Company Name: Walker & Dunlop, Inc. (WD)
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<<Steve Delaney, Analyst, JMP Securities>>

Okay, we'll get started with our next presentation. I'm Steve Delaney, the Senior Mortgage Finance Analyst at JMP Securities, my commercial associate Ben Zucker is sitting here in the front row with me and together we're very pleased to have with us today Walker & Dunlop Incorporated. The ticker is WD and the stock closed last night at $25.11, up about 10% since June 30 but down about 13% year-to-date. The equity market cap here is $740 million, but shares are currently trading at about 8.5 times at 2016 estimate, we rated the shares markets outperform with a $30 target.

Walker & Dunlop is a leading commercial real estate finance company with a Top Three national ranking in the agency multi-family origination and servicing business. The company was founded in 1937 and has been public since 2010. Currently has approximately 500 professionals operating in 24 offices nation-wide. In recent years the company has focused on diversifying its activities and through transitional balance sheet loans, brokered loans, CMBS loans, and recently in the past year added an investment sales division. It's my pleasure to introduce the Chairman and CEO, to my far left, Willy Walker; the Executive Vice President and CFO, Steve Theobald; and also with us today is the VP Director of Investor Relations, Claire Harvey.

Our format is going to be a little different than the slide presentations you've seen earlier. We are going to do a fire-side chat and I'll just kick it off with some questions for Willy and Steve. And then I will encourage everyone in the audience to please raise your hand, break-in at any gaps in the conversation so that we can involve the whole room in the dialogue. I believe we are at the noon hour, so you know that means box lunches; so I would encourage everybody don't be bashful, grab your lunch and come in and sit and we'll – we won't distract us one bit. So thank you.

Q&A

<Q – Steve Delaney>: So Willy, I think the first question for any company and CEO involved in the agency multi-family business and coming off a second

quarter when you did a record $1 billion of originations. First question has to be along the lines of things are good, where can we go from here or that core segment of your business.

<A – Willy Walker>: So we did over $5 billion of transaction volumes in Q2 with a $1 of earnings per share. I think was the one number that you were getting to there, Steve. So things can keep on getting better to be perfectly honest with you. As – if you go back to when we went public in 2010, Walker & Dunlop as it relates to our share of multi-family landing in United States was less than one share. We finished 2015 with over 5% market share in multi-family lending in the United States and became one of the largest providers of capital in the multi-family sector in the country. We finished the year as Fannie Mae's second largest partner and Freddie Mac's third largest partner and we have year-on-year moved up in those league tables to become one of the very largest partner to the agencies which today are providing somewhere between 40% and 50% of capital to the multi-family sector.

As it relates to the regulatory landscape for the GSEs, without any type of real dislocation in the markets the FHFA has raised Fannie and Freddie's caps on standard market rate business twice this year, first in Q2 and again in Q3. And I think that is indicative of a regulatory framework, if you will, under Mel Watt that says that he would like to see Fannie and Freddie's multi-family businesses continue to grow and expand, and he has allowed the agencies a lot of leeway to expand their product offering, to lend not only broadly in multi-family but into the specialty products; so seniors housing, student housing, manufactured housing. And – so as you watched us go from being 2% market share with the agencies combined to last year we finished year at 11.5% of total agency lending, there is a great opportunity for us to continue to grow.

If you look at us compared to someone like CB over last the five years, CB had a 23% market share with Freddie Mac five years ago, that has coming down to – I believe last year they were at 14% or 15% a share. So it's not one for one of what we're picking up CB's losing, but to give you a sense of the competitive landscape, someone like CB had an incredible franchise of Freddie Mac, they still are Freddie Mac's largest partner, but their market share has come down precipitously as our market share has grown dramatically.

<Q – Steve Delaney>: And you remind me but the last two years you've been in the double – low double-digit ranges with GSE, I think it's shifted – three years ago you were bigger with Fannie, then last year you were bigger with Freddie?

