OPERATOR: This is conference # 020817walker

Operator: Welcome to the Walker & Dunlop fourth-quarter and full-year 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 at 11:30 a.m. eastern. The dial-in number for replay is 800-688-7036. The archived call is also available via webcast on the Company's Web Site.

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 touchtone 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 for optimal sound quality.

Lastly, if you should require operator assistance please press star 0.

It is now my pleasure to turn the floor to Claire Harvey. Please go ahead, ma'am.

Claire Harvey: Good morning. Thank you, (Erika). And thank you to everyone to joining us this morning. Thank you for joining the Walker & Dunlop fourth-quarter and full-year 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 Web Site and the recording will be available later this morning. Both our earnings press release and our Web Site provide details on accessing the archived call.

This morning we posted our earnings release and presentation in the Investor Relations section of our Web Site, 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 will reference the non-GAAP financial metric, adjusted EBITDA, during the course of this call. Please refer to the earnings release posted on our Web Site for a reconciliation of this non-GAAP financial metric.

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 describe our current expectations, and actual results may differ materially.

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 annual and quarterly reports filed with the SEC.

With that I will turn the call over to Willy.

Willy Walker: Thank you, Claire. Good morning, everyone.

Since Q4 and 2016 financial results were so incredibly strong, I thought we'd start the call with Steve discussing our fantastic financial performance. So with that, Steve?

Steve Theobald: Thanks, Willy. Good morning, everyone.

The fourth quarter finished off what was an incredible year of growth and profitability for Walker & Dunlop. That momentum has carried over to the start of this year, and we expect 2017 to continue our pattern of growth and record financial performance.

I will touch briefly on our fourth-quarter results, recap our outstanding 2016 financial performance and lay out our expectations for 2017. Let's start with slide 3. Fourth quarter was a strong finish to the year, with total transaction volume of $6.3 billion, a record for us. Included in the total transaction volume number is over $1 billion of investment sales activity, a quarterly record for that team.

We earned $1.16 per share -- a 73% increase over the $0.67 earned in the fourth quarter of 2015 and a record for quarterly earnings per share. We continued to see strong origination volumes with Fannie Mae as well as a surge in brokered volumes during the quarter, which contributed to a gain on sale margin of 224 basis points at the high end of the range we discussed during our last call.

The record volumes, strong gain on sale margin and continued growth in our servicing fees led to a 47% quarter-over-quarter increase in revenues to $178 million. Expenses for the quarter increased by 34% year-over-year, with the majority of that increase coming from personnel costs driven by the growth in our platform and increases in variable compensation.

Personnel costs as a percentage of revenue were 41% for Q4 of 2016, in line with the prior-year quarter, and our operating margin in Q4 was 34%, up from 28% in the fourth quarter of 2015. Financially, 2016 was the most successful year in the Company's history. We set a number of financial goals at the beginning of the year, all of which we achieved and in many cases blew away.

Let me spend a few minutes going through our key metrics, how we performed relative to our expectations and why we achieved at such a high level. A summary for these results is included on slide 4. I'll start with gain on sale margin. At the beginning of the year, we established an expectation for gain on sale margin of between 160 and 180 basis points, which we increased in the third quarter to 170 to 190 basis points an then finally between 190 and 230 basis for the fourth quarter. These ranges were based on an expected product mix, which early in the year assumed our Fannie Mae and Freddie Mac originations would be roughly equal. However as the year went on, our agency borrowers gravitated more towards fixed-rate loans and Fannie was the more competitive of the two GSEs when it came to fixed rate lending.

Our Fannie Mae originations were 42% of total financing volume at over $7 billion for the year. While Freddie Mac originations were 25% of the total at $4.2 billion. This mix of business propelled our gain on sale margin for the year to 219 basis points, a significant increase from the 179 basis point gain on margin achieved in 2015 when we did more Freddie then Fannie.

Operating margin for the year was 32%, well above our target of mid-20%. This outperformance is a direct result of the just-mentioned growth in our gain on sale margin as well as a 23% year-over-year increase in servicing fees, both of which helped propel revenues to $575 million for the year, 23% higher than in 2015.

Expenses grew only 17% year-over-year, as the benefits of scale and the growth in our servicing portfolio continued to drive efficiencies in our overall performance. Our return on equity for the year was 21% compared to 19% for 2015 and above our target of mid-to-high teens.

