WALKER DUNLOP

Moderator: Claire Harvey
May 12, 2011
7:30 am CT

Operator: Good day, ladies and gentlemen, thank you for standing by, and welcome to Walker Dunlop's First 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, May 12, 2011.

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

Claire Harvey: Thank you, (Jennifer). Good morning and thank you for joining the Walker & Dunlop First 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 - which will be referred to during our prepared remarks this morning.

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: Thank you, Claire. I want to start off by saying Walker & Dunlop is currently hitting on all cylinders. Our first quarter financial results were extremely strong, producing the highest first quarter pretax earnings in the company's history.

Generating 37% operating margins and 23% net income margins on moderate origination volumes of $507 million shows the strength and profitability of our business model. We continue to see improvement in our credit portfolio and reiterate our belief that second quarter 2010 was the high point of credit risk for the company.

Our servicing revenues continue to grow, providing stable, long-term cash flows to the company. Our new deal pipeline is robust and we continue to see increased deal activity in commercial real estate. The announcement of our strategic alliance with Cushman & Wakefield earlier this week is emblematic of the business development efforts we undertook during the first quarter.

You should expect to see additional announcements in the coming months as our recruiting and business development efforts continue to bear fruit. And the company's underlying morale has never been stronger. Everyone at Walker & Dunlop is pleased with our current success and excited about the company's future.

Let me provide additional color on our Q1 origination volumes and our business model. As I stated in our last earnings call, originating between $500 million and $750 million would be a normal first quarter for the company.

Investors should know that Walker & Dunlop's origination team continues to grow. That the always competitive origination landscape has changed very little and that we have seen limited fee compression. We expect to originate between $750 million and $1.25 billion of loans during the second quarter of 2011 and see robust volumes across all origination groups.

There are several things that investors should keep in mind when analyzing our origination volumes. First, the aggregate origination volume number is not as important as the composition of our originations. In Q4 2010, we originated over $1 billion in loan volume, but a large percentage of that volume came from our capital markets group with relatively lower origination and servicing fees.

During Q1 2011 in contrast, 60% of our originations were with Fannie Mae, one of our most profitable executions. Second, we maintain a variable cost production platform that protects margins on lower volumes. In Q1 2010 when we originated close to $1 billion, personnel expense as a percentage of revenues was 47%.

In Q1 2011 when we originated $507 million that ratio fell to 32%. The final piece of our business model to keep in mind is the long-term stable servicing income that our $14.9 billion servicing portfolio produces. In Q1 2011, over 26% of revenues came from servicing.

I'd like to discuss for a moment Fannie Mae and Freddie Mac. During the first quarter, several proposals were passed by the House Financial Services Committee that may eventually start to change the way Fannie and Freddie operate.

It is not clear whether any of this legislation will be enacted into law and if it is it will likely only trim at the edges what Fannie and Freddie do, for example, given that the great majority of Fannie and Freddie's multifamily originations are currently securitized as mortgage-backed securities and accelerated shrinking of the agencies' balance sheets would have little impact on their ability to provide capital for originations.

Beyond the proposed legislation there's a significant amount of discussion on Capitol Hill with regard with what to do with multifamily and the concept of spinning off the multifamily operations of Fannie and Freddie appears to be gaining some momentum. Finally, there is broad agreement that little transformative legislation will be passed on Fannie and Freddie prior to the 2012 elections.

I'd like to now turn to the real estate markets financing activity and our credit portfolio. We continue to see significant growth in investment sales activity in all asset classes including multifamily. With regard to financing, we have seen life insurance companies come back into the market and occasionally win against the agencies on low leverage Class A multifamily deals.

Life companies reentered the market in earnest in Q3 2010 and should provide between $30 billion and $40 billion of capital to all commercial real estate asset classes in 2011.

Conduits are back and did over $8 billion of securitizations in Q1 2011 which was almost as much as they did in all of 2010. Although conduits are quoting multifamily deals, they have yet to introduce pricing or structure that can effectively compete with the agencies.