<A – Willy Walker>: Yes, the two flopped so we were number one with Fannie two years ago in 13% market share and 11% with Freddie, and then the two flopped, we were 13% Freddie and 11% Fannie, but the two have come out to just about 12% market share with both agencies. And the agencies as it relates to capped business and non-capped business, the regulator allowed both of them to expand out of their cap business and made this exclusion last year to the caps which the caps were at $31 billion and they were allowed to go and not have specially products count against them. So the two agencies last year, Fannie did $41 billion and Freddie did $46 billion on the year with caps being at $31 billion for their ability to expand out. This year the caps have gone up to almost $35 billion of capped business but the projections are that Fannie and Freddie will both do somewhere between $50 billion and $55 billion of total lending. So you've got between $100 billion and $110 billion as the current projection of capital lend by Fannie and Freddie, and as one of their biggest partners that has benefited to us greatly.

<Q – Steve Delaney>: One question, so $100 billion this year combined would not be unrealistic. You look at the secular trends towards urbanization, millennials are not buying houses. Have you seen any studies that are out there that would kind of project where the total multi-family landing market might go in terms of an annual growth rate over the next five to ten years?

<A – Willy Walker>: So the financing market this year is projected to be just around $260 billion. So that's what the Mortgage Bankers Association is projecting right now and couple of other people, somewhere around $250 billion to $270 billion is what I think is probably a good band. So there has been core growth in multi-family lending volumes and multi-family debts as a percentage of total outstanding commercial real estate debt, the total commercial real estate outstanding is close to $3 trillion and multi has just gone over $1 trillion, so multi is now more than a third of total debt outstanding to commercial real estate and is by far the largest commercial real estate class as it relates to debt outstanding.

As it relates to long-term growth, I think the number that came out yesterday from the Mortgage Bankers Association on new home sales is on an annualized basis at about 650,000. If you think about where we were at new home sales back in 2005-2006 at well over 1 million and getting close to 1.2 million, we are nowhere close to having single-family home creation or sale of product, be anything close to what we were back in early 2000s. So what that is doing is pushing up rents, it is pushing up occupancy levels, and it is making the inventory that it is out there for multi-family be filled with people who need a place to live. And consumers are not finding an alternative in single-family housing right now so the fundamentals as it relates to multi-family are extremely good.

If you look at our Q2 lending, we did over $5 billion of transaction volume in Q2 and the average loan-to-value was 68% on our total portfolio of lending in Q2 and our average debt service coverage was 1.5 to 2 times, that's almost identical to Q2 of 2015, so it didn't change at all over the past year. And the reason I put that out there is I think there is lot of talk out there of the OCC coming down on banks right now as it relates to exposure to commercial real estate. As Steve and I said in our last call, if we can continue to put out $5 billion a quarter at 68% LTV and 152 debt service cover, we will both do that for the rest of our careers and be very, very happy and be very, very rich.

<Q – Steve Delaney>: Great point. So solid fundamentals in the core business with some expectations of growth and we certainly have a very supportive regulator behind the agency business. That's a good point I think the segway to your other businesses the non-agency businesses. Could you give us just a little recap on where you are in the brokered loan business, balance sheet lendings and the CBS capital markets?

<A – Willy Walker>: So one quick point on the regulatory – just to put one final point on that. If Donald Trump is the next President of the United States, Mel Watt will stand his role until January of 2019. If Hillary Clinton gets selected President of the United States, it's my understanding that Mel Watt will likely step down sometime in the New Year and one of the people who works for him now will step into his role. So as it relates to a change of administration and the impact on FHFA, obviously I don't know what Mel Watt is going to do but the talk amongst people who watch FHFA very closely are that Mel will stay till January 2019 when his term expires. If Trump is elected and he will probably step down and let somebody else in his staff step into his role if Clinton is elected; which says to me, no change in policy for '17 and '18 before you have a change in '19.

<Q – Steve Delaney>: Got it.

