediate sale.

Some investors have asked about Walker & Dunlop's ability to react to potential changes in Fannie Mae and Freddie Mac's multifamily lending programs. This initiative by Walker &

Dunlop, although small at first, is a clear sign that we can raise capital on our own to meet our clients' financing needs.

I'd like to turn for a moment to the macro-economic environment and the competitive landscape. The macro-economic environment plays very well for Walker & Dunlop. Why?

First, we are in a slow growth recovery, but the improving fundamentals of multifamily properties have had an immediate impact on our credit statistics, highlighted by our 60-day delinquent fees as a percentage of the at risk portfolio, going from 1.64% on June 30, 2010 to 0.14% on June 30, 2011.

Second, although commercial real estate is recovering, large financial services institutions around the world are not jumping into the space and altering the competitive landscape.

Many people are talking about the pull back in CMBS lending, and although banks are borrowing from the Fed for free, and one would think they'd like the spread on commercial mortgages, there appear to be significant concerns about long-term bank capital standards that are making them pause from loading up on 5, 7, and 10-year paper.

Third, Walker & Dunlop's focus on commercial real estate finance, and not commercial real estate services, clearly benefited us in 2008 and 2009 when our competition had to support the overhead related to their investment sales, leasing, and property management divisions.

Although those lines of business have clearly spiked in activity over the last year, if the economy continues to grow slowly or even reverse course, I believe Walker & Dunlop's focused business model of real estate financing will produce solid returns.

I would note that Walker & Dunlop generated operating margins of 29% and 32% for 2008 and 2009 when many of our competitors were losing money.

Finally I'd like to touch on GSE reform and what appears to be a rather significant shift in the debate since our last quarterly call. During the first quarter of 2011 there was a loud drum beat on Capitol Hill for a dramatic change to Fannie and Freddie. That drum beat has subsided for several reasons.

First, the debt ceiling debate made every other issue on Capitol Hill come to a standstill.

Second, the United States' anemic economic growth has legislators highly focused on job creation.

Third, the home affordability index has never been higher, yet people are not buying single-family homes. If new jobs come from housing starts, yet Americans can't get home financing to buy the existing inventory, why would Congress take away the provider of 90% of the credit to the residential mortgage market?

Fourth, when we met with Capitol Hill staffers earlier this year the consistent refrain we heard was, if only the RMBS market would come back, then we could do away with Fannie and Freddie. As we have seen, not only has the RMBS market not come back, but the CMBS market is having a difficult time maintaining momentum after a quick start to 2011.

Does all this mean that Fannie and Freddie reform is dead? Not a chance. But it may mean the Obama administration runs hard to propose new legislation that would reform Fannie and Freddie, rather than wind them down while the political tides appear to have turned. I would reiterate, however, it is our belief that it is unlikely we see any transformative legislation passed until after the 2012 general election.

Let me now turn the call over to Debbie for her to go through the second quarter financial results.

Deborah Wilson: Thank you, Willy. Let me start my remarks today with the high level takeaways for the second quarter. I'll then provide a more detailed look at our financial results and I'll end with a discussion on our financial performance year-to-date.

As Willy mentioned, the company achieved several milestones in Q2, resulting in double-digit growth in total revenues, income from operations, origination volumes, and operating margins. The 95% growth in origination volumes to $1.3 billion is no small feat. The increase in origination activity, coupled with the growth in the servicing portfolio, translated into a 38% growth in revenues quarter over quarter.

The originations and total revenue components do not move in tandem due to the diversity of our revenue stream, the relative mix of loan originations, and the origination of large loans in Q2 '11 that carried lower fees as a percentage of loan amounts.

It is important to note that the 38% growth in revenues drove a 55% increase in the company's income from operations due to operating efficiencies, proactive expense management, and improved credit quality within our risk portfolio.

This business model, together with our active management, expanded our operating margins to 43% in Q2 '11, a 13% increase over Q2 '10. Bottom line, this was a tremendous quarter for our company. Now let's review some of the key details.

Net income for Q2 '11 was $11.1 million, or 51 cents per diluted share, a 55% increase over the comparable pro forma net income for Q2 '10 of $7.2 million. As we have discussed on previous calls, the 2010 net income should be normalized for tax expense because of the change in the tax status from the IPO.