As investment sales and financing activity continues to increase, so does the overall health of the commercial real estate market and more specifically our multifamily credit portfolio. We have seen continued improvement in our portfolio over the past three quarters and are pleased to report that 60-day delinquencies as a percentage of our at-risk portfolio have dropped from 0.85% at the end of Q4 2010 to 0.48% at the end of Q1 2011.

Increased deal activity and an improving credit environment should go well for Walker & Dunlop's ongoing results. During the IPO we outlined several business development initiatives including entering the investment sales business by either buying a company, building a company through hiring talent or partnering with an established platform.

I'm very pleased that we announced earlier this week Walker & Dunlop's partnership with Cushman & Wakefield. Cushman & Wakefield's multifamily investment sales expertise coupled with Walker & Dunlop's agency financing capabilities should be a very compelling offering in the market.

The two firms will jointly market our investment sales and multifamily financing capabilities and we believe this joint marketing will bring incremental deal flow to both firms. Our other business development activities include significant recruiting of origination talent and we expect to announce a few key hires during the second quarter.

We have analyzed several acquisition opportunities that would expand Walker & Dunlop's geographic footprint and origination volumes. We are finding that many companies in the real estate finance business are elated to have weathered the storm from 2008 to 2010, but also believe that their companies are worth today what they were worth in 2007 at the height of the market.

Walker & Dunlop will continue to search for acquisition opportunities always maintaining a disciplined M&A strategy of finding accretive deals with excellent management teams and a cultural fit to Walker & Dunlop.

I'd now like to turn the call over to Debbie to add a little color on our financial results. Debbie?

Debbie Wilson: Thank you, Willy. I will start off by echoing your enthusiasm for the quarter and that it demonstrated the strength of our platform. We saw moderate origination volumes and yet the average gains from mortgage banking activities increased 31%, our operating (and) margins increased to 37% and the frequency of defaults and losses continued to slow. The company had a good quarter.

Now I would like to walk you through our financial results. If you could, please turn to Slides 3 and 4. Net income was $6.6 million or 31 cents per diluted share for quarter one in 2011 and $10.7 million or 73 cents per diluted share in Q1 2010.

The first quarters of 2011 and 2010 are not comparable for two reasons that are related to the IPO. First, Q1 2010 does not include income tax expense because the December 2010 closing of our IPO changed the company's tax status from a pass-through entity to a C Corp.

As seen on Slide 4, when we apply our corporate income tax rate to the Q1 2010 results pro forma net income is $6.6 million. Second, although Q1 2011 net income is virtually identical to the Q1 2010 pro forma net income, there is a difference in earnings per share.

The dilution in earnings per share from 45 cents in Q1 2010 to 31 cents in Q1 2011 results from the issuance of $6.9 million of shares in our IPO. Originations will vary quarter by quarter and in Q1 2011 it was no exception with $507 million of originations as noted on Slide 5.

Q2 2011 is off to a great start and we are targeting Q2 origination volumes of $750 million to $1.25 billion and 2011 origination volumes of $3.5 billion to $4.25 billion.

Revenues for Q1 2011 were $29 million, down 12% from Q1 2010 and yet we saw a 31% increase in average gains from mortgage banking activities, a 24%

increase in servicing revenue and a 447% increase in other revenues and they substantially offset the impact of lower origination volumes.

The gains from mortgage banking activities driven by loan origination volumes and the mix of loan originations were $16.8 million in Q1 2011 down 33% from Q1 2010. While originations were down quarter-over-quarter, the average gains from mortgage banking activities as a percentage of total loan origination volumes increased 31% to 332 basis points in Q1 2011 from 254 basis points in Q1 2010.

If you turn to Slide 7, you'll see servicing income has grown dramatically in the last two years. When we compare Q1 2011 and '10, servicing fee income increased 24% to $7.7 million. The servicing portfolio increased 14% to $14.9 billion and the weighted average servicing fee increased 2 basis points or 11% to 21 basis points.

