Operator: Welcome to Walker & Dunlop's first quarter 2016 earnings conference call and webcast.

Hosting the call today from Walker & Dunlop is Willy Walker, Chairman and CEO. He is joined by Steve Theobald, Chief Financial Officer; and Claire Harvey, Vice President of Investor Relations.

Today's call is being recorded and will be available for replay beginning at 11:30 a.m. Eastern. The dial-in number for the replay is 800-753-9197. The archived call is also available via webcast on the Company's website.

At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. If you would like to ask a question at that time, please press "star 1" on your touch-tone phone. If at any point your question has been answered, you may remove yourself from the queue by pressing the "pound" key. We ask that you please pick up your handset to allow optimal sound quality. Lastly, if you should require operator assistance, please press "star 0."

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

Claire Harvey: Thanks, (Lindy). Good morning, everyone. Thank you for joining the Walker & Dunlop first quarter 2016 earnings call. I have with me this morning, our Chairman and CEO, Willy Walker and our CFO, Steve Theobald. This call is being webcast live on our website and the recording will be available later this morning.

Both our earnings press release and website provide details on accessing the archived call. This morning, we posted our earnings release and presentation to the Investor Relations section of our website www.walkerdunlop.com. These slides serve as a reference point for some of what Willy and Steve will touch on this morning.

Please also note that we may reference the non-GAAP financial metric, adjusted EBITDA, during the course of this call. Please refer to the earnings release and presentation posted on our website for a reconciliation of adjusted EBITDA to net income and any related explanation.

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 include statements regarding future financial operating results, involve risks, uncertainties, and contingencies, many of which are beyond the control of Walker & Dunlop and which may cause actual results to differ materially from the anticipated results.

Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our reports on file with the SEC.

With that, I will turn the call over to Willy.

Willy Walker: Thank you, Claire. Good morning, everyone. Thank you for joining us today. This morning we reported diluted earnings per share of $0.50 and total transaction volume of $2.6 billion. As we outlined on our last earnings call, we expected to have a slower first quarter than a year ago due to Q1 2015 being heavily influenced by two very large financings.

$2.6 billion of transaction volume was lower than we anticipated however, largely due to global economic concern that led to a risk off-trade across the debt and equity markets. Commercial real estate investors hit the pause button in Q1 slowing down both the financing and investment sales markets.

We have seen dealflow pick up significantly towards the end of Q1 and beginning of Q2. And we feel very good about the rest of the year. The Q1 sell-off in the equity markets coupled with the dramatic widening of credit spreads significantly impacted the CMBS market.

As slide four shows, new CMBS issuances fell from $27 billion in Q1 2015 to $19 billion in Q1 2016 and a good deal of that securitized collateral was priced in Q4 2015 and sold at a loss in Q1. We originated $63 million of CMBS loans during the quarter and due to our size and flexibility, we were able to sell the majority of our loans.

We took a loss of $2.5 million from our conduit operations during the quarter, which accounts for all hedging losses and marks on our collateral. We are encouraged by the spread tightening over the past six weeks and are very excited by the addition of two exceptional professionals and leaders to our conduit team in Bob Restrick and Mitch Resnick.

As you can see on slide four, there's a huge amount of CMBS maturities over the coming years and we see great opportunity ahead of us to grow originations and build a profitable scaled CMBS platform. Originations at the GSEs were down 56 percent quarter-over-quarter. That decrease was not unexpected as a year ago we rate locked two large portfolios in the first quarter totaling $1.1 billion representing a third of our GSE originations.

Large transactions are impossible to predict, but as one of the very few GSE lenders that is consistently considered for mega GSE transactions, we are confident that future quarters will include large deals.

As slide five shows, our market share this quarter was 7.5 percent with Fannie Mae and 13.7 percent with Freddie Mac. On a combined basis, our market share with Fannie and Freddie has grown from 5 percent in 2011 to 11 percent in 2015 and we ended Q1 at 11.1 percent market share, right in line with our 2014 and 2015 average.

The GSEs expect to have record years and we estimate they will securitize close to $100 billion of financing in 2016. The fundamentals of the multi-family sector remain very strong. Net operating income from the multi-family properties in our $51 billion servicing portfolio increased 6.4 percent in 2015.

Vacancies remain low and there continues to be significant demand for new units in almost every major market. As a result, investors, borrowers, and operators remain bullish on the multi-family sector. We see a regulatory framework that should allow the GSEs to meet the growing needs of the market and we are confident that we will continue growing with the GSEs to remain one of their largest partners.

As you will see from slide six, we closed $157 million of investment sales business in Q1 and as the market settled towards the end of the quarter, deals got back on track and we expect a very strong Q2 from our investment sales business. We remain focused on growing our multi-family investment sales platform across the country by adding brokers to our existing footprint.

Outside of CMBS and the GSEs, life companies and banks were very active in the first quarter. Our Capital Markets group originated $804 million of loans representing 6 percent growth over the first quarter of last year. Life insurance companies provided highly competitive long-term fixed rate capital for low leverage Class A assets.