Earnings per Share of $3.65 grew 38% year on year, the third straight year of earnings growth in excess of 30%. We have built a solid track record of delivering strong growth and above average returns since going public in 2010 by effectively deploying capital and managing the business with a disciplined and focused approach all while maintaining our entrepreneurial spirit and culture.

Adjusted EBITDA is up 0.5% year-over-year, which might seem low relative to our overall earnings growth. However, there are a few specific reasons for this. First as we discussed in our last call, we decided to exit the conduit business in the fourth quarter after we determined that market conditions had changed from what we expected when we decided to take over full operation of the conduit in January. Including the $2 million of severance and other wind down costs incurred in Q4, our CMBS business lost $7 million in 2016.

Secondly a significant part of our revenue growth story in 2016 was a 44% increase in gains from mortgage servicing rights which we do not include in our calculation of adjusted EBITDA. This increase in MSRs will have a significant positive benefit on 2017 and beyond.

Finally, personnel expenses were up 23% year-over-year as we continued to recruit and acquire new originators to the platform and as our variable compensation has risen with our transaction volumes and financial performance.

Now that 2016 is behind us, let me give you some color on where you we think our key metrics go for 2017. I will start by reiterating what we said on our last call, that we expect to earn earnings per share by double digits again in 2017. There are a number of important drivers to how we achieve this earnings growth that are embedded in each of our other metrics.

First, we expect strong market conditions again in 2017. Based on Freddie Mac's most recent estimates, the multifamily market should continue to grow in 2017 and beyond. In addition, both Fannie Mae and Freddie Mac enter the year with no change to their caps and the ability to do as much qualifying affordable leading as possible.

This framework allowed the GSEs to originate over $112 billion combined in 2016 and there is no reason to believe they won't be able to do at least that much again in 2017. We also have added a significant number of new mortgage bankers and brokers to our Company, through recruiting and the recent acquisitions of the teams from Elkins and Deerwood.

These investments have increased the number of bankers and brokers by 36% since the middle of 2016, giving us further confidence that we will be able to grow our transaction volumes in 2017. Since the majority of new mortgage bankers are in our capital markets team, we expect that brokered volumes will grow at a faster pace than our other products, even though many of our capital markets producers originate GSE and HUD loans as well.

We expect to grow our GSE volumes year-over-year based on expected market conditions and because we have meaningfully added to our origination staff. In addition we still expect to do more volume with Fannie than Freddie in 2017, but do not expect that difference to be as pronounced as it was in 2016.

While we have typically seen borrowers gravitate towards fixed rates when interest rates are rising, large institutional and private equity investors still find floating rate financing attractive for their investment needs. As a result should we do more of that type of business, similar to what we did in 2015, we will see a shift in mix to more adjustable and perhaps to more Freddie Mac.

Finally, we expect growth in our HUD business year-over-year based on the trends in the second half of 2016 and our robust pipeline of deals. Based upon the mix of business we expect in 2017, gain on sale margin should be in the range of 180 to 200 basis points over the course of the year.

Our previous target for operating margin was mid-20%. We have meaningful outperform that level for two straight years based upon the additional operating leverage we get from growing our GSE lending to an average of nearly $1 billion per month and from the growth in our servicing fees. We expect both of those trends to continue and as a result we are raising our target for operating margin to a range of 27% to 32% for 2017.

Our long-term return on equity target remains in the mid-to-high to high teens. Our capital base continues to grow and at the end of 2016 stockholders equity was $610 million, up 25% from the beginning of the year. As earnings and employee stock compensation related issuance increased the overall balance, offset by the approximately $9 million of share repurchases we did earlier in the year. As mentioned in our earnings release this morning, yesterday the Walker & Dunlop Board reauthorized our share repurchase plan for up to $75 million of stock over the next 12 months.

We ended the year with $119 million of cash on the balance sheet and will continue to effectively deploy that capital into attractive opportunities to generate our targeted return. Lastly we expect our adjusted EBITDA to grow by double-digit percentage points in 2017 in line or perhaps even higher than earnings.

As I mentioned previously, a significant amount of our revenue growth in 2016 came from mortgage servicing rights. Those mortgage servicing rights essentially coil the spring for growth in future servicing fees, as the non-cash revenue turns into cash servicing revenue in future periods.

Our portfolio is now over $63 billion, with a weighted average servicing fee of 26 basis points, up two basis points over the last two years. That math the $164 million of servicing fees on an annual basis, a 16% increase over our fees for 2016, before we have even originated a single new loan in 2017.