That 2 basis point rise and the weighted average servicing fee increases our annual servicing revenues by approximately $3 million. Other revenues which are comprised of assumption fees and other income, they vary by quarter to quarter.

This quarter we earned a $2.5 million assumption fee as a result of the transfer of a large credit facility. Fees like this are transaction specific and a normal and integral part of our financing business. We have recognized similar assumption fees in the past and it is likely we will do so again in the future, although the timing of these fees is difficult to predict.

Now let's move to the expense section of the income statement. Total expenses were $18.1 million in Q1 2011, an 18% decrease from Q1 2010 and they reflect lower commissions net of an increase of amortization and depreciation from the growth of our MSR portfolio.

Our largest expense is personnel expense, much of which is variable. Personnel expenses were $9.2 million or 32% of revenues in Q1 2011 down from $15.3 million or 47% of revenues in Q1 2010. Our operating margins increased from 37% - to 37% in Q1 2011 from 33% in Q1 2010 and it demonstrates the variable cost nature of our production platform.

We continue to see improvement in the credit performance of our at-risk portfolio and we believe the second quarter of 2010 was the peak. While no single risk measurement gives a complete picture of the risk in the portfolio, 60-day delinquencies and the provision for risk-sharing obligations provide insight into the credit quality trends.

Sixty-day delinquencies as a percentage of the at-risk servicing portfolio were 0.48% at the end of Q1 2011 and down 71% from the peak of 1.64% at the end of Q2 2010. The provision for risk sharing was $0.8 million in Q1 2011 down 76% from Q4 2010 provision of $3.1 million. The allowance for risk-sharing obligations was $11.6 million or 0.17% of the at-risk portfolio at March 31, 2011 and we had no net write-offs during Q1 of 2011.

The level of the allowance and the net write-offs are entirely dependent on the timing of foreclosures and settlement with Fannie Mae. And they may reflect certain historical credit performance but they may not be the best proxy for the current risk of the portfolio.

Before I close I wanted to touch on some very positive news regarding our warehouse facilities and term debt. We amended our $300 million of committed warehouse facilities, $26 million of our corporate debt and Fannie Mae has notified us of a change in the cost of our (asep) fundings.

The net cost of the warehouse facilities was reduced by approximately 10%. The cost of the corporate term debt was reduced by approximately 27% and the maturity was extended four years to Q4 2015. The amended debts have new covenants which consider the IPO and eliminate the covenant that caps the change in the at-risk portfolio delinquencies. We view the new pricing, the covenants and the extended maturity positively.

And with that I'd like to turn it back over to Willy.

Willy Walker: Thanks, Debbie. In closing, I believe Q1 was a great quarter for the company. I'm very hopeful that our quarter highlights to investors the strength of our business model and the value of the long-term revenue streams that our servicing portfolio generates.

We expect to have strong origination volumes in Q2 and will continue to focus on deploying our capital and expanding Walker & Dunlop's business. With that I'd like to open the line for questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to register for 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're using a speaker phone we ask that you please lift your handset before entering your request. Once again, to register for a question it is the 1 followed by the 4. Our first question comes from the line of Mike Widner from Stifel Nicolaus. Please proceed with your question.

Mike Widner: Hey, good morning, guys, and congrats on a pretty solid quarter out there. I was just wondering if you could elaborate a little bit on your guidance in terms of origination volumes. And I guess in particular the question I have is, you know, we're halfway through Q2 and the $750 million to $1.25 billion guidance.

It seems a little broad given where we are in the quarter and so just wondering if maybe you could give us some color on that and then perhaps kind of where we stand, you know, being halfway through the quarter in terms of volume so far.

Willy Walker: Mike, good morning. We, I guess we put out there a reasonably wide range on purpose because we don't want to get ourselves into a habit if you will of every five weeks into a new quarter giving people specific guidance on what we've done quarter to date.

I think that investors ought to take a look at that range and do their numbers. We wouldn't put that range out there unless we felt comfortable with that's what we were going to do on the quarter. And as you accurately said, we're five weeks into the quarter and we've seen what we've done so far. So that is the guidance we have given.