<A – Willy Walker>: As it relates to our other businesses, we really put in an effort on growing our brokerage business, brokering financing to third-parties like life insurances companies, banks and CMBS back in 2013 and we've gotten ourselves up to a scale of about $1 billion a quarter of brokered originations. We've made some significant investments in that business, we've built up the platform, that's an

interesting business. To be honest with you from a profitability and long-term recurring revenue strength business, it's not a great business at its core; there are some of our big competitors whose core business is brokerage, it does not bring with it the long-term servicing revenues that we have in servicing portfolio of $58 billion. It doesn't mean we don't like the business and it doesn't mean there is a lot of business to be done but it doesn't have the same durability or margins that our core agencies lending business does.

What we have found is we have expanded that businesses, many of the brokerage firms we have acquired, people who previously did 10% of their origination or 20% of originations with the agencies will come on to walk in our platform and see how strong we are with the agencies, see our really strong market position and they end up doing a greater percentage of the origination with the agencies. So they might have done tons of life insurance companies and also may become a 20% or 30% of the origination go to the agencies, that's hugely accretive to us, hugely accretive. So brokerage is up about $1 billion a quarter, our HUD business is good for $600 million to $700 million of originations a year.

Steve, in our last quarterly earnings call said that we think the back half of 2016 will be very strong from a HUD origination standpoint. HUD has done some things to change their product, many borrowers who are looking for construction dollars today are finding that commercial banks are not providing them with the loan to cost that they need or they are asking for recourse, and people can go through the HUD process and although it takes a significant amount of time to get the loan, once you get it, it's a fantastic instrument, and its long-term, its fixed rate and it’s a construction perm; so you're locking in today's rate for the next 40 years which many people just love, they love taking the refinancing risk out of getting out of your construction loan and going to a permanent loan.

<Q – Steve Delaney>: Just – if I could, just to frame it for folks who may not be intimate with the financials of WD; I believe the profit margins on brokered loan or maybe 60 basis points on the loan principal balance and I think your overall margin is something more into 180 or 190 range.

<A – Willy Walker>: That's right Steve, we've been – actually the last couple of quarters are over 200 basis points given…

<Q – Steve Delaney>: A relationship extender, you know opportunistic business on the margin but not somewhere where you're trying to drop to in the case of HF, it is their business, right?

<A – Willy Walker>: And so then on the two others; the CMBS, we got into the CMBS business two years ago. CMBS market has been a very tricky market. I've been really pleased that we did not have a lot of collateral sitting on our warehouse lines when the market dislocated in Q1. We spent Q2 selling that collateral and moving it off our lines and we are out there originating but at a very tempered pace right now, if you will. We like the market, we like being in the market but we need some real visibility on the stability of the market and to make sure that the secondary market is functioning properly for us to really make a big surge in the CMBS space.

And then on our balance sheet lending, we are very close to having originated $1 billion on our balance sheet. The balances that we've carried on our balance sheet have been somewhere between $200 million and $300 million of interim loans and that has been a fantastic product for us where a borrower will come to us and need a six or nine month bridge loan to buy an asset, rehab the asset, do some rehab work on the asset, and then put a permanent financing on it. We have taken 94% of the loans that went into that program and refinancing with the agencies or with HUD and it has been a great way for us to compete with banks who have previously been very, very competitive with that type of product to steal agency financing from us that typically would come to us.

<Q – Steve Delaney>: Couple of comments on that Willy, you can catch your breath but on the CMBS side, it's been a rough, volatile year but first with spreads and now there is the regulatory changes going in at the end of the year, both in the form of risk retention on Christmas Eve and then a Reg AD change where an executive officer or the sponsor of the securitization has to sign-off individually on the loan -- quality of loan docs on all the underlying loans. So this concept of conduit originations where you have a major Wall Street firm or JP Morgan but you may have five or six loan sellers, the thinking is that's going to change. And JMP put a note out yesterday discussing this change in the regulatory environment but it would seem you've have hired two well-known Barabara Struck and Mitch, guys that have CRBFC convinced, it's well known in the industry; you've got a company with almost $1 billion of market capitalization including debt. I think this is just my personal view that the WD would be the type of conduit partner that a large bank would want if that bank is going to have to retain risk. So we had 37 conduits with us last year, I don't know how many we would have. It is in a state of flux but I guess it sounds like you're taking a cautious approach but your plan is to still be in that business.