Banks have remained very active and competitive with short-term fixed and variable rate lending. However, we have seen a significant pull back in bank construction lending on multi-family developments. This pull back appears to be more the result of increased regulation and bank capital standards than unfavorable market conditions, but there are clearly certain banks concerned about their exposure to construction loans.

We see this pull back as healthy for the market and industry fundamentals in two to three years. With the robust investment sales environment and huge volumes of refinancings over the coming years, financing activity should remain strong even if the new supply of multi-family properties tapers off.

HUD originations remain at a relatively small percentage of our overall volumes, but there is reason for optimism. HUD took steps during the quarter to improve the cost of obtaining a loan by reducing reserve requirements and the cost of mortgage insurance for specific types of assets.

Those changes are significant and that they have made the all-in interest rate for a HUD loan more competitive. When coupled with the reorganization efforts by HUD over the past 18 months, HUD may return to relevance for our core multi-family borrowers.

HUD remains a strong source of capital for new construction loans in healthcare, particularly as banks pull back on construction lending and conduits in GE Capital are not there for healthcare lending. Overall, HUD has made many positive steps to improve its processes and cost of capital, and although our HUD originations decreased by $33 million quarter-over-quarter, we hope to see origination volumes grow in the second half of the year.

We entered 2016 expecting our transaction volumes to follow a more traditional pattern this year with slower first and third quarters and increased volumes in Q2 and Q4. We have a strong pipeline of deals in place for Q2 and believe we will do 25 percent to 30 percent of our annual origination volume during the quarter. With that, I'll turn the call over to Steve to discuss our financial results. Steve?

Steve Theobald: Thank you, Willy and good morning everyone. Willy gave an excellent summary of the market conditions during the first few months of the year. We're very pleased with our first quarter financial performance and I will use my time to go through the highlights of the quarter and what we expect to see during the remainder of the year.

Starting on slide seven, we earned $0.50 per diluted share, which is down 24 percent from last year's exceptional first quarter. As you will recall, last year we experienced unprecedented deal flow in Q1 including $1.1 billion of financing volume related to two large portfolios pushing us to then record volumes and record earnings.

By any other historical standard, this quarter's deal flow was strong particularly in light of the market volatility that's surrounded the start of the year. Underpinning the financial performance for the quarter was an increased gain on sale margin and increased revenues from servicing fees and interest income, each of which I will talk about in a moment.

These factors drove strong adjusted EBITDA of $32.4 million during the quarter, down only slightly from last year's $35.4 million. Return on equity was 13 percent in the quarter, at the lower-end of our target range and down from 20 percent in the first quarter last year as a result of lower earnings and higher average equity year-over-year.

Gain on the sale margin increased to 188 basis points during the quarter from 167 basis points in the year ago quarter even though GSE volumes declined from 77 percent of our loan origination volumes to 60 percent in the quarter. Two factors drove the increase. First, our results in the prior year were influenced by the previously mentioned large portfolios we originated.

As we have discussed in the past, larger transactions typically yield lower gain on sale margins as they have lower origination and servicing fees as a percentage of the loan balance. As you can see on slide eight, our average transaction size declined from $23.3 million in Q1 2015 to $14.3 million in Q1 2016 as the first quarter of this year was characterized by standard flow business in the absence of any large portfolios.

The second factor driving the increase in gain on sale margin was the increased percentage of fixed rate versus floating rate business and in particular the increased percentage of fixed rate Fannie Mae business we did this quarter. So far this year, the distinct operating models of Fannie and Freddie have created a difference in the types of loans we are originating with each of them.

Freddie's model of aggregating loans until they are securitized exposes them to interest rate and credit risk during the aggregation period. In response, Freddie has been much more aggressive on floating rate deals and 43 percent of our loans with Freddie were floating rate in the first quarter 2016.

Fannie is not exposed to those same risks because of its single asset MBS model and has therefore been more aggressive on fixed rate deals resulting in 89 percent of our Q1 2016 Fannie Mae production being fixed rate.

Because fixed rate Fannie loans carry larger servicing fees with longer prepayment protected maturities, we recognized an increase in the mortgage servicing rights on our Fannie Mae loans in the first quarter 2016, which had a positive impact on our gain on sale margin.

As we look ahead, we continue to expect our gain on sale margin to be in the range of 160 basis points to 180 basis points as we anticipate credit markets and interest rates will settle and that we will win our fair share of larger portfolios.

Turning now to slide nine, total revenues were $94.2 million, a decrease of 16 percent from Q1 of last year. As I mentioned earlier, two sources of revenue growth were servicing fees, which increased 18 percent to $32 million and net interest income, which increased 63 percent to $8 million.

As shown on slide 10, the increase in servicing fees was due to the $5 billion year-over-year increase in the servicing portfolio along with an increase in the weighted average servicing fee from 24 basis points to 25 basis points. All told, our servicing portfolio generated over $37 million of revenue in the first quarter, a 13 percent increase over the prior year.

Net interest income increased primarily due to the increase in average loans held for sale during the quarter as we ended 2015 with $2.5 billion in loans held for sale on the balance sheet. We don't expect net interest income to remain at this elevated level in Q2 as we ended the quarter with a significantly lower amount of loans held for sale.