I think the other piece to it is that the guidance on the annual origination volumes should give people a sense of also what we're looking at in Q3 and Q4. These deals develop over time and so I would just say that we've given more guidance if you will this quarter than we've ever given because last quarter I was responding to someone's question quite honestly as it relates to the $500 million and $750 million.

So we're hopeful that investors can take a look at that range and have a good sense of what we're seeing in the quarter and for the year.

Mike Widner: Great. Well, I'll say that we definitely appreciate the guidance and your willingness to give guidance on both the quarter and the year. Let me just ask one follow-up if I might on that and, you know, maybe you can talk about your view of the loan pipeline.

But your $3-1/2 billion to $4-1/4 billion guidance for the year, you know, if you look at that on a quarterly basis going forward that pretty much implies an average of $1.1 billion per quarter from here out given that, you know, if I take the midpoint year range and given that you did $500 million the first quarter.

So, you know, you're talking about the average quarter over the rest of the year being double where you were in Q1, you know, which is great. You know, and certainly we do appreciate that there's a broad range. But just wondering (if) it seems like a big change, you know, and a very solid target you've got for the year and so just wondering, you know, what gives you the confidence that the pipeline for the back half looks, you know, that strong?

Willy Walker: I'd say a couple things. First of all, on Slide 5 we show our historic origination volumes back from 2007, '08, '09, '10. And the first thing I'd think you'd note is that Q1 2011 was not atypical in comparison to previous quarters other than Q1 2010. And Q1 2010 was abnormally strong if you will as it relates to origination volumes.

The second is, Q2 will jump off the page as being a very, very strong quarter and so we're feeling quite good on the quarter. As it relates to the overall year, we did $3.2 billion last year. We have more feet on the street if you will than we had last year. We have greater market presence.

And I would also say to you that as you look across our various groups we should see a significant pick-up in our capital markets originations, just given that capital has come back. I mentioned in this call the conduits did $8 billion of securitizations in the first quarter. Conduits are clearly back.

Life insurance companies are clearly back. And I'd also say that the competitive positioning of the agencies has not changed dramatically. They're losing a deal here or there to life insurance companies on low leverage Class A properties, but generally speaking the agencies are still extremely well positioned to do the lion's share of multifamily financing this year.

And so given all those factors, we feel very good about that range. People are investing us as a growth company and we are working both with our existing operations as well as through acquisitions and adding talent to our origination platform to make sure that we are growing both the top line and the bottom line.

Mike Widner: Great, thanks. I appreciate the comments and the color and I'll shut up and let some other people ask questions.

Willy Walker: Thanks, Mike.

Debbie Wilson: Thanks, Mike.

Operator: Thank you. Our next question comes from the line of Bose George from KBW Asset Management. Please proceed with your question.

Bose George: Hey, good morning.

Willy Walker: Hi, Bose.

Debbie Wilson: Hi, Bose.

Bose George: Congratulations on a nice quarter. I had a couple of things. I just wanted to go back to the comments you made about the gain on sale margin. I mean even if you look at prior quarters where the capital markets component was, you know, lower than it was this quarter, you know - or higher rather, you'd still end up with a higher gain on sale margin this quarter.

So I'm wondering like were the other components stronger than in the past? I mean it was just a very positive number.

Willy Walker: Do you want to take that?

Debbie Wilson: Bose, I didn't hear the last sentence of your question, I'm sorry.

Bose George: I was just wondering if the other, you know, if the Fannie gain on sale or Freddie gain on sale was actually stronger than it was in the fourth quarter.

Debbie Wilson: The assumptions haven't changed and the servicing fees haven't changed. It was really a mix of both Fannie and HUD being very strong in the first quarter as a percentage of the volumes compared to in the past. You know, capital markets really doesn't create MSRs. And so there was a fairly...

Bose George: Okay, so we could really see it as a mix issue?

Debbie Wilson: Yes, it is.

Bose George: Okay, great. And then just switching back to the volume. I didn't know if you can comment, but I just wanted to check on the status of that - the Golden Living loan and whether that, you know, how that played into the guidance at all.