With only $1.7 billion of scheduled maturities this year, we expect to continue growing the portfolio and increasing servicing revenues which in turn will result in strong growth in both earnings and adjusted EBITDA.

2016 was a tremendous year for our company, continuing our track record of growth and strong returns. We expect more of the same in 2017.

With that, let me turn the call over to Willy.

Willy Walker: Thank you, Steve.

We established a vision of creating the premier commercial real estate finance firm in the United States when we went public in 2010. And the financial results Steve just discussed reflect dramatic progress towards achieving that goal. We have consistently established annual financial, operational and strategic goals and executed upon them exceptionally well.

As slide 5 shows, since our IPO the compound annual growth rate of all of our major financial metrics have exceeded 30%. And investors in Walker & Dunlop's IPO have seen their stock price increase at a compound annual growth rate of 21%, which while not as dramatic as our financial performance, is still exceptionally strong.

What excites us the most is that the team we have built, the infrastructure we have invested in, the brand that we have cultivated and the clients we have pleased create momentum and opportunities to continue growing Walker & Dunlop at an impressive rate. We stated in our first earnings call that 2016 that we expected to have a slow Q1 but that we would grow earnings per share by double digits for the year.

Growing earnings per share 38% year-on-year is likely more than what most people think of as double-digit growth. But investors in W&D need to understand that we expect to grow earnings per share by over 10% every year.

We have grown EPS at a 37% compound annual growth rate since going public and given the adjustable market and W&D's defendable and market growing position, there is no reason to expect anything below 10% earnings growth for this Company until we see a material change in the macro economy or the team we have assembled at W&D.

At the beginning of last year, we also established the following goals: exceed $0.5 billion in revenues, return mid-teens return on equity, manage to a mid-20s operating margin, and grow our sales team to 120 sales professionals. We far surpassed each of those goals, generating $575 million in revenues, 21% return on equity, 32% operating margin and reaching 125 sales professionals.

That growth is impressive on its own, but it is even more impressive during a year in which the commercial real estate financing market is projected to have been up by only 2% to $515 billion and the multifamily financing market is projected to have grown only 13% to $282 billion.

Our recent growth has been among the highest in the industry because of our client base, team of financing professionals, business model and focus. As you can see on slide 6, while we have benefited from a growing commercial real estate financing market we have not been dependent upon it. Over the past three years as our business has scaled we have grown faster than the market.

And while macro trends are important, Walker & Dunlop is a high growth Company with a defendable market position that is in no way managing its business to rise and fall with macro tides. In 2016 we originated $16.7 billion of loans, a record and nearly double the $8.4 billion we originated in 2013. That is a compound annual growth rate twice that of the commercial real estate financing market over that three-year period.

We continued to invest in growing our loan origination platform last year through a combination of acquisitions, recruiting and internal promotions. We finished the year with 125 sales professionals, ahead of our goal of 120, and expect to add 16 mortgage bankers through the acquisition of Deerwood Real Estate Capital last week.

Two things are noteworthy about the additions to our sales force over the past year. First, most of the bankers and brokers we added did not materially contribute to our 2016 performance, so their impact on our growth is yet to come. And second, as we have added fantastic loan originators across the country their ability to sell our GSE and HUD loan products is dramatic, making them more effective bankers and brokers and impacting Walker & Dunlop financial results for the better. Walker & Dunlop finished 2016 as Fannie Mae's second largest lender, Freddie Mac's third largest seller servicer and a top 10 HUD originator.

Our market position with the GSEs and HUD is extremely strong and will only grow stronger as we continue adding loan originators and brokers to our platform. As we have grown transaction volumes in revenues, our costs have not inflated, even with the significant investments we have made in sales professionals.

For context, while we have grown loan originations at twice the rate of the market over the past three years, our operating margin has expanded from 23% in 2014 to 32% this past year. Revenue growth and margin expansion have produced a 44% compound annual growth rate for EPS over that same three-year period.

We will continue to grow dramatically in 2017, as slide 7 shows, Freddie Mac projects $300 billion of multifamily financing activity in 2017, up from an expected $282 billion in 2016. There is still a huge amount of dry powder sitting with private equity firms that needs to be invested in commercial real estate, which according to pre-Quinn as of November 2016 there was $239 billion of total capital waiting to be invested globally, up from $210 billion in December of 2015 with $100 billion targeted towards the United States.