<A – Willy Walker>: Yes, I think there are two things there. The first one is that we announced in our Q1 earnings call that we've built out a really great distribution network, we have over 100 loan originators across the country in 24/25 offices and it's taken the last 10 years to put all that together. And we probably lend on one out of every five deals we look at. So we're looking at a $100 billion a year of deal flow, and we're landing on close to $20 billion of it. So the idea there is, let's raise our own capital to feed into that distribution network because we use third-party capital very efficiently, we've taken risks on all of our Fannie Mae lending, we have an incredible credit track record. So let's go out and raise money around that.

So we announced in our Q1 earnings call that we wanted to build an asset management business to go raise funds around that distribution network. So there are two things that we've been very focused on; first of all, do we go raise a fund or buy the manager of mortgage REIT to take the $250 million of collateral that sits on our balance sheet today and to move it into a fund or move it into mortgage REIT where we recycle capital back to Walker & Dunlop's balance sheet, we make asset management fees off of managing those funds, and we also have a permanent source of capital to be able to fund those operations. We believe that that is an incredibly scalable business model and with our access to deal flow and our credit background, we should be able to either acquire a manager or raise capital quite easily. So we've been very focused on that.

The second piece into it is, in the CMBS space today, if you are a smaller originator, the B piece buyers have huge, huge sway over what deals get into CMBS polls and what do not. So we've looked at potentially raising a fund that would be a B piece buying fund to be a part of our asset management business that would support our loan originations on the A's and hold the B's. So those two things in concert I believe if we execute on them will situate us extremely well of taking the collateral off our balance sheet, moving it off balance sheet into a permanent funding vehicle, and then also provide us with a tool and B piece fund that will allow us to start to ramp up our origination on the CMBS side.

<A – Steve Theobald>: A couple of side comments on that, we have companies; some very large companies – I'll point to Blackstone Mortgage which has a $3 billion market cap, their entire business is making transitional bridge loans. Now they make very large ones, $100 million, $200 million; but that in itself which is not insignificant but certainly subscale for WD given the national platform and almost is a separate business in itself.

<A – Willy Walker>: And one of the things you have to think about here is at Blackstone and Flavin does a great job above it, they've got basically three-year collateral, so every year they are losing a third of their loans. So they have to be out there originating and originating to replace what they've put on to the REIT. In our situation, our average life of our loans in our servicing portfolio, $58 billion servicing portfolio is 10.2 years right now. So we have much longer duration assets that we have, doesn't mean that we're any less aggressive as it relates to originating new loans or that we don't have pressure on our originators to continue to feed the beast if you will, but it's a very different – if you will dynamic as it relates to duration of the assets and the type of landing that we're doing.

Flavin talks to me about the types of the loans they are doing and the type of the risks they take at Blackstone and I literally, I mean it's amazing the type of lending they do and they get paid for it but we're not doing condo construction loans in South Florida, we're just not, that's not W&D. We're doing 68% LTV, 10-year duration, 152 debt service cover, agency loans on stabilized multi-family properties; it is a very different business model.

<Q – Steve Delaney>: Well I’ve kind of dominated things from up here, I'd like to devote the rest of the time to allow Willy and Steve to take questions from the audience. Walker & Dunlop is a very interesting company; I think it's had a great performance year recently and a bright future. So if you're not familiar with the company, I certainly would encourage you to do so. And with that we'll be glad to take any questions from the floor. I guess you qualify although I was hoping it would be somebody else. Go ahead.

<Q>: [Question Inaudible] (0:21:06).