Willy Walker: Golden Living doesn't play into the guidance. It never did play into the guidance if you will, Bose. And so that - there's nothing in those numbers that's sitting there saying that Golden Living will go from their interim financing with Citigroup to a permanent financing with HUD.

Bose George: Okay, great. And actually in terms of that loan, I mean if it does close is it something that happens in the back half of this year? Or is it possible to sort of frame the timeline for that?

Willy Walker: It isn't. They have taken out their CMBS debt with an interim loan from Citigroup and we do not know the borrower's intentions on whether they want to go permanent with HUD or whether they'll want to keep that interim financing in place. So that is not a deal that right now we're looking at in our pipeline.

Bose George: Okay, great. And then just one last thing on the delinquency number. I was just wondering if there's any seasonality in the delinquencies.

Willy Walker: No. No.

Bose George: Okay, great. Thanks a lot.

Willy Walker: Yes.

Operator: Thank you. Our next question comes from the line of Matthew Kelley from Morgan Stanley. Please proceed with your question.

Matthew Kelley: Great. Thanks, guys. Sorry, there's an echo on my phone here. I'm hoping you can give us an idea of the impact cushion that Wakefield will have on your originations, just how you're thinking about it internally. I see that they do about $3 billion so, you know, can you help us kind of frame that, size that, or is that a longer term type of opportunity for you?

Willy Walker: Matt, the - first of all I would just say I'm really, really pleased that we put that agreement in place. We looked to acquire some companies. We looked at hiring some talent. And we started discussions with Cushman & Wakefield to create this partnership.

And it was very clear to us that this agreement would get us in the market quicker at a significantly cheaper cost and quite honestly with economics that are very similar to having our own platform. And so it was really sort of a win-win from our standpoint from a time, cost and profitability standpoint.

Cushman's investment sales, multifamily investment sales platform as you accurately say, is predicting to do about $3 billion of multifamily investment sales in 2011. The agreement with Walker & Dunlop is that the two companies will go to market together to bundle their multifamily investment sales and our agency financing.

What percentage of that $3 billion we end up financing not clear today, but I think that it's - what I put forth to you is that jointly marketing those opportunities and having Walker & Dunlop at the table so that the purchaser of the asset has the financing already there.

Many buyers these days are looking for, when they're looking at an asset, to figure out what the debt markets will give them as they do their numbers. So instead of just buying an asset and sort of saying okay, then I'll take it out for financing, they really like having a sense of what financing will go on the asset and what the cost will be obviously to do their pro formas and what - how the asset will operate afterwards.

But as it specifically relates to are we going to do a $500 million of incremental deal flow, a billion dollars of incremental deal flow or $2 billion, it's tough to tell at this point. We are going to market this very hard. We're going to put all of our sales and marketing efforts behind it.

And given the strength of the agencies today and the fact that agencies are still winning the lion's share of multifamily financing, should we get 50% of their deal volume (going) agency through us? That'd be great but it's very difficult given it's a brand new partnership, Matt, to give you a specific number of what we're planning on getting out of this.

Matthew Kelley: Okay. That's helpful, thank you. The other thing I would ask you guys is on loans you're originating right now, can you give us a sense at the rates you're originating by product for Fannie, Freddie and HUD, on the origination fees, sorry.

Willy Walker: On the origination fees, as we said origination fees we have not seen any change in origination fees, but we also haven't broken out origination fees on a Fannie, Freddie, HUD capital markets basis. We've given you the bundled origination fee and we plan to continue to report that way, Matt.

But I would say the overall comment as it relates to origination fees and servicing fees, we've not seen fee compression.

Matthew Kelley: Okay, great. Thanks, guys.

Willy Walker: Yes.

Operator: Thank you. Our next question comes from the line of Will Marks from JMP Securities. Please proceed with your question.

Will Marks: Thank you. Good morning, Willy. Good morning, Debbie.

Debbie Wilson: Good morning, Will.