Multifamily remains the largest, most stable and most desirable commercial real estate asset class for institutional investors. Second, demand for multifamily housing continues to grow, construction has been active the past couple of years and that new supply will need to be absorbed in 2017 and 2018. However, there is still a housing supply shortage and with rising interest rates the ability for average Americans to own a single-family home will only get more difficult. As well, there are 83 million Millennials, the nation's largest population cohort, who will drive demand for multi-family housing over the coming decade.

We expect the multi-family financing market to be extremely active between now and 2020, which presents a great opportunity for our business given our strong market position and exceptional team of financing professionals. Our business plan for the next four years includes three major components: continued growth of our debt financing and investment sales platforms, dramatically scaling our servicing portfolio and building an asset management business.

If we execute on our growth initiatives in each of these areas we will generate over $1 billion in revenues by the end of 2020. Let me walk through each of these initiatives and how they will contribute incremental revenues to achieving $1 billion.

We will continue to add bankers and brokers to our platform, targeting 15 to 25 per year. This should increase our annual transaction volumes from $19 billion today to between

$30 billion and $35 billion by 2020, adding an additional $100 million to $150 million of mortgage banking revenues. As transaction volumes scale to that level our servicing portfolio will grow commensurately.

We only have $11 billion of scheduled loan maturities in our servicing portfolio over the next four years. So by originating between $19 billion and $35 billion of loans over the year, and limited run-off in the servicing portfolio, we have a very clear path to growing the portfolio to well over $100 billion by 2020. FSIs, the servicing portfolio will generate an additional $125 million to $175 million of incremental revenues on an annual basis.

To achieve our goal of becoming the premier commercial real estate finance firm in the United States, we need to continue to expand our product offering to meet the increasing and evolving needs of our customers. That is why the asset management business is key to our future growth. We see a need to provide our customers with preferred equity, mezzanine debt, construction loans and bridge loans over the coming years, as the commercial real estate industry reacts to our evolving economy.

To date, we have solved for our customers financing needs by using our balance sheet or brokering the financing off to another source of capital. We want to control that capital and generate the origination fees, interest income and asset management fees that come from a scaled asset management business.

We have made significant progress towards forming our first joint venture in the space and hope to have something to announce this quarter. It is likely that the original collateral to go into that joint venture are some of the interim loans sitting on our balance sheet today.

We have originated over $1 billion of interim loans in the last four years without a single credit loss and this joint venture will allow us to do even more lending with similar origination and underwriting standards, but off Walker & Dunlop's balance sheet. This will be the perfect starting point to building an asset management business that by the end of 2020 we will hopefully have $8 million to $10 billion under assets under management and generate $80 million to $100 million in revenues. To grow a business of that size in the next four years, we will certainly need to be acquisitive, similar to the growth path we have taken to date with our core business.

In summary, if we execute on this business plan in the next four years we will add $100 million to $150 million in mortgage banking revenues, $125 million to $175 million in servicing fees and $80 million to $100 million in asset management fees, which at the high end of the ranges and along with the natural growth in other areas of our business, such as interest income and escrow earnings, would get us to over $1 billion in revenues by the end of 2020 with the same outstanding bottom line performance our business model is built to generate.

2016 was an incredible year where our scale and business model combined to produce incredible results. I cannot thank and congratulate my colleagues at Walker & Dunlop enough for producing such outstanding results. We continue to raise the bar on ourselves and I am impressed and deeply appreciative of the determination and skill by which are team continually takes our business to the next level.

We have the brand, the clients and the market opportunity to continue scaling this business going forward. Our mission of building their premier commercial real estate finance Company in the United States will be achieved by continuing to provide outstanding results for our clients, our investors and our employees.

I would like to thank everyone for joining us on the call this morning. With that, I would like to turn the call over to the operator for any questions.

Operator: Thank you. 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 that you pick up your handset to provide optimal sound quality.

Thank you. Our first question is coming from Steve Delaney with JMP Securities. Please go ahead.

Steve Delaney: Good morning, and thank you for taking the question. Congratulations on a great quarter and record year.

Willy, obviously in the financing markets everybody is focused on the increase in long-term rates that we have seen since the election, not to mention the Fed in play. So I guess we're up 50 to 60 basis points on the 10-year treasury yield, I am just curious if GSE quoted 10-year fixed rates, have they tracked the move higher in treasuries or are they reflecting maybe any credit spread tightening that we are also seeing? Thank you.