Gains from mortgage banking activities, our origination-related revenues, were $31.3 million in Q2 '11, a 48% increase from $21.2 million in Q2 '10. The average gain from mortgage banking activities as a percentage of loan originations, or the gain on sale margin, was 239 basis points in Q2 '11, down from 315 basis points in Q2 '10.

Historically there is variability in the average quarterly gain on sale margin due to the product mix and loan size. While the quarterly margins have varied, the average annual gain on sale margins have been relatively stable over the past two and a half years.

We are realizing the benefits of our growing origination activity in the servicing portfolio. Servicing fees for Q2 '11 were $8 million, a 23% increase from $6.6 million in Q2 '10. Over the past year our servicing portfolio has grown 13% to approximately $15.4 billion, and the weighted average servicing fee grew 16%, to 22 basis points at June 30, 2011.

I would note that the year-over-year growth of the servicing portfolio and the average servicing fee generates additional annual revenues of nearly $8 million. The servicing portfolio is a source of stable revenues for Walker & Dunlop. Servicing fees represent 19% of revenues in Q2 '11, 92% of the servicing revenues are prepayment protected and have a weighted average remaining life of 8.1 years.

Now let me turn to expenses, which were $24.2 million in Q2 '11, a 28% increase over Q2 '10. The largest component of our cost structure is personnel expense, much of which is variable due to the commission and bonus-based structure of our compensation. Personnel expense was $12.9 million in Q2 '11, compared to 8.1 million in Q2 '10, a 60% increase driven by the increase in loan origination volume.

The credit trends of our portfolio continue to improve. Sixty-day delinquencies totaled 0.14% of the at-risk portfolio, or $9.5 million at June 30, 2011, a 71% decrease from 0.48% at March 31, 2011 and a 91% [decrease]* from 1.64% at June 30, 2010.

During Q2 '11 we recorded a $1.8 million provision for risk-sharing obligations, or 0.03% of the at-risk portfolio, a 34% decrease from Q2 '10.

** This word was misspoken on the call and the Company has replaced it with the correct word in order for the sentence to make sense.*

The provision in Q2 '11 primarily relates to updated value estimates for properties where initial provisions were made in previous quarters. We continually monitor the properties in default and foreclosure and reevaluate estimated disposition values as current information becomes available.

The company's strong performance yielded a 43% operating margin in Q2 '11, a 13% increase over Q2 '10. The increase in margin reflects growing originations, economies of scale of our platform, and decreasing losses.

The variable nature of our compensation structure results in increased personnel expenses in the latter part of the year as originators receive a higher percentage of origination revenue. Therefore as we move throughout the year, we expect margins to decline and we expect to end the year with an operating margin in the mid-30s.

Before I close, let me touch on where we are year-to-date compared to the prior year. Total revenues were up 12% for the first six months of the year, due to increases in loan origination volume, servicing fees and other income.

Gain on sale margin was 265 basis points, down slightly from 279 basis points a year ago, but comparable to the previous two years. While revenues grew 12%, expenses grew only 3% and resulted in a 29% increase in income from operations, despite the increased cost of being a public company.

We generated an operating margin of 41% for the six months ended June 30, 2011 compared to 35% for the same period last year. A 6 percentage point increase in operating margin year-over-year, while the company has grown and gone public in an increasingly competitive environment, exemplifies the power of our business model.

In summary, the company's quarterly and year-to-date results are very strong and we look forward to a successful second half of the year. And with that I'll turn it back over to Willy.

Willy Walker: Thanks, Debbie. Let me close by recapping a couple points we have made this morning. First, Walker & Dunlop is on track for a great year with record origination volumes.

Second, our platform is larger and more profitable today than ever before.

Third, we have executed on a number of strategic initiatives that should start producing financial results between now and the end of the year.

Fourth, the macro-economic environment, although challenging, is one in which Walker & Dunlop have successfully competed in the past.

Finally, we have wonderful people at Walker & Dunlop who are excited to provide our clients with great service and to be part of a growing successful team.

With that I'd like to turn the call over to the operator for any questions.

Operator: Ladies and gentlemen, if you'd like to register a question please press the 1, followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you'd like to withdraw your registration, please press the 1, followed by the 3.

If you are using a speakerphone please lift your handset before entering your request. As a reminder, to register for a question please press the 1 followed by the 4.

One moment, please, for our first question. Our first question comes from the line of Bose George with KBW. Please go ahead.