Will Marks: I had a question first - I had a - first on in terms of looking ahead into the quarter and give it the guidance on originations, can you just give a timeline of what typically happens in the case of origination, how long it takes or most of these deals that are in the works already?

Willy Walker: Yes, there's nothing there, Will. First of all, good morning. I know it's early where you are. The way that deals happen in our business, if you were to have someone walk in the door today and say, "I'd like to do a financing with Walker & Dunlop," at the fastest we'd get that deal rate locked where we would recognize revenue on it, we've done deals as fast as 45 days.

But you're typically looking at sort of 60 to, you know, 60 to 90 days on an average deal, okay? There are times when we really can run and push it hard and they need to get it rate locked very quickly. But the bottom line there is what we're putting forth as far as Q2 guidance, we have very good visibility into that.

All of those deals that are in there are already in process. They're either active deals, they either have a signed application, they are rate locked, they are closed, they're somewhere in that continuum if you will. So our pipeline tracks all of that activity and as we look out to Q3 and Q4, what we're giving there really is the majority of those deals are active deals in the pipeline.

Some of those will be - already have a signed application. And some of them will have done an early rate lock, but we will have recognized the revenue when we early rate locked those deals so they come into revenues during the quarter that we rate locked and then we close them in the future quarters. But the closing does not have a financial impact, it's actually when we rate lock the deals that we actually recognize the revenue.

Will Marks: Okay. No, that's very helpful. Thank you. Second question just on the competitive landscape. Is there anything going on that would lead to an expansion of the number of competitors within the Freddie, Fannie, HUD space?

Willy Walker: I'd be really surprised. Given - first of all I don't know. We had the DUS - the Fannie Mae DUS conference was last week. There was no discussion there about some financial service institution that was keen to get a DUS license or was poking around trying to get a new license.

Fannie particularly as well as Freddie have been very hesitant to give out new licenses. Fannie, as far as de novo licenses has given out very, very few and has generally speaking, taken an attitude that if someone wants to get into the business they need to acquire their way into the business of one of the existing DUS companies.

On the Freddie side, because it is a geographic - because they have geographies and you have a license for a specific state, Freddie has been very focused on making sure that as they give new licenses they are increasing the pie and not just slicing the pie up one more time.

And so as people have asked to go into new geographies and as you can imagine, we've asked Freddie to go into some new geographies consistently, they always want to know, how are you going to increase my market share? How are you going to increase the size of my pie and not just taking a deal away from an existing Freddie Mac seller/servicer.

So they've been - both agencies have been very good from my standpoint at making sure that the competitive landscape stays quite static if you will in the sense of how many competitors there are, but they clearly like to see a lot of competition amongst the various competitors.

Will Marks: Okay, thank you. And a final question just on the Cushman deal or in light of the Cushman deal and your what seems like a focus then away from putting your capital to work on hiring investment sales brokers or standing on that platform, what are you - and I may have missed this, I apologize. Where are you focused on, on using your available cash flow?

Willy Walker: So a couple things. First of all, as it relates to the investment sales the opportunity to get in the market so quickly with such a scaled platform and such a great company like Cushman & Wakefield was really an easy decision. So that shouldn't be viewed as we didn't want to expend the capital and more towards it was just too good an opportunity for us not to pursue and it got us what we needed in a very short period of time.

As it relates to other opportunities, as I mentioned in my comments we have gone and looked at a number of mortgage brokerage companies to see whether we could expand both our origination volumes as well as our geographic footprint. And we will continue to do so. We do not have anything to report at this time but we clearly have plenty of discussions and diligence going on.

I would underscore my comment which is that in many cases we've found people who have had tough financials for the past couple years given the downturn in the commercial real estate markets and financing volumes, yet because they see the market coming back so strong think that valuations should be back at 2007 levels and not at 2011 levels.

And so we're working through that and meeting with people and understanding expectations and figuring out how we can do deals that are accretive to Walker & Dunlop and allow people to join the Walker & Dunlop platform and grow with us.