Turning now to slide 11, total expenses for the first quarter were $70.1 million, 9 percent lower than Q1 last year. Personnel expenses were down 15 percent from first quarter 2015 due to lower variable compensation. Personnel expense as a percentage of revenue was 36 percent in the quarter unchanged from 36 percent in Q1 of last year.

We expect that percentage to increase over the course of the year as production increases settling at around 40 percent for the full year. All other expense categories were down slightly year-over-year with declines in professional fees offsetting the increase in amortization and depreciation expense.

Credit quality remained strong during the quarter. We recorded a net provision benefit of $400,000 due to a reduction in the number of loans on our watch list and the decline in the outstanding balance of the interim loan portfolio. We had no delinquent loans in our at-risk portfolio and our concentration in energy dependent markets remains de minimis.

Operating margin for the quarter was 26 percent compared to 32 percent in the first quarter of last year. We feel confident about our operating efficiency even in a relatively low volume quarter like this one and still expect a full-year operating margin to be in the mid-to-upper 20 percent range.

During the quarter, we began repurchasing shares in accordance with the $75 million share buyback authorized by our Board of Directors in February. During the first quarter, we repurchased 275,000 shares for a total of approximately $6.5 million and plan to continue opportunistically repurchasing additional shares over the remaining course of this year.

As shown on slide 12, we ended the quarter with nearly $100 million of cash to support our ongoing repurchases, growth in the interim loan portfolio, and potential M&A activity. We see attractive opportunities to deploy capital to meet our financial goals and generate shareholder value.

We are very pleased with our first quarter performance and with the market coming back in late March and April, we are reiterating our 2016 goals as laid out on slide 13, $0.5 billion in revenue, double-digit earnings per share growth, and mid-to-high teens returns on equity. Thanks for your time and attention this morning. I will now turn the call back over to Willy.

Willy Walker: Thank you, Steve. I'd like to reiterate Steve's comments about adjusted EBITDA and the strength of our business model. $0.50 of earnings per share and $32.4 million in adjusted EBITDA during the quarter when total transaction volume was only $2.6 billion, underscores the value of our servicing business.

We have built our Company to provide our clients with the best financing solutions available when they need them and they have needed a lot of them over the past several years and is our expectation that demand will remain strong going forward.

We have established a goal of growing our sales force by 25 percent this year, which would increase the number of investment sales and financing professionals from just under a 100 today to 120 by year-end. Underpinning our loan origination and investment sales businesses is a servicing business that has grown dramatically over the past five years to now provide significant, consistent, and highly profitable revenues.

Our $51 billion servicing portfolio has a weighted average remaining life of 9.4 years, a weighted average servicing fee of 25 basis points, and is 88 percent prepayment protected. If the borrower decides to pay off the loan, they send us a check for the future servicing fees they are contractually obligated to pay.

This business is very similar to an asset management business and we intend to continue scaling it as rapidly as possible. This will include continued growth in the servicing portfolio through organic loan originations and the potential acquisition of third-party originated portfolios.

It will also include scaling our balance sheet lending up to $400 million and finally it will include asset management fees we earn from funds we raised from third parties to invest in all components of the commercial real estate capital stack, first trust debt, mezzanine debt, preferred equity, and equity.

On a Walker & Dunlop's greatest strengths is the large distribution channel we have built across the country that are originated over $17 billion in total transaction volume last year.

Our extremely strong underwriting and asset management track record coupled with our outperforming investor returns as a private and public company provide us with valuable component parts to build a large asset management business around our scaled real estate financing platform and that is what we intend to do over the coming years.

We are excited about what we see ahead. Single-family housing starts to continue to plot along around 450,000 per year, far less than half the volume at their peak in 2006. The combination of anemic wage growth, tightened consumer credit standards, and $1.2 trillion of outstanding student debt will keep potential homebuyers as renters for longer than they would probably like.

This economic reality coupled with increased household formation should keep rents and occupancy at healthy levels maintaining positive fundamentals for multi-family properties, which will drive investment sales and financing activity. With respect to our credit portfolio, at the end of Q1, we did not have a single at-risk loan in our servicing portfolio 60 days delinquent.

We have made great loans to great borrowers and at this time in the cycle, our credit exposure could not look better. There are certain markets we are watching closely where exposure to oil and gas or revolving demographics make us cautious, but as we have said many times before, there are great real estate deals in bad markets and bad real estate deals in good markets.

The strength of our business model is that we carefully underwrite, visit, and actively monitor every asset we lend on. Another positive for our business is that investor spreads for commercial real estate paper have come in dramatically since the middle of Q1 and currently present a wonderful borrowing opportunity for our clients.

Spread tightening has reinvigorated the CMBS market, which must get up and running at a $5 billion to $10 billion per month origination pace in order to meet the capital demands of CMBS maturities over the next two years. Fannie and Freddie continue to operate at record origination volume levels and given the current regulatory and legislative landscape, appear to have room to continue growing and meeting the market's needs.

Banks, traditionally both a partner and competitor to Walker & Dunlop continue to lend on commercial real estate, but have a regulatory landscape that is requiring more capital and more oversight than ever before creating more opportunities for non-bank lenders like us.