Bose George: Good morning, very nice quarter. I had a couple of questions. First, just on the loss reserve - your allowance now, we calculated close to $13 million. Your total delinquent loans is $9.5 million. So your allowance exceeds your delinquent loans, so I was just curious why you hadn't built the reserve a little more.

Deborah Wilson: Do you want to take that?

Willy Walker: No. Go ahead.

Deborah Wilson: Good morning, Bose. The allowance relates - there are a number of loans that have gone through the foreclosure process that are no longer in the 60-day delinquency numbers. And therefore the allowance relates to that.

So if you turn to the earnings release, to the last page, and it talks about - the 60-day delinquencies were $9.5 million and the at-risk loan balances with allowance of $153 million - those were the loans that have primarily been through foreclosure, that are no longer in the 60-day delinquencies, that still have allowances outstanding because we haven't settled with Fannie Mae.

Bose George: Okay, great. Makes sense - and then just switching to your servicing fee, you know, it keeps continuing to increase. You know, I was just curious what is driving that, you know, whether we could see that number, you know, directionally what could happen to that over time.

Willy Walker: If you - well let's talk about just this past week, Bose. If you look at what has happened to spreads over the past week with the dislocation in the overall markets, our rates to borrowers, the overall coupon, has stayed pretty steady over the past week, even as you've had significant tightening in Treasuries.

And so all that's basically happened is that the spread, the investor spread, Fannie Mae spread and our servicing fee have basically widened. And so as a result, if you stay in this low interest rate environment but keep coupon rates somewhere around 5% - obviously all these things move significantly - but the bottom line there is that we have not seen fee compression yet.

And if you stay in this environment where Fannie and Freddie are providing capital to the market and rates stay low and spreads stay at this expanded level, it's probably unlikely that we see a lot of fee compression on the servicing side.

Bose George: Okay. So it bodes well both for gain on sale margin and the MSR component that you book.

Willy Walker: That's correct.

Deborah Wilson: That's right.

Bose George: Okay and then just one last thing. The commercial mortgage alert that reported a few weeks ago, was that, you know, the Deutsche Bank multifamily platform was sold to (Ren Yearie) and (Phil Baross). I mean, do you see any change in the competitive landscape with that transaction?

Willy Walker: I don't think that really - I don't want to comment on one specific transaction, Bose. I'd just say that as it relates to the general competitive landscape - as you know our biggest competitors are commercial banks and then a number of real estate services firms.

I think that the movements in the overall global capital markets over the last week, and particularly commercial bank stocks getting hammered, bodes quite well for a very focused company liked Walker & Dunlop where we've shown in the past that we competed very successfully in a down economy and we're very focused in our space and we have a very clean balance sheet as you well know.

And so as a result of that I think that the competitive landscape is one in which we have not seen many new entrants come in. There's not a tremendous amount of private capital-chasing companies like ours.

And the big commercial banks have a lot of issues to face right now in the marketplace, which means that we can keep on doing our business. And some of the larger institutions aren't putting additional resources, if you will, right now, to our business. So I think that from a competitive positioning standpoint things are quite good. And no, that one specific transaction shouldn't change the landscape very much.

Bose George: Okay, great. Thanks for that.

Operator: Our next question comes from the line of Matt Kelly with Morgan Stanley. Please proceed with your question.

Matt Kelly: Thanks, guys. I was hoping, Willy, could you talk a little bit more about the bridge loan and - I know you provided a little bit of context on what types of borrowers are looking to utilize that. But any sort of early success you're having there, and what sort of conversations you're having with potentials borrowers, and what the terms might be if you're allowed to give that?

Willy Walker: Matt, I don't have a transaction to walk through for you yet because we just put that in place. And so we do not have an actual transaction that we funded on it.

But the - what you're finding right now in the marketplace is that there are certain assets, which strong borrowers are acquiring to reposition those assets. And they may have been poorly managed. They may have been poorly located, but with proper management can actually become very good assets.

And so as they come in to acquire them, they find them with leasing at 55% or 65%, and the need to invest money in tenant improvements, redo the kitchens, rehab the property, get a new management company in there to lease the asset out, and get it to the point where it qualifies for permanent financing.

So that's where we will use our interim loan fund to be able to finance those types of acquisitions to allow a strong borrower to come in and acquire the property and reposition it. And then once it gets leased up and it can qualify for permanent financing, we'll take that interim loan out with a loan with Fannie Mae or Freddie Mac or another source of permanent capital and get our money back and go do the same thing over again.