The third area is that we've talked previously about an interim loan fund. I am - we are working very hard on that and I'm hopeful that we have something to announce in the near future.

We've also talked about the equity business and raising an equity fund so that as our (originators) across the country are out talking to people about first trust debt that they have the ability if someone needs either mezzanine financing or a joint venture equity investment to either buy an asset or recapitalize an existing asset that Walker & Dunlop has that product offering.

And so we are in significant discussions now with a number of equity firms to see whether we either raise a fund together, acquire a firm and bring them into Walker & Dunlop, but that will require some capital. And then I'd say the fifth place is just in our recruiting efforts and bringing on new talent.

We are actively recruiting across the country. And as I said in my remarks, we're expecting to make some announcements in Q2 about some people joining the Walker & Dunlop platform.

Will Marks: Okay, I appreciate the (seviral) response. Thank you.

Operator: And our last question comes from the line of Tim O'Connor from William Blair. Please proceed with your question.

Tim O'Connor: Good morning, guys.

Willy Walker: Hey, (Tim-O).

Debbie Wilson: 'Morning.

Tim O'Connor: Sorry, I didn't hear more on the Cushman deal but I've got more follow-ups on that. So what percentage of, you know, their sales volume did they do debt and servicing on, you know, over the last year maybe two years?

Willy Walker: Don't know. It should be noted, (Tim-O), that the agreement that we have with them is for agency financing and multifamily specific. So as you know, Cushman has a significant brokerage operation in Sonnenblick Goldman. And if there is a multifamily deal that wants a quote from life or CMBS, the agreement has it that a Sonnenblick Goldman broker can take that out to the market.

So they're looking to Walker & Dunlop for agency financing and agency includes Fannie, Freddie and HUD. But - so to that point that's just the way the agreement is put together.

Given the competitiveness of the agencies today we believe the majority of that deal flow will come to us but at the same time it is specific to multifamily so their brokers also will continue to work on financing opportunities for office, retail and hospitality. But as it relates to our partnership it's multifamily specific and agency specific.

Tim O'Connor: And is it limited to certain geographies or is it national?

Willy Walker: It is national.

Tim O'Connor: Okay. Then the mix shift, or the mix in Q1. Is that a reasonable - for origination volumes by source, is that a reasonable proxy for how you think the rest of the year might play out?

Willy Walker: That's tough. It's very hard - the thing you have to keep in mind, (Tim-O), is that Fannie and Freddie both compete in, you know, various asset classes, types of properties, geographies, more competitively, less competitively. And then at any given time in the year one wants a certain amount of volume and will get very, very competitive at a certain time.

And so to be able to project what percentage of just on the multifamily side goes Fannie versus Freddie is extremely difficult. Beyond that on the HUD side, the deal pipeline and the timing to get HUD deals done is so much longer that we do actually have a pretty good sense of what's in the HUD pipeline from here until the end of the year just because you've got to get these thing keyed up so far ahead of time that you can start to project out.

But then unfortunately, HUD is also very unpredictable, so you could sit there and say that HUD deal should close in September and all of a sudden it's an October deal. With Fannie and Freddie and our capital markets group you have far better predictability if you will of actual closing of deals just because HUD, you know, unfortunately one day can be in it and the next day it's not getting done.

Finally, on the capital markets side we are seeing significant volume increases in our capital markets business because of the reemergence of life insurance companies and CMBS.

But how much we see between here and the end of the year, we've got our pro forma and we've given you a range as far as aggregate origination volumes, but it's quite difficult to kind of break it down, capital markets, HUD, Fannie, Freddie just given the market dynamics of what will come in between here and the end of the year.

Will Marks: Okay, thanks. Final question, given that you had no write-offs in Q1 and given your write-off history, do you feel pretty good about where you're provisioning for risk-sharing is?

Willy Walker: We feel very good from a provisioning standpoint. As you know, the write-off is actually, you know, once we've provisioned we foreclose on the asset and then once we true up with Fannie Mae that's when you've actually got the actual write-off. And so the write-off as it relates to overall credit quality is really a lagging indicator if you will.