Willy Walker: Good morning, Steve.

Steve Delaney: Good morning.

Willy Walker: Two things there, spreads have come in a little bit but not whole lot, but a little bit, because there has been a lot of investor demand for GSE paper. As it relates to sort of, if you will, tracking the move north, I think you saw at the end of 2016 right after the presidential election, a lot of people run to finance deals and that had an impact of getting a lot of activity in the financing pipeline towards the end of 2016.

We enter 2017 where the ten-year as you know, got up right around 2.60% and has backed off in the mid-2.40%s. I think it has settled into a range where the normal course of financing activity is happening today. The real question that still sits in many people's minds is what happens on the investment sales side of the equation?

We did not have any deals fall out on the investment sales side at the end of 2016 and now, most of those deals had money up on them and so for a buyer to wait for cap rates to adjust would be a very costly thing. What we're waiting to see is whether investment sales activity picks back up to where it was in 2016 or whether investors wait to see cap rates adjust to the new interest rate environment.

To be honest with you, it is a little early in the year to make any real projection on that, I would say from having been out at the National Multifamily Housing conference week before last, that there is a huge amount of activity in the multifamily space and that owners of multifamily properties are extremely active right now looking for places to deploy capital.

Steve Delaney: Got it, that is helpful. And then Willy, on page seven of the deck you show the forecast for modest growth per the MBA and Freddie Mac, I am just curious, that 6.4% year-over-year increase from $282 billion to $300 billion. Do you know the timing of that increase and whether that was done before the election or in the month of December?

Willy Walker: Their projections were revealed at the Freddie Mac conference down in Miami, I want to believe right after the presidential election if my memory serves me right, Steve.

The real driver there and I have spoken to their economist about this, is they believe that financing activity would slow somewhat and they don't have an actual number on it, once you get over a 3% 10 year, and so in the current levels there is no modification to their projections. But they have talked about over a 3% ten year and there may be some shift to their projections,

I would also, Steve, put forth that we tried to underscore in our comments, both Steve's and mine, that we've been growing far faster than the market and many people who have been investing in commercial real estate services firms seem to have an opinion that because volumes in the overall market might slow down that will slow down companies like Walker & Dunlop.

What we have shown over the last three years is that the scale that we have achieved and our defendable market position, that we are positioned to grow faster than the market, and I don't want to say regardless of what happens in the market because the market always has an impact on one's business, but we feel very confident that given our relative size today that, I don't want to say regardless of the market again, but we feel very good of our ability to continue to grow in almost any market conditions that are presented to us right now, given the overall macro economy.

Steve Delaney: Great, and then, obviously the second half of the year, or in the last six months or so you picked up Elkins and then just last week Deerwood, which appeared to be one of the larger acquisitions you made of a platform. Do you see in your future other similar opportunities for WD to grow through other rolling up other platforms? And are the operators of these smaller independent operations, do you sense a sense of urgency to maybe find a more permanent place for them to attach to?

Willy Walker: I got an e-mail this morning from one of Deerwood's competitors in the New York region saying congratulations, great acquisition and I am not sure whether I was reading into that this owner operator would like to talk to us about Walker & Dunlop potentially acquiring them or if he was just truly complimenting us on a great acquisition. But I do think as we continue to gain scale, smaller operators see the ability to compete with ourselves as well as the other large financing platforms as increasingly difficult.

As you know, several competitors of ours in the agency space have exited over the past couple of years because the big have truly gotten a lot bigger and it has been increasingly difficult to compete with the large-scale platforms. I would put forth to you that when we find opportunities like an Elkins or a Deerwood we focus on them very quickly and I think we have a great deal team to underwrite them and acquire them and then integrate them seamlessly into Walker and Dunlop.

With that said, as Steve mentioned, we have a significant amount of cash on our balance sheet, we have very little debt on the Company and our acquisition targets likely will be larger going forward rather than of the same size or smaller. We like these, what I would call tuck in acquisitions and the Elkins and Deerwood platforms are fantastic. With that said we also have the opportunity now to look at some larger companies that could move revenues and bottom line performance even more materially.

Steve Delaney: Great, and we should assume that your preferred structure in an acquisition is maybe something up front and then a earnout or some sort of a residual handcuff?