And life insurance companies who have been long-standing partners of Walker & Dunlop and consistent sources of long-term capital for commercial real estate are putting record amounts of capital into commercial real estate loans, driving increased brokerage volumes in our Capital Markets business.

There are some near-term concerns we see with regard to rates and capital availability. The Fed will likely increase the Fed funds rate potentially generating market volatility that could impact investment sales activity and borrowing by our customers.

Dodd-Frank risk retention rules on CMBS began on Christmas Day of this year and it's not yet clear how the market will evolve with respect to securitization structures and whether existing [BP Spires] will remain in the market or how many new entrants will be needed.

And finally, the markets will need to digest plenty of political uncertainty as we get closer to the November 4 elections, but all of these risk factors are known and what is also known is that a record amount of commercial real estate debt needs to be refinanced over the next two years.

And longer-term that commercial real estate remains a very attractive asset class particularly in a low interest rate environment that could see increasing levels of inflation. Walker & Dunlop is extremely well positioned to meet the markets' demand for debt and investment sales over the next two years and to continue growing to become the premier commercial real estate finance company in the United States.

I want to thank my colleagues at Walker & Dunlop for a strong start to the year. Everyone at our Company is extremely busy right now and it's thanks to the wonderful people and culture we have built that our clients continue to trust us with their financing and investment sales work.

Thank you to everyone who has joined us on this call this morning. I will now ask the Operator to open the line for questions.

Operator: The floor is now open for questions. At this time, if you have a question or comment, please press "star 1" on your touchtone phone. If at any point, your question is answered, you may remove yourself from the queue by pressing the "pound" key. Again, we do ask that while you pose your question, please pick up your handset to provide optimal sound quality.

Our first question comes from Cheryl Pate with Morgan Stanley. Please go ahead.

Cheryl Pate: Hi, good morning. I just wanted to touch on the Freddie Mac volumes a little bit more. Just wondering, I know there is some sort of differences in revenue recognition in terms of deliveries versus when you booked the revenue. I wonder if you can help us think through the nice share gain in first quarter and how much of that might spill into second quarter in terms of were there delayed deals on the Freddie side in particular?

Willy Walker: So a couple of thoughts on that to the degree I can. The first thing is I would reiterate the comments that Steve and I both said, which is that the pipeline for Q2 looks very good. The second thing I would say is that Freddie had quite a significant volume of carryover business from 2015 that was delivered to them in 2016 and so a significant volume of their January and February was carryover business.

Quarter-to-quarter, I don't think you'll -- I mean they are in sort of if you will, normal origination and delivery processing now. Year-on-year, as you know, Cheryl, they have tended to have a number of large deals which depending on their overall volume and where they are on the cap, they will either hold and have delivered the following year or a cake in the calendar year.

So, Q1 to Q2, I don't think you'll see any of that cause there is no reason for them to do it. The one other comment I would make on Freddie's volumes is from their earnings yesterday morning of the $18 billion that Freddie did in Q1, 36 percent of their volume was excluded from the FHFA caps.

So the actual origination volume for Q1 on Freddie was just over $12 billion, which is very close to what they did in Q1 of 2015. So the 36 percent that was excluded from the cap in Q1 is a significant percentage and clearly as it relates to overall cap volumes for 2016 shows that they still have plenty of space to go.

Steve Theobald: And Cheryl just to help you square the circle here a little bit with respect to our numbers. I remember that we locked and closed a very large seniors housing portfolio in the fourth quarter and that carried over and was delivered to Freddie in the first quarter.

Cheryl Pate: OK, got it. Thanks. Those are very helpful comments. Secondly, just on the servicing portfolio, this was something that we've seen obviously great stability in the margin over the last several years and now a bit of a tick up -- given some of the Fannie dynamics. Is this sort of what you would expect the new normal to be given the skew of originations going forward?

Willy Walker: No. I would reiterate a couple quick things that Steve said. The first is that we're guiding to 160 basis points to 180 basis points as our average gain for mortgage banking activities. As you know Cheryl, that number is highly dependent upon the mix of business.

So, in a quarter where you're doing larger volumes of capital markets or Freddie Mac versus Fannie Mae, even though the core Fannie Mae business may have a higher servicing fee blended into our overall origination mix, it sits in that band that we've given guidance to.

I would then, specifically to Fannie Mae, reiterate the point that Steve said, which is that in the first quarter we clearly saw Fannie focused on fixed rate deals and Freddie very focused on floating rate deals and it was the first time we really saw the two of them sort of, if you will, take different sides where if you had a floating rate deal, you really, really wanted to be working with Freddie Mac and if you had a fixed rate deal, you really, really wanted to be working with Fannie Mae.

I think that, that will probably stay in the market throughout the year and a lot of that has to do with their securitization models where Fannie is doing one-off mortgage-backed securities and doesn't take the interest rate risk between getting the loan delivered and the actual securitization.

Whereas where Freddie is pooling into their large case series deals, they are taking the interest rate risk and as a result of that, they are far more inclined right now to be focused on floating rate debt rather than fixed rate debt. So I would think that, that probably remains for the year.