As I mentioned, Matt, it's - we're limiting the size of that program to $50 million at the beginning. And if you look at our average loan size of about $14 million, you can't do a whole lot of $14 million deals with only $50 million.

I would think that we'll look at smaller assets to begin with in that program and we will only lend to borrowers that we know very well. And it is the first time that we're originating loans for investment rather than loans for sale.

And as I had mentioned in my comments, we've got warehouse lines to fund that, as well as capital from our balance sheet. And there were plenty of questions as it relates to W&D and what we do if Fanny and Freddie, as a source of capital, were to change in any way.

And I think this is a very clear demonstration of our ability to go out to the market and say we want to be able to use warehouse lines and our own capital to fund loans of this nature and to be able to secure that financing.

Matt Kelly: Okay, that's very helpful. One other question - maybe this is a little bit more for Debbie, but on comp and how you guys can manage over the rest of the year.

I know that there can be a true up depending on volumes in the fourth quarter, essentially not a true up, but when your originators come over a hurdle essentially. So if you guys can give us a little bit of guidance on how to think about third quarter and fourth quarter. Are we likely to see more of a pickup in the fourth quarter, but not the third quarter?

Deborah Wilson: Matt, it's really originator specific, and who's originating and whether they are through their splits. But we generally see the pickup in compensation in both the third and fourth quarter. But it generally hits more in the fourth quarter because the fourth quarter is generally such a strong quarter.

Matt Kelly: Okay, one quick follow-up for me then. Obviously since it's originator and platform specific, on your volume guidance for the rest of the year in the third quarter, any detail you can give us by platform where you're seeing, you know, the most pick up, potential slowdown, that type of thing?

Willy Walker: I would say, Matt, if you think about what's going on in the markets today, CMBS spreads blew out last week. And there are many, many CMBS shops that are essentially sitting on the sidelines right now, trying to figure out what happens with the markets and whether they're going to continue to originate. It's a tricky time to originate, hold and sell, given that you don't know where the market's going to be 30, 60, 90 days from now.

So the CMBS, if we see any fall off, if you will, in lending activity, it will likely be in the deals that we've been working on with CMBS lenders. But as you know from our financials, the percentage of our business that we do with CMBS and also the fees that we earn on those deals is very small in comparison to the other lines of business.

If you think about Fannie and Freddie - we've had plenty of discussions with Fannie and Freddie this week - they are both very actively lending. They have maintained pricing. Pricing moved out 20, 30 basis points on the two of them as far as spreads. But as I explained previously as far as overall coupon to borrowers, those coupons really haven't moved very much. And so I think that Fannie and Freddie remain very, very strong and competitive for the rest of the year.

And then as you see in our origination numbers year-to-date, our HUD platform has had a very active first half of the year. And we have a strong pipeline with HUD. And I'd put forth that given the change in the marketplace, HUD now comes back to being an extremely competitive source of capital.

I think that as private capital is coming back in and CMBS and life insurance companies were coming in and could, if you will, compete on a quicker processing time, there were questions as it relates to, does somebody want to take the time and effort to go through the HUD underwriting process to be able to get the capital that you can get from HUD.

If sources of capital such as CMBS fade out of the marketplace for a period of time here, that's a wonderful opportunity for HUD to step in and pick up incremental deal flow.

Matt Kelly: Great. That's very helpful. Thanks, guys.

Willy Walker: Yes.

Operator: Ladies and gentlemen, as a reminder, to register for a question please press the 1, followed by the 4 on your telephone keypad.

Our next question comes from the line of Mike Widner with Stifel Nicolaus. Please proceed with your question.

Mike Widner: Good morning, guys, and congrats on a very solid quarter.

Willy Walker: Thanks, Mike.

Deborah Wilson: Thank you, Mike.

Mike Widner: I was just going to ask if you could maybe elaborate a little bit on - you mentioned that there are some kind of some large-size loans, some chunky loans if you will, that tend to come in at lower margins. And that kind of has an impact on obviously both the origination volume and the margins for the quarter.

I'm just wondering if you could maybe, you know, I don't want specific details, but just kind of give us a, you know, rough illustration of how much different the margins would be on that, and so, you know, again, with overall origination margins at about 239 for the quarter.

I mean, how much of a spread are we looking at between the big loans and kind of the average loan? And then, you know, maybe also if you could just kind of give an indication of what the, you know, the relative size of, you know, the big loans that you're talking about, where it was at $400 million or $200 million, yes, that kind of thing.