Willy Walker: That is a good assumption.

Steve Delaney: OK. Thanks for the comments, Willy.

Willy Walker: Thank you, Steve.

Operator: Once again, if you do have a question you may press star and 1 on your touchtone telephone. Next we will go to Jade Rahmani with KBW. Please go ahead.

Jade Rahmani: Good morning, thank you. The seasonal pattern in originations in 2016 was kind of unusual because of the spread widening, we saw a year ago and in 2015 there was sort of a steady flow. What do you think plays out this year given your comments about price discovery in the market?

Willy Walker: Jade, good morning, I hope you're doing well. As you well know we said last year that Q1 would be slow and it didn't seem as if many people listened to us say that; it kept expectations for us in Q1 quite high.

We see a normal Q1 evolving which is that Q1 and Q3 are typically our lighter volume quarters and Q2 and Q4 are our stronger quarters, and I would reiterate what Steve said and what I said, which is that we are looking at our business on an annual basis not on a quarterly basis and we expect to have double-digits EPS growth in 2017.

So the market looks very healthy for the entire year, but I would reiterate that typical cyclicality of the business which we reiterated last year in this call, which is Q1 and Q3 being slower than Q2 and Q4.

Jade Rahmani: In terms of the broker loan volume, do you expect it to grow this year by the same magnitude as the mortgage banker headcount you cited?

Willy Walker: So you're asking whether you can take 36% additional headcount and take our mortgage banking volumes and grow them by 36%?

Jade Rahmani: Sure.

Willy Walker: If that is your direct question, the direct response to that is no. I would put forth to you as Steve said, many of those people joined us throughout the year, the Deerwood team joined us last week, so I think it is unrealistic to expect that we would see that kind of growth in just our core brokerage volumes.

I think one of the things that both Steve and I talked to is that as we bring in mortgage bankers, the real, if you will, incremental value that we get is from bringing in people who typically have brokered loans off to third-party capital and joined the Walker & Dunlop platform and see how compelling and quite honestly, I don't want to say easy, but the fact that we have such scale with the agencies and with HUD, those products are much, much easier for them to sell and as a result of it is not only good for their business it is good for our business.

So bringing in what we call capital markets originators who have typically brokered deals off, and getting them to do incremental volumes of GSE and HUD originations is wildly accretive to our model.

Jade Rahmani: In terms of the brokered loan business, what percentage of servicing do you typically end up retaining?

Steve Theobald: Jade, this is Steve, it's usually in the 25% range.

Jade Rahmani: OK. In terms of these Fannie Mae numbers this quarter which were exceptional, were there any large loan originations that drove the outsized mix?

Willy Walker: No there were not. That is one of the very interesting things, other than the large deal we did in Q1 of 2016, all of our other business was what we would call flow business. There was one other --

Steve Theobald: That was Q2 that we did the large deal.

Willy Walker: Sorry, it was Q2, other than the large transaction we did in Q2 of last year, Jade, everything else was what we call flow business and obviously that is very beneficial to us as it relates to overall fees that come off of those deals versus the larger portfolios, which as you know typically will have a smaller origination fee and also smaller servicing fees because at a certain point we get capped out on the mortgage servicing rights that we get on the deals over a certain size with Fannie Mae.

Jade Rahmani: In terms of the mix this year toward Fannie driven by fixed rate, was there anything else that would explain the slightly lower market share on the Freddie Mac side?

Steve Theobald: The large deal point is really the driver of that, Jade. If you look at what got delivered to Freddie Mac in 2016, there were a couple of very large deals that got done, rate locked by some of our competitors in 2015 that got delivered in 2016.

Willy Walker: I would just reiterate what Steve said in his comments. The large institutional investors, the big private equity firms, because their average fund life is seven years and because they are not holding these assets for, if you will, generations like many of our other borrowers do, they typically opt for short-term floating rate financing because it gives them great flexibility.

So the large deals that have been done by the Blackstones and the Starwoods and others over the past couple years have typically had floating rate debt on them and Freddie Mac has been the stronger bid on those types of deals. So as you know in 2015, we did two large deals, one with Holiday and one with new seniors and those were both done with Freddie Mac and the rest of our Freddie Mac business in 2016 was much more flow business, not large pools with sponsors.

Jade Rahmani: OK. That is helpful. Finally on investment sales, the last three quarters there has been a meaningful uptick in sort of the range of volumes you are now running, is it reasonable to anticipate something in the $500 million to $1 billion range on a quarterly basis for that business?