So if you see for instance in Q2 a write-off of X that's really just settling up on the provision that we took earlier and when we actually took the hit to earnings. And so I feel very, very good as it relates to the overall health of our portfolio.

And as it relates to our provisioning we are extremely diligent on that and I would just say that being a public company, having KPMG as our auditors and having a new audit committee to a newly public company adds a tremendous amount of rigor to all of that. So I would think that investors should feel very, very comfortable with the way that we are managing risk and the way we are taking both provisions as well as write-offs.

Will Marks: Great. Thank you very much.

Operator: Thank you. And our last question is a follow-up from the line of Mike Widner from Stifel Nicolaus. Please proceed with your question.

Michael Widner: Hey, yes. Thanks for taking the follow-up. Just was thinking someone else would ask this but since no one else did I'll jump back in. I was wondering if you talk a little bit more about the assumption fee and just sort of mechanically talk us through sort of what that is and, you know, what it represents and then how we should think about - you know, how we'd, if we or how we might model those things going forward.

Willy Walker: So the assumption fee, Mike, was an assumption of a large portfolio of loans. And when we have an assumption we process the assumption. We look at the new owner, we underwrite the new owner and then we approve the assumption of the debt. And for doing that we make a fee. This was obviously a large fee given it was a very large portfolio of loans.

As Debbie said in her prepared remarks, we see those - those are a normal course of business for us. Nobody should look at that and say, "Oh, one time, forget about it. It's not part of their business."

If we were to move into a higher interest rate environment and then come back down into a lower interest rate environment you would likely see quite a bit of prepayment income that would come into our financials because people were refinancing and doing early prepayments and paying defeasance on the loans. And assumptions happen all the time not necessarily in this magnitude, but they're very consistent.

Do you have anything else you want to add to that - the assumption fee?

Debbie Wilson: No.

Willy Walker: No. And so it was a big one for the first quarter. And I would also point out that because that deal did not have a mortgage servicing right along with it when we did the assumption, it came in as other income. Had it had a mortgage servicing right it would have been a normal origination.

It would have gone into origination volume and it would have gone into normal origination fee income. But because it did not have a mortgage servicing right with it, it goes into other income and therefore is classified as such.

Mike Widner: Okay, so that part I understand. I guess maybe I'm a little thick here and just not really intimately familiar with what, you know, in the context of your business, assumption means. I mean, you know, you guys don't have a balance sheet so you're not pulling it on balance sheet obviously. So in - I mean just technically what does the term "assumption" mean? I mean is it...

Willy Walker: Yes. No, that's fine. So somebody is going to acquire an asset and it has on it agency debt. And instead of having to go and refinance the property, let's just say that this loan is sitting there and it has four years of term still on it. They apply to assume the debt.

And so what they are getting - what ends up happening is they will assume the debt and take on the debt and they get the exact same financing in place for the rest of that four-year term under the exact same terms and conditions that the original borrower had gotten that financing.

And so what ends up happening is they come to us and they say, "I, John Smith, want to sell this asset to John Doe and will you please underwrite John Doe to assume my debt in the acquisition of this property?" We underwrite John Doe and we approve the transfer of that debt from John Smith to John Doe and in the process of approving that we make an assumption fee.

Mike Widner: Got you. That makes it crystal clear. And so these may be loans that are already in your servicing portfolio or not in your servicing portfolio, is that right?

Willy Walker: That is exactly correct. So the very nice part of that is you make an assumption fee but you also maintain your servicing income.

Mike Widner: Okay, great. Well, I appreciate it. That's perfect color and clarity.

Willy Walker: Great. Operator, anything else?

Operator: No, sir, there are no further questions at this time.

Willy Walker: Great. Well, with that I would like to thank everyone for participating in the call. Appreciate the questions from the analysts and we will talk to you next quarter. Thanks very much.

Operator: Thank you. Ladies and gentlemen, that does conclude the conference call for today. We thank you all for your participation and we ask that you please disconnect your line. Thank you and have a good day.

END