Willy Walker: Sure, Mike, we - couple things, first of all as we continue to grow our origination platform and as we are successful at bringing in, if you will, very reputable and well-known originators in various markets, such as the originators that we just brought on in our Southern California and our L.A. office, they by reputation and the types of clients they work with will generally speaking have the opportunity to finance larger loans than smaller loans.

They've got the reputation and they work with large real estate owner-operators. And therefore they have the opportunity to finance big stuff. A new originator comes to our platform and works their way up, as you can imagine starts on smaller loans and then kind of builds into the bigger loans. So by - that therefore says as we continue to add these big originators, loan size probably should trend up.

Now as it specifically goes to the margins on larger loans versus smaller loans, the largest loan we did in Q2 was $177 million financing. But on a deal of $177 million, there will be some point at which your origination fee is capped because you're not going to - they're not going to pay you a full point on $177 million.

And then as it relates to how we book MSRs on that as well, really depends on whether it's Fannie or whether it's Freddie. And then we'll book the MSR based on what the servicing fee is going to be on a loan of that size.

So I would say to you that when you get into loans that are greater than $100 million, you'll see some significant fee compression, if you will, just because the numbers get so big.

The sweet spot, to be honest with you, where you'll get full fees as well as having large aggregate loan size, is sort of in the $50 million to $100 million loan size, where you will be getting full fees and you're also getting a very, very large loan size.

And obviously a $50 million to $100 million loan or even a loan that's over $100 million costs us less to process. But as you can imagine we don't, you know, we don't staff up to be doing just $150 million loans and therefore don't have the underwriting capability to do $10 million, $15 million loans.

So one of the things that we look at in our staffing and in the way that we run our operation, which I think is evident in our margins for the first half of the year, is that we're constantly viewing what we're getting from an origination pipeline standpoint and how we're staffing to be able to meet those origination needs and will continue to do so.

But I can't look ahead and sort of say, in 2012 the breakdown on big loans versus small loans is going to be X or Y. I'd go back to my original statement which is just that as we continue to grow our origination footprint and are successful at bringing in some of the best originators in the country, you would think that average loan size will continue to go up.

Mike Widner: Okay, well, you know, in short obviously there's a lot of moving parts in that. You know, if we take, you know, you said the sweet spot's kind of 50 to 100. Let's say I take the loans that are larger than that, the 150 the, you know, 177, you know, just for very rough modeling purposes.

Again, if you're, you know, running an average of, you know, 239ish, you know, basis points on originations, I mean is it - again as we model the sensitivities on, you know, what if you guys blow out the origination volumes again? What if you don't?

You know, if it's dependent on those kind of loans it's just, you know, a little helpful to know if we're talking about overall margins, you know, in the 100 basis point range for loans of that size versus, you know, 180 versus, you know, 50.

So I was just kind of looking for maybe an indication on kind of, you know, what's the order of magnitude kind of difference between, you know, the $10 million, $15 million loans, you know, which I'd assume are probably, you know, still somewhere in the 250, you know, plus basis point range versus the big ones which, you know, I don't know. Is it half of that? Is it, you know, 20% of that, you know, that kind of thing?

Willy Walker: Right, I'd love to be able to give you sort exactly what to plug into your model, but I can't. And I'll just give you a perfect example on this. The $177 million loan that we did in the second quarter, it was brought to us by a broker, okay. So instead of being a direct piece of business, we paid half the origination fee out to a brokerage firm, okay. So if that had been a direct origination, significant difference in the overall booking on the overall origination fee.

And then the second thing is that if that deal had been a Freddie Mac deal versus a Fannie Mae deal, we're going to be booking a significantly different MSR. And therefore the gain on sale of the origination fee and the MSR booking is going to be significantly higher on a Fannie deal versus a Freddie deal.

And so there is no - I wish I could be more detailed with you, but there's no way to sort of give you the formula to say, okay, I'm going to plug into my model if they're going to do five $170 million deals next year, and those five are going to produce a gain on sale of 235 basis points, because every deal's going to be unique.

And it really does depend on which way we take it, as far as Fannie Freddie, capital markets, the CMBS, and then whether it's direct origination or whether it's brokered.

Mike Widner: Yes, I mean, that's certainly all fair. Suffice it to say that there were no - I mean, if we look back to first quarter numbers, it doesn't appear that there were any sort of, you know, and I think we talked about this last quarter. There weren't any really, you know, $175 million loans, kind of, you know, what you'd call the big loans in the first quarter numbers. Is that right?