But one never knows. As we have seen in the past, they both ebb and flow from the market at various times and we'll get, if you will, hyper competitive on a certain asset class, on a certain type of loan, and on a certain type of structure and then the other one kind of steps in and they kind of go in and out of the market, but my general sense would be we will probably see Fannie stay focused on fixed rate and if that is the case, servicing fees should remain very strong on Fannie Mae.

Steve Theobald: The great news there as you know from the mix of business we've done over the last couple of years we have customers who line up strongly on both sides of that fence wanting either floating or fixed rates. So now we have I think really good clarity on how to get the best execution for them and it's going to make our customers all that much happier.

Cheryl Pate: Got it. Just one last one for me, if I can, on the buyback. You commented that you expect to continue to be opportunistic on the buyback. Just wondering what sort of market conditions would have to persist to become more aggressive on the buyback versus the organic growth opportunities? Thanks.

Steve Theobald: So Cheryl, I think on the -- if it's a trade-off between buyback and organic growth, I think we feel strongly enough about our cash flow that we don't really have to make a choice between those two.

We have more than enough cash to continue to sustain the buyback program as well as invest in organic growth in the business and the cash flow that we expect to generate over the course of the year would as I said support both of those activities.

I think where you would see potentially differences if we saw an M&A opportunity, the required significant upfront cash component that, that would be something that would potentially cause a trade-off and then obviously where our stock is trading at, at any given time is going to dictate how much we want to be pushing the buyback lever or not.

Cheryl Pate: OK, great. Thanks very much, guys.

Operator: Our next question comes from the Jade Rahmani with KBW. Please go ahead, your line is open.

Jade Rahmani: Thank you very much. Beyond construction lending, are you seeing banks curtail lending on stabilized multi-family and do you think that this in conjunction with CMBS could lead to a potential liquidity crunch?

Willy Walker: Jade, banks continue to be quite active as I said in my remarks in both floating and fixed rate short-term lending. And so there are clearly those banks that have a lot of exposure to commercial real estate and I know that the regulators are watching that, but the real area that we have seen is in construction lending and that is pretty much across to all markets and pretty much impacting all borrowers.

Even our largest most sophisticated and established developers are having a difficult time getting construction financing clearly at the same loan to cost and rate terms that they've gotten it in the past.

And then to your second question as it relates to overall liquidity in the market, CMBS has gotten back up and running and the last six weeks have seen spreads tighten a lot and there is very consistent deal flow at both our conduit and at competitor conduits. So, as of right now, I do not think that there is a liquidity concern per se in the market.

Steve Theobald: I would also add to that, Jade, I think one of the ramifications of constraints in the construction loan or one of the things we're seeing is instead of having two or three projects going at once with a bank that the banks are requiring the developers to pay off the existing construction loans before they will advance on a new project for that developer, which at the margin, creates more opportunities in the bridge lending space to do some lease up plays and bridge that period of time until the property is stabilized and ready for permanent financing. So, we think it could create some additional opportunities down the road for us and others in that arena.

Jade Rahmani: In terms of how the banks are behaving, are you seeing them utilize agency securitization increasingly as a response to the heightened regulatory attention on multi-family and just broader CRE concentration?

Willy Walker: That's a tough question to answer. I don't know that. If you look at our market share, we're right where we want to be from a market share standpoint. So, the competitiveness of the market is sort of competitive as ever and I honestly don't have any -- and I don't believe any banks release Jade what they're holding on book versus securitizing off to the agencies, but I would put forth to you, it probably makes net-net the agency execution more valuable to those banks that have it because they have the opportunity, their securitized off of the agencies are hold on book, but there are clearly also those, the mega banks who, right now are holding as much as they can on balance sheet.

They need the assets and they want to originate to hold and they like the characteristics of the multi-family market. So I think for everyone who is sitting there saying, I want to be careful and not use names, but there's a regional bank we know who is a competitor of ours, which has a ton of multi-family on their balance sheet and the regulators looking at it to see whether they're over-weighted.

There is also a too-big-to-fail bank that isn't securitizing any of it and is getting as much as they can for their balance sheet. So I really do believe it depends on the overall capital structure of the bank and what they're looking at as it relates to overall exposure to CRE.

Jade Rahmani: In terms of the strategic outlook, you mentioned a few things that I thought were interesting. One is the plan to grow headcount or sales professionals by as much as you indicated, 25 percent. Secondly, the idea of creating a large asset management platform with third-party capital down the road and finally, I think you touched on potential M&A.

Can you just provide additional color on those items on the plan for increased headcount. At this point in the cycle, how do you plan to maintain discipline in terms of incentive compensation and just M&A, is there any change you're seeing in terms of deal flow in the marketplace?

Willy Walker: Right. I think first of all, as it relates to our growth -- the growth of our platform is being generated in two areas. One is through M&A, which we've been very successful at going out and buying companies and the second has been hiring of exceptional origination talent.

And by putting out there the 25 percent growth this year, it's saying to investors that we see a great opportunity to continue to grow our platform and our platform will only grow through M&A activity or through adding additional investment professionals who can go out and find new deals and it will help us grow.