Steve Theobald: From an annual perspective, Jade, that is probably a fairly wide range and I think we would be comfortable with that. I think you have to realize quarter is always slow for investment sales.

Willy Walker: I would add to Steve's comment, Jade, that we are extremely pleased with the growth we have seen on our investment sales platform since acquiring Engler in the spring of 2015. To have the type of 2016 that we had in our first full year in the investment sales business is nothing less than fantastic.

We have seen the value of it not only in the investment sales business but also in our financing business.

Jade Rahmani: Thanks very much for taking my questions.

Willy Walker: Thank you.

Operator: Thank you. We'll next go to Charles Nabhan from Wells Fargo. Please go ahead.

Charles Nabhan: Hi, good morning guys. I wanted to get some color around the operating margin this quarter, which is up 300 hundred basis points sequentially and is a little above your guided range for next year. I'm trying to understand, specifically what led to that outsized result this quarter.

Steve Theobald: Chuck, this is Steve. Plain and simple it's the amount of Fannie Mae business that we did in the quarter. As I mentioned in my remarks, at the end of the day our 219 basis point gain on sale margin for the year was driven by the fact that we did 43% of our volumes with Fannie in 2016. Because the gain on sale margin on Fannie is substantially higher than the gain on sale margin with Freddie, that just has a disproportionate impact on the overall.

Charles Nabhan: OK. That makes sense. You alluded to the operating leverage within the servicing business, and I was wondering if there's a threshold within that book where you would need to add additional fixed cost, whether it is facilities or significant investments in personnel.

Steve Theobald: Not really. It kind of works in a step function if you will, that at some point you build enough additional workload that you need to hire another person or two, but in our time horizon, looking out, Chuck, there is no reason for us to be building another facility or taking on any additional fixed costs. The team that we have got right now is pretty efficient.

Willy Walker: Chuck, if I could jump in behind Steve on that, I think one of the things you're focusing on as far as operating margin, is a very important one. And I would only say that to keep personnel expense as a percentage of revenues at 41% on the year given the number of originators and brokers we added to the platform during 2016, really shows the scale and the leverage we have gotten off of the model right now.

Because, that is, if you will, as it relates to overall cost, although all of them are on variable compensation plans, bringing on that many people and maintaining compensation expenses as a percent of revenue at 41% and then given the growth in revenues, allowed us is the operating margins that we produced in 2016. So, it's those combinations and as I mentioned in my comments, growing operating margin from 28% three years ago to 31% this past year really shows the leverage we've been able to create in the model.

Charles Nabhan: Great. And if I could sneak one more in, as you add more personnel and origination capabilities I'm curious if you are seeing if the incremental business is coming from new relationships, deeper penetration in your existing relationships or new geographies, I'm sure it's a bit of all of the above but wanted to get some color around the driving factors behind the incremental business.

Willy Walker: So Chuck, when you asked that question, Steve and I smiled at each other because we just went back and looked at our 10 largest clients over the last three years and interesting to us as we looked at it, fully half of our 10 largest clients over the last three years were new to Walker and Dunlop.

So, 50% of our 10 largest clients were new to Walker & Dunlop over the last 3 years so we have very clearly been able, as we have broadened this platform and brought new people on, we've also been able to bring on not only new clients but new huge clients. And that has been wildly valuable to us as we've grown the platform and grown our client base.

Steve Theobald: I would say, Chuck, it is also -- frame this up as why we are so bullish about our opportunity to grow here. When we look at the folks that we're brought onto the platform, whether it be recruiting or acquisition, we have had very little client overlap which tells us there is still a huge addressable market out there that we are not touching today, that as we continue to expand the number of originators on our platform we are getting access to more and more clients.

And while a lot of those clients will not end up in our top 10 customer lists, they are all adding incremental value to the company.

Jade Rahmani: OK. Great. Thank you for the color.

Willy Walker: Thank you.

Operator: At this time we have no further questions, so I would like to turn the call back over to Mr. Walker for any closing comments.

Willy Walker: Great. I'd reiterate my thanks to the W&D team for such a fantastic Q4 and 2016. Thanks everyone for participating in the call this morning and I wish all of you a great day. Thank you very much.

Operator: Thank you. This does conclude today's conference call.

Please disconnect your lines at this time. Have a wonderful day.