Walker & Dunlop
Q1 2019 Earnings Conference Call

May 01, 2019
08:30 AM EDT

Operator: Welcome to Walker & Dunlop's first quarter 2019 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 Kelsey Duffy, Vice President of Investor Relations.

Today's call is being recorded and will be 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 opened for your questions following the presentation. If you would like to ask a question at that time, please press star-one 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.

It is now my pleasure to turn the floor over to Kelsey Duffy.

Kelsey Duffey: Thank you, Catherine. Good morning, everyone. Thank you for joining the Walker & Dunlop first quarter 2019 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 a recording will be available later this morning.

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

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 website 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.

I'll now turn the call over to Willy.

Willy Walker: Thank you, Kelsey, and good morning, everyone, and thank you for joining us this morning to review our performance for the first quarter of 2019, our strongest Q1 financial results to date. We had a fantastic start to the year, driven by consistent execution by our team, continued benefits from our strategic growth initiatives, and a supportive macroeconomic environment.

During 2018 we invested considerable energy and capital to expand our mortgage banking and property sales platforms. These investments are reflected in first quarter 2019 revenues of $187 million, up 27% from first quarter last year, as shown on Slide 3. Strong top line growth, coupled with continued expense management and increased economies of scale and our servicing platform, generated diluted earnings per share of $1.39, a 22% increase over Q1 2018.

Steve will dive into our financial performance in more details in a bit, but one of the areas he will highlight are the cash-generating components of our business model and their dramatic growth in the first quarter, pushing adjusted EBITDA to over $60 million for the first time ever to a record $67 million, up 28% over Q1 of last year. Our first quarter financial performance is emblematic of how we have grown Walker & Dunlop by establishing long-term, highly ambitious goals, investing in people, systems and technology to achieve those goals, and then executing daily for our clients.

The commercial real estate industry was very active during the first quarter, and our team took advantage of the market opportunity by generating total transaction volume of $5.9 billion, a 23% increase year over year. The breakout of our quarterly total transaction volume is shown on Slide 4. Total mortgage banking volume was up 16% to $5.2 billion, led by Fannie Mae originations of $2 billion, up 60% from the first quarter of 2018.

Our Freddie Mac originations were also strong at $1.6 billion, a 19% increase from Q1 2018. 82% of our total Fannie and Freddie volume was fixed rate, reflecting borrowers' desire to lock in long-term financing as rates rallied in the quarter due to slower global economic growth and the dovish stance taken by the Federal Reserve with regard to future rate increases.

With historically high amounts of capital focused on investing in commercial real estate and the rallying rates during Q1, acquisition activity was very robust, driving Walker & Dunlop's Q1 multifamily property sales volume to nearly $700 million, up 106% from last year.

We made significant investments in property sales teams in Boston, Dallas, and Los Angeles last year, and with those teams fully integrated, we expect to see continued year-over-year growth in our property sales volume for the remainder of the year.

As anticipated and discussed in our last earnings call, our HUD originations were down year over year to $178 million due to the government shutdown that lasted nearly all of January.

Brokered debt originations of $1.4 billion was a healthy start to the year but down 9% from Q1 of 2018. We expect to see year-over-year growth in debt brokerage due to the significant investments we have made to add mortgage bankers with strong client relationships across the country.

Our principal lending and investing volume, which includes lending activities through our joint venture with Blackstone, loans we originate on our balance sheet, and loans we originate for separate accounts managed by our fund management platform, JCR Capital, totaled $76 million in the first quarter. This was a slow start to the year, but as our financial results this quarter show, the robust origination volume in Q4 of last year generated meaningful interest income in the first quarter. We will continue to use our balance sheet for selective lending opportunities to assist our borrowers and maintain our focus on deploying as much capital as possible in our Blackstone joint venture and separate accounts we manage.

We ended the quarter with $1.4 billion of assets under management, and JCR Capital is currently marketing its fifth fund, which will add new capital strategies for our bankers and brokers to sell.

As you can see on Slide 5, the sustained growth in our mortgage origination business has produced dramatic growth in our loan servicing portfolio, which has increased on average $10 billion per year, every year over the past 5 years, to $88 billion today. With a weighted average servicing fee of 24 basis points and a weighted average life of 9.8 years, our servicing portfolio continues to gain value at a rapid pace.

Servicing income, along with other non-transaction-related revenue streams such as interest income, totaled 44% of revenues in Q1 of this year. These cash revenues are earned regardless of our level of transaction activity in a given quarter and make our business model exceptionally durable.

I'll now turn the call over to Steve to discuss our Q1 financial performance in more details. Steve?

Steve Theobald: Thank you, Willy, and good morning, everyone. Our team kicked off 2019 with a very strong first quarter, delivering revenue and adjusted EBITDA growth in excess of 25%. Our financial results were powered by a great quarter of agency originations, the continued growth in our servicing portfolio and its related revenues, and the deployment of capital to our balance sheet lending program. Our key metrics during the quarter demonstrate just how good a start to the year this was.

Q1 EPS of $1.39 was up from $1.14 last year, an increase of 22%. Adjusted EBITDA was $67 million for the quarter, a record, and nearly 28% higher than Q1 '18. As you can see on Slide 6, operating margin was 30% and return on equity was 20%, both in the mid to upper end of our target ranges. Finally, gain on sale margin was 190 basis points, well above our target range and slightly better than first quarter of last year.