As it relates to where we are in the cycle, we feel very good about where we are in the cycle and as I tried to lay out in my remarks, the fundamentals of the multi-family market, which was 80 percent of our financing activity in 2015, the fundamentals of multi-family look extremely good.

There is, if you look basically across any of the various markers as it relates to GDP growth, new supply, household formation where rents are, where occupancy levels are and if you go to the earnings comments of some of the larger publicly traded multi-family focused REITs, there is a very good feeling that the multi-family sector has plenty of legs left to it and that the typical sort of six to eight year real estate cycle is from many people's view unlikely to set in as it relates to the multi-family market.

So, we believe adding origination talent not just in our multi-family finance group, but across the platform at this time is a very good move. The second thing that you asked about is it relates to asset management. Our access to deal flow and this over $17 billion of transaction volume that we originated last year is a fantastic distribution network.

Unlike some of our competitors who are just brokerage firms where they're taking deals and having other capital sources do the underwriting and do the asset management and do the servicing, we have the combination of both a great distribution channel, but then also deep, deep, deep credit culture inside of Walker & Dunlop and our track record speaks for itself both from our Fannie Mae lending over the last almost 30 years as well as all of the balance sheet lending we've done.

So we believe that there are the component parts here at Walker & Dunlop to go out and raise third-party capital and to have those funds feed into our distribution network. It does not mean that we will stop brokering deals off to third parties because life insurance capital, bank capital, and CMBS capital, for the appropriate deal, at the appropriate structure, will meet the mark and will be put into the deal.

But if we are successful and this has been a strategy for quite some time Jade -- if we are successful, we've gone out to build out the origination platform and now it's time to continue to build what we call proprietary capital. And so we are very focused on that effort and we will continue to head down that path.

Finally, as it relates to M&A, as our history shows, we have been very successful at both acquiring companies, integrating companies, and creating value from acquiring companies ever since we acquired Column from Credit Suisse back in 2009. And we have an extremely talented business development group and we are constantly out looking for opportunities to grow our platform and bring in talented professionals.

So, nothing in all that is really new. We wanted to set out, both reiterate the strategy on the asset management and on the M&A side of things, but then also put a marker out there as it relates to what I would call quote unquote organic growth and by organic growth, I mean bringing on new people to the platform, not growing through mergers and acquisitions.

Jade Rahmini: I appreciate the color, thanks for taking my questions.

Operator: Our next question comes from Steve DeLaney with JMP Securities. Please go ahead. Your line is open.

Steve DeLaney: Good morning, everyone, and just a couple things to follow-up here. Willy, I was intrigued by your comment regarding the possibility of maybe some bulk servicing portfolio acquisitions. When you said that, were you specifically referring to GSE multi-family servicing pools and have there been any precedent transactions of that type recently? Thanks.

Willy Walker: Steve, first of all, to your question as it relates -- I would broaden that to GSE or HUD servicing. That servicing, in our view, has real value to it. The life insurance company in CMBS servicing has value, but not nearly the value that the GSE and HUD servicing has.

So, I would sort of define it as it's broader than just GSE, but if we went out and bought a big life insurance company servicing portfolio, I'm not so sure that that fits with our strategy. The second piece to it as it relates to sort of …

Steve DeLaney: Any precedent transactions of that type in the marketplace?

Willy Walker: Sorry, thank you. As it relates to precedent transactions, we bought a portfolio at Walker & Dunlop back in 2000 from Mellon Bank. I think it was about $600 million portfolio back then. I'm quite certain that other portfolios have traded. As you know, as it relates to GSE servicing, you need to be acquiring an enterprise and you can't just buy the servicing portfolio.

So, if we were to go and do other M&A transactions like the acquisition of Column in 2009 or the acquisition of CW in 2012, GSE servicing would come across. HUD servicing is distinct in that HUD servicing portfolios have traded without, if you will, the license changing hands and because we are a HUD servicer, we could go out and buy HUD servicing without actually going and buying enterprises.

Steve DeLaney: OK. That's helpful to understand sort of the difference between the two and if that could be another way to deploy capital going forward. I do think the servicing aspect of your business is not fully appreciated by the Street for sure. And then, just I'd like to switch over to investment sales.

Obviously, a lot of excitement when you acquired Engler last year, lot of expectations I think for the ability to expand and grow that. I think the term you used was a national platform and I'm just curious, I've noticed a number of recruiting announcements recently, but I don't think I've seen one in the last several months about an investment sales position. So, could you maybe just update us on what's going on behind the scenes there that might lead to some growth and expansion of the investment sales platform? Thanks.

Willy Walker: Sure, Steve. We have spent a lot of time and a lot of effort in looking at and recruiting teams across the country. I will be honest with you in that our recruiting efforts have not been as successful as we would like to-date and I think that that's due to a number of factors.

First of all, we went after the best of the best and the best of the best at our competitor firms in many instances are locked in by long-term compensation that made it that switching to the W & D platform was something that either we weren't willing to pay them for or they weren't thinking that the value proposition was in their best interest.