Willy Walker: That's correct.

Mike Widner: And so then - and when we talk about the - the sort of, you know, the $15 million, you know, the typical, you know, smaller loans, you know, given all the seasonal patterns, given the changes and mix, and all that sort of stuff, would you say the margins are kind of consistent with what you'd expect?

You know, we haven't seen margin compression or margin expansion on kind of the, you know, again, the core sort of loans, you know, again, adjusting for mix and all that sort of thing.

Willy Walker: Very much so.

Deborah Wilson: Right.

Willy Walker: In Debbie's comments she mentioned that in looking at comparable loans a year ago, six months ago, we're making the same fees on a comparable size loan on a comparable execution, that we have seen, we have seen no fee compression.

Deborah Wilson: Right.

Mike Widner: Okay. Yes, I think I can get to what I'm looking for then, just given that.

And then let me just ask you one follow-up question on the whole bridge loan strategy there. Is the - again, I know it's, you know, a thing you're just kind of getting into. But should we think of the profit opportunity there as being, you know, purely in the lending business sense? Or are there going to be, you know, kind of origination fees and stuff that we can get?

Is it a spread income thing? Is it origination fee kind of thing? Or is it, you know, also something that helps you get other business because you're able to provide this you can get, you know, the original loan, and then also, you know, the take out loan eventually with Fannie, Freddie, et cetera. How should we think about the different potential profit streams there?

Willy Walker: Right. We are not looking to be a spread lender. So the idea behind this is not to sit there and say to you that we, you know, our cost of capital is significantly higher than the commercial banks today. And we are not headed towards that. So you're exactly right.

The reason for having this, although in no way will it be a loss leader in the sense that we will make - typically what you do here, Mike, is you charge a point origination fee, and you'd have a point exit fee. But if you exit with us you'll waive that point out on the back end.

And then pricing on this type of financing is lower than we would like. But at the same time it's perfectly good spread income, particularly given what we're earning on our deposits today.

And so as a result if you can put this money out, and you can make a good spread income on it for the 12 to 18 months that it's out there, and you have captured the deal flow for the permanent financing, it's a real win-win for Walker & Dunlop.

Today, when we have a long-standing client - and as I've said previously we're only going to use this for long-standing clients - who comes to us and said, I've just acquired an asset and can Walker & Dunlop finance it for me.

It's painful to say we can't, and I can give you the business card of somebody, one of our competitors, who can. So the idea here is capture that deal flow and get it into our traditional business lines, if you will, by using this interim financing capability.

Mike Widner: Yes, makes perfect sense. And then you'd mentioned, sir, a 12 to 18 months. I take it that's kind of a typical term, or an expected term for, you know, the bridge loan. It's not going to be three years...

Willy Walker: I think that's a typical term. I mean, we've seen some assets leasing up quicker. I think a lot of it's going to depend on, you know, where the asset is located, and also what we see with economic growth in the, you know, in our overall economy. But a lot of this is very much owner-operator specific. It's the same thing of where we've had problems in our portfolio in 2009 and 2010.

It has not been a macro-economic issue of oops, we've got problems in Las Vegas or we've got problems in Phoenix. It's been very owner-operator specific as far as problems we've had, and so as a result of that when we're putting this money out it's very much an underwriting of the owner-operator and much less of an overall market fundamental.

At the same time obviously the market fundamentals play into our underwriting analysis. And if it's a market we don't want to be in, we won't put money out in it. But that's been a much smaller driver of performance than the owner-operator.

Mike Widner: Great. Well thanks for all the comments and color. And again, congrats on a solid quarter.

Willy Walker: Thanks, Mike.

Deborah Wilson: Thank you.

Operator: And our last question comes from the line of Brandon Dobell with William Blair. Please proceed with your question.

Brandon Dobell: Thanks. Maybe one of you could address pipeline from a different perspective, in terms of the people you're looking to hire. Has the market improvement or I guess sustained, helped the market, shrunk the pipeline of people you're looking at, expanded it? Any noise in the market that's kind of kicked some good people out there that you've now had an opportunity to talk to?

Willy Walker: How do I address that, Brandon?

Brandon Dobell: Yes, no.

Willy Walker: Let's see - first of all, I think that the market dislocation will provide hiring opportunities, particularly in the capital markets area, where there's going to be I think dislocation on Wall Street.