<A – Steve Theobald>: Thanks for the question, so right now as Willy mentioned our servicing portfolio is approximately $58 billion, little over 10-year average life in the portfolio, 25 basis points is the average servicing fee in the portfolio and the primary differentiator here is that 87% of the revenues coming off that servicing portfolio are prepayment protected. So if the borrower pays off their loans early we receive compensation for the future service into that, so it's a huge positive for us, as a results it's a very stable asset, we don't have the mark-to-market volatility in our financial statements we carry the amortized cost, and the fair value right now is about $100 million higher than the carrying value of the asset on our book. That's a very stable long-term cash flow to the company which then gives us the opportunity to reinvest the cash flows into the business and in the future growth.

<A – Willy Walker>: So that carrying cost that the market value that Steve just talked about is about $150 million below our market cap. So it's right around $600 million and our market cap today is $750 million. So the market is either fairly valuing the servicing and putting a $150 million valuation on $17 billion origination platform or its undervaluing the servicing and putting additional value on the origination platform. If you look at someone like HF who doesn't have that long-term servicing value in their business model and the fact that their market cap is about $1 billion, now they originated about 4X the number of loans that we do on an annual basis but their origination platform as far as a dollar-for-dollar basis is valued dramatically higher than our origination platform or people are discounting the servicing which there is no reason to do given the characteristics that Steve just talked about.

But I think the other thing to think about there is our servicing portfolio is $30 billion two years ago. It took us two years to get to 30, it took us – that's right, it took us two years to get from 30 to 40, it took us 18 months to get from 40 to 50, and it's going to take us less than a year to get from 50 to 60. So the velocity at which we are adding servicing onto the platform right now continues to compress and we don't have any major run-off in the portfolio until 2020. So it's not like there is some big maturity wave sitting there in a portfolio where $10 billion of it is going to roll off in 2018, we don't even get above $4 billion on an annual basis until 2020.

<Q – Steve Delaney>: So the GSE servicing is not detachable, so there is – I guess there is no market there but you recently had a large HUD purchase, right?

<A – Steve Theobald>: We did, we acquired a $3.8 billion HUD portfolio and added that to the mix.

<Q – Steve Delaney>: Did those – did the HUD portfolios come up in the marketplace from time to time or is that really don't...

<A – Steve Theobald>: They do, it's a portfolio of that size, it does not trade very often.

<Q – Steve Delaney>: Got it.

<A – Steve Theobald>: This was a particular situation where the company is selling and getting out of the business. We do routinely see three or four portfolios a year, generally much, much smaller than that.

<Q – Steve Delaney>: If you wanted to – whatever reason, let's say there was a consolidation in CBG or some other people that people wanted to say, we need to have 20% of this market, you're not – you haven't been bashful about acquisitions when the time was right, the price was right; is it possible that an acquisition in the agency business could come about in future or is that kind of not on your radar now?

<A – Willy Walker>: I mean it's always on our radar, I would say this Steve, the big have gotten significantly bigger and it has been at the cost of the smaller operators. So is there the number 15 Fannie Mae thus lender that we might go buy; yes, but to be perfectly honest with you, what are we buying? Unless they have a significant servicing portfolio, we pick up a couple of originators and what are we going through the brain damage for? The big four; CBRE, Walker & Dunlop, Berkadia and Wells Fargo are taking market share from everybody else right now and that consolidation on the agency side continues, ARE has got out of this business and announced in their Q2 call, they said the bottom line is for ACRE to be a competitor in this space, the bigger getting bigger and we're having a tough time competing and they said that in their earnings call.

So I think that we are one of the great beneficiaries of this continued consolidation, would we pick somebody else; if they’ve got good people and they've got a good servicing portfolio but we're – we've been quite good at just picking off individual originators rather than going and buying whole enterprises.

<<Steve Delaney, Analyst, JMP Securities>>

I think that's – we're out of time, I think that's a great note to end on and I want to thank Willy and Steve for being with us today. Thank you.

<<Willy Walker, Chairman and Chief Executive Officer>>

Thanks, Steve. Thank you.