I would say to you that we have continued to seek out teams and without getting ahead of ourselves, we remain focused on that and I would expect that we have things to announce throughout the course of this year as our recruiting efforts have success.

Steve DeLaney: OK. You still see potential there obviously but it's a matter of getting the right formula I guess in targeting the right prospects?

Willy Walker: I think that's right. I would say one other thing, which is that I think that when we did the majority of our recruiting, it was towards the end of 2015 when the market was incredibly robust.

Steve DeLaney: Yes.

Willy Walker: I think that the fall of in Q1 has allowed people to take a deep breath to understand that it's -- the investment sales volume isn't going to be at this torrid pace every single quarter. And that has allowed people to sort of take a deep breath and look at, OK, do I like where I am?

Do I think there is opportunity on a platform like Walker & Dunlop? And I will say to you that as well the success that we've had with the team that we brought across in the Engler acquisition and the strength of our multi-family financing platform only sort of shows itself stronger and stronger by the day.

And so we also have a better demonstrable track record of our investment sales partnering with our multi-family finance group to provide both sides of that value equation, if you will, to the client that over time becomes more and more compelling for people.

When we first went out after just bringing them across, to be honest with you, we were trying to figure out how to go to market with both of those offerings and we've now got that pretty well ironed out.

Steve DeLaney: Willy and Steve, thank you for your comments.

Operator: Once again, if you do have a question, you may press "star 1" on your touchtone phone at this time. Our next question comes from Charles Nabhan with Wells Fargo. Please go ahead. Your line is open.

Charles Nabhan: Hi, good morning. You alluded to some of the competitive activities taken by HUD during the quarter and I was hoping you could give us a better sense for how large that opportunity could be and how that plays into the competitive dynamic with Fannie and Freddie? I understand it's -- slightly, it's a different product, but is there any overlap and will that have any impact in the competitive dynamic there?

Willy Walker: So Chuck, if you think about overall financing volumes as we laid out in the call, it's our expectation that both Fannie and Freddie do close to $50 billion each of multi-family financing this year. I believe HUD did 12 last year. So as it relates to, if you will, market share and order of magnitude as far as their impact on the multi-family market, the difference between Fannie and Freddie and HUD is dramatic.

Now HUD did do over $20 billion in financing I want to say back in 2010, the last time they did over $20 billion, maybe they did $20 billion in 2011, but HUD has been sort of in the low-teens of billions over the past several years and so from just a pure market share standpoint not nearly the type of participant that Fannie and Freddie is.

The second thing is that we have set out a goal for quite some time to try and get our HUD originations over $1 billion on an annual basis. We have not done that for the last several years, but as it relates to order of magnitudes, if you go back to where we were last year, last year we did $11.3 billion with Fannie and Freddie and we're talking about as a goal to try and get our HUD originations to $1 billion.

So as it relates to overall Walker & Dunlop, it's very profitable business and as we do more of it, we love it and it's great, but we also have to keep in mind that it is a smaller, if you will, business group for us than the Fannie and Freddie. The final piece as it relates to specific products, as we mentioned in our comments, on the construction side, with banks pulling back from multi-family construction, there is no doubt that the HUD D4 product, which is their construction product is very much back on the table.

For the last two years to three years, if you'd walk into a customer and say to them have you thought about a HUD loan, unless they were a serial HUD borrower who has done a lot of HUD financing in their past, they would sort of roll their eyes at you and say, no, I've got my bank financing, I'm all good, thanks very much for the offer.

Today you say, have you thought about HUD financing? And they say, tell me about it. So there's clearly been a shift there and then on the refinancing side, most of the refinancings that go to HUD are already HUD loans, but the increased cycle time has made it so that to refinance the loan with HUD isn't quite the time sync that it has been in the past and it's also more competitive pricing, which makes it compete with both the agencies as well as bank CMBS and other types of financing.

Charles Nabhan: Sure. And as a follow-up, I wanted to shift over to the interim lending business and just get a better sense from what you're seeing in terms of market conditions from a pricing standpoint and from a competitive standpoint as well?

Steve Theobald: So Chuck, on the interim side, we're still seeing pretty decent deal flow. I think while we didn't close any loans in the first quarter, we've already closed several here in the second quarter already and the pipeline behind that is pretty strong. We're still seeing good credit fundamentals.

I think the market conditions that made value add acquisitions attractive to people continue to exist and so we're still seeing good deal flow on that front. And as I mentioned to one of Cheryl's questions, the pullback in construction lending in banks creates additional opportunities in the interim space.

And so we're still pretty bullish about that as well as Willy mentioned, our portfolio continues to perform really, really well and we love the fundamentals and the returns we're getting on that. So, our intent is to continue to put capital behind that portfolio.

Charles Nabhan: Great, thank you.

Operator: Our next question comes from Brandon Dobell with William Blair. Please go ahead. Your line is open.

Brandon Dobell: Thanks, good morning, guys. On the CMBS effort, called out $200 million, let's call it kind of a target or a threshold, maybe some color on why you think that is the right number, the good number given what seems like some pretty good opportunities out there for you guys given maturities that are coming?