So there are a bunch of people who are sitting inside of conduits today where certain investment banks or standalone conduits might not be able to weather the storm that's in the marketplace today. And you'll have good people there that have good client relationships that have been working for a conduit and want to come to a shop like W&D.

The second thing is that as far as our overall capital markets business, as we've expressed previously, we want to expand that across the country and continue to grow. I think that as sources of capital for that line of business, if you will, struggle a little bit here, that the opportunity for people to come to a platform like W&D, that is as stable and has done as well in the downturns as we have, might be very attractive for people to come and join us.

And then as it relates to our core businesses of Fannie, Freddie and HUD, you know, we think that we're very well positioned. And we will continue to look for talent there and continue to try and attract talent.

The one other piece to it all that I'd give you is just from a geographic growth standpoint. I've mentioned previously that, you know, New York and California were two markets where we were, if you will, underweighted from an origination standpoint.

We made significant strides in the second quarter to add very, very strong origination talent in those two markets. But we're still small there. We're still small in a market like Chicago, which is a significant multifamily market. We're still - we don't have an office in Boston - a great multifamily market.

So there are plenty of places across the country where we can add a significant amount of origination talent, not cannibalize our existing origination effort from having two originators who have a similar client base, and be able to continue to grow our origination volumes.

Brandon Dobell: Okay, and then following up on that, I would imagine you're happy with the hires that you made in the fourth quarter and the first quarter now that you've got some history with those guys and how they're ramping up.

I just want to make sure that you're - that that is the case. And then in a similar fashion, general productivity levels for the originators you have now, how much room do you think you have?

You know, you could put an origination, average origination per person number out there. Is that, you know, three quarters of what it could be if you guys get things, you know, all clicking on the same cylinders? Or is it half of what it could be? Some sense of productivity would be helpful, thanks.

Willy Walker: That's a tough one to answer. I mean we - if you - I think as we've discussed before, if you look at our originators, one of the nice things about W&D is that there are not three or four people who do 80% of our originations.

And one of the things that ends up happening by having such a broad group of origination talent is that somebody will have a client base that is in the refinancing mode. They've got a lot of maturities that come up, and they'll have a blow out quarter or a blow out year.

And then that person's volumes will go down a little bit. But then all of a sudden another originator has, you know, a number of clients that come in and they start to get significant volumes.

So it's very difficult for me - I don't sit there and say, okay, X originator is, you know, is fully productive or not fully productive. We clearly have annual expectations of origination volumes for our originators.

But fortunately we have enough originators out there that as we sit there and say XYZ originators should do Y originations this year, if they hit it, great. If they don't, as you've seen from our aggregate origination volumes, somebody else has stepped in to pick up the void.

And as you can see in the growth of our overall originations, that broadening of our platform and putting more people on the field and putting more people on the W&D team has been very helpful to continuing to grow aggregate originations.

And I would put forth that when we were doing the IPO, there were a lot of people who said to us, well what happens when CMBS comes back? What happens when life insurance companies come back? What happens when commercial banks come back?

First six months of 2011, we're as competitive as this business has ever been. And you've seen the numbers that Walker & Dunlop put up from a growth standpoint. So we feel very, very good at our ability to attract talent and continue to grow Walker & Dunlop.

This most recent last two weeks' dislocation in the capital markets will mean, it's shown, that some of those other sources of capital are going to pull back a little bit. And as a result, I think that in our core businesses we have a real opportunity here to continue growing quite well.

Brandon Dobell: Okay, and then final question just to confirm, doesn't sound like there was any impact from the Cushman partnership in the quarter. I just want to make sure that was the case. And do you have an expectation for that partnership to ramp up materially in the back half of the year, or a gradual ramp-up?

Willy Walker: As I said, investment sales activity is quite robust. We're working on a number of things - a number of deals with Cushman & Wakefield right now.

And as soon as we have something discrete, if you will, to show you guys what that partnership has generated, we will do so. So your assumption is correct as far as second quarter. We don't have anything there to say to you, we did X volume of deals with Cushman & Wakefield in the second quarter.

Brandon Dobell: Okay, great. Thanks a lot.

Willy Walker: Yes.

Operator: And there are no further questions at this time.

Willy Walker: Great. Thank you, everyone, for joining us this morning. And we'll talk to you at the end of the next quarter. Bye-bye.

Operator: Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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