What's the reasoning behind that and what would cause you to either pull that back dramatically or step it up to $300 million or $400 million?

Willy Walker: Yes. I'll start and you can jump in. Brandon, I think ultimately it comes down to velocity of securitization and how quickly we can get loans off our balance sheet and into a securitization transaction.

So, we are highly confident in our underwriting and our ability to manage credit risk, but we have zero control over the market and the volatility in CMBS pricing and we found that really the only effective way to hedge that risk is securitizing loans as quickly as possible.

So, it's a combination of how much capital do we want to deploy, how much aggregation risk do we want to take on, and how quickly can we get loans securitized. So, if the markets remain -- they've been fairly stable here the last, call it two months, and in that kind of condition then, we are highly confident and feel good about the origination target and if there's an opportunity to go above that, that's great, but if the markets are volatile, we'd likely look to slow that down.

I think part of the reason why we only did $63 million of origination volume in Q1 was the markets weren't really conducive to us taking a lot of aggregation risk.

Brandon Dobell: That's definitely helpful. OK. Maybe trying to tie together the pace of the Fannie Mae originations Steve with your comments around the gain on sale expectations for 160 basis points to 180 basis points.

Given the comments, it would feel like as Fannie in the fixed rate loans kind of continue to the balance of the year, that should put I guess upward pressure within that range, maybe guess what I'm trying to get at giving your outlook or expectations for Fannie and Freddie trajectories for the balance of the year.

Maybe try and frame out your I guess your best case or your most likely case for where you end up on that 160 basis points to 180 basis points. I know there's a lot of assumptions that go into that, but given it sounds like you feel pretty good that both Fannie and Freddie are going to kind of stick with what they were doing in Q1, should that inform I guess the where you end up on that range for the outlook for the year.

Willy Walker: I think that's right, Brandon. I think we were heavily weighted towards Fannie in the first quarter and I think that along with the stronger economics for most of that business being fixed rate pushed us above that range. I think as we do more Freddie business, which is our expectation over the course of the year that will naturally bring that down.

As we also mentioned, there were no large portfolios in the first quarter and our expectation is we're going to get some large portfolios here for the rest of the year and that also naturally brings that back into the range.

So whether it's at the high end of the range or the middle of the range or what have you, I think it's going to depend on ultimately what that mix is but the reason why we're still comfortable that the range is 160 basis points to 180 basis points is the reasons I just mentioned.

Brandon Dobell: Yes, OK. And then finally on increasing the headcount and investment sales, maybe Willy as you think about the structure of, I guess the offers the compensation packages that you're thinking about for some of these producers out there.

How willing are you to go down the path of kind of multi-year deals or using equity as part of the compensation package. I guess I'm just trying to get a feel for flexibility or range of options that you're putting out there for these people?

Willy Walker: You're sounding like a head hunter there, Brandon, almost.

Brandon Dobell: No, thank you.

Willy Walker: I'm waiting for people to read the script and get a lot of inbound calls from people. It's a perfectly fair question. Here's the issue. First of all, the headcount number we put out there, I want to underscore the fact that we are looking for financing professionals as well as investment sales professionals.

So that growth in headcount is not in any way all focused on investment sales. The second thing is that we do believe and particularly, you have to remember our investment sales is multi-family focused. So, we're not going out and trying to hire people for office or retail or hospitality right now.

We're only focused on multi-family. And so, our feeling as it relates to where we're in the cycle on multi-family says to us that we have many quarters to go and years to go as it relates to strong fundamentals in the multi-family market and our competitive positioning to not only take benefit of upswings but also stay very, very competitive in either a flat or declining overall market.

And so, as such, we feel good about going out and getting people along with long-term incentives. You mentioned that we have stock as a form of compensation, which is somewhat unique, not obviously wholly unique in the sense of the CBEs and the HFs out there.

But against some of our private competitors, that's clearly a tool we have that some others do not, but as you also know Brandon, most of these people are very cash compensation focused. So, as much as you might have a structure that looks great to you or to me as it relates to long-term compensation, most of these very, very effective and successful originators are very focused on sort of the cash compensation and cash and carry.

Brandon Dobell: OK, that's helpful. All right, guys, thanks a lot.

Operator: Our next question comes from Jade Rahmani with KBW.

Jade Rahmani: Thanks for taking the follow-up. I just wanted to ask about your earnings guidance, which as you noted calls for double-digit growth in 2016. I guess, thinking about it mechanically, if I assumed 10 percent growth in 2015, it then implies a pretty steep quarterly average for the balance of the year of I think about 80 cents a quarter. So, am I thinking about that correctly and if so, is the main driver the headcount growth that you are targeting?

Willy Walker: So, your math is correct. And we have an overall business and an opportunity in front of us that we feel very good about, and that is why in Steve's comments we laid that out.

Jade Rahmani: Great, thanks so much.

Operator: We have no further questions at this time. I'd like to turn the call back to Willy Walker for closing remarks.

Willy Walker: Great. Thank you, everyone, for joining us this morning. I appreciate your time and interest and we wish all of you a very pleasant day. Thanks.

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

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