Let me highlight some of the important drivers of our Q1 results. Total mortgage banking originations of $5.2 billion included $3.7 billion of agency lending volume, that compared to $2.9 billion in Q1 '18. The increase in agency volumes contributed to the 21% year-over-year increase in mortgage banking gains, benefiting each of our key metrics.

In particular, the high volume of Fannie Mae business in the quarter pushed the overall gain on sale margin to 190 basis points, well above the target range of 150 to 170 basis points. This outperformance was driven almost entirely by business mix, as the overall margins on our various origination types was little changed from what we saw in the fourth quarter.

While we love doing 38% of our mortgage banking volume with Fannie Mae, this weighting is higher than our recent historical average, and we fully expect that we will do more Freddie and brokered business in the coming quarters. As a result, we are maintaining our gain on sale margin forecast range of 150 to 170 basis points.

Our 30% operating margin was unchanged from the first quarter of last year, reflecting both the increase in revenue and the increase in expenses from the investments we made in 2018, acquiring JCR and iCap and adding mortgage bankers and property sales brokers to the platform.

In addition, the increase in transaction volumes year over year has led to increases in both commission and bonus compensation expense this quarter compared to Q1 of last year. Personnel as a percentage of revenue increased slightly from 37% in Q1 '18 to 38% in Q1 '19, largely due to the aforementioned increases in variable compensation.

During the quarter we acquired a small technology company that has developed a variety of tools to automate components of the loan underwriting process. This team of talented software engineers and data scientists will help us drive efficiencies and speed to market, not just in our loan underwriting, but in our loan origination and servicing operations as well. We are super-excited about the capabilities this team brings to our company and look forward to telling you more about what we were up to in the future.

This quarter's expenses include $2.7 million of provision for credit losses compared to a benefit in the prior year of $500,000. During the quarter, we booked specific provisions for two loans: one a $21 million student housing deal in our Fannie Mae at-risk portfolio, and the second a $14.7 million loan on a memory care facility in our interim portfolio. We don't believe these two loans represent a new trend or signal a turn in credit, but rather are isolated instances in what otherwise remains a benign credit environment, as there are no other delinquent loans in our at-risk or interim portfolios at this time.

In addition, during the quarter the average LTV and debt service coverage ratio for new loans made was 65% and 1.39 times, consistent with what we have seen for the past few years, and still at levels we are very comfortable lending.

Our effective tax rate during the quarter was 21% compared to 16% in the first quarter of last year. As we have previously mentioned, for the last few years we have recognized additional tax benefits with divesting of employee stock grants due to the appreciation in the share price from the date of grant to the date of vest. Most of this benefit is recognized in the first quarter, as that is when the majority of our employee stock grants vest. This year that benefit amounted to approximately $0.11 per share compared to $0.13 cents last year and is the primary reason this quarter's effective tax rate is only 21%. Going forward, our effective tax rate for future quarters should be somewhere between 26% and 27%.

Turning to Slide 7, adjusted EBITDA achieved a record $66.7 million this quarter, an increase of 28% over last year, primarily driven by increases in origination fees, servicing fees, and interest income. The servicing portfolio grew to just shy of $88 billion, an increase of 16% over the year-ago quarter.

Interest income grew by 278% as decreases in agency warehouse interest income from an inverted yield curve were more than offset by increases in interest on escrow deposits, investments in pledge securities, and interim loans. We ended the quarter with $110 million of cash on the balance sheet, with another $255 million of capital supporting our interim loan portfolio.

The refinance and upsize of our term loan B in November of last year allowed us to increase our principal lending business through the use of our balance sheet on a short-term basis. As we discussed last quarter, our interim loan portfolio grew to nearly $500 million at the end of the year with an average remaining maturity of 8 months. The portfolio now sits at just over $470 million based on pay-downs during the quarter. We expect to continue recycling capital in this portfolio to deepen the relationship with our customers and provide additional opportunities for permanent financing in the future.

Our strong cash position and financial results also support our quarterly dividend payment. Yesterday our Board of Directors authorized a dividend of $0.30 per share, payable to common shareholders of record on May 17, 2019, representing a payout ratio of only 20% of net income. We are very pleased with our financial performance in the first quarter of 2019.

These results once again demonstrate the power of our unique business model, which couples a strong balance sheet with a growing servicing portfolio, providing us with the ongoing ability to both invest in our future and return capital to shareholders while also earning above-market returns on that capital.

I'd like to thank you all for joining us this morning, and I'll now turn the call back over to Willy.

Willy Walker: Thanks, Steve. Housing finance reform became a topic of discussion on Capitol Hill almost immediately after Fannie Mae and Freddie Mac were taken into conservatorship in September of 2008 during the great financial crisis. It is important to remember that Walker & Dunlop acquired Column Guaranteed from Credit Suisse 4 months after Fannie and Freddie were placed into conservatorship. We made that bet, understanding the vital role that GSEs play in the US housing finance market, and we benefited tremendously from that investment.

We also acquired CWCapital from Fortress Investment Group in 2012 after the Republicans took control of the House of Representatives and began calling for an end to Fannie and Freddie. And similar to the Column acquisition, the acquisition of CWCapital was widely beneficial to our company and shareholder returns.

We have made large strategic acquisitions in the agency lending space that have benefited us tremendously due to our understanding of the economics and politics surrounding the GSEs. We are very supportive of many of the ideas and initiatives being discussed by both the Trump administration and Senate Banking Committee with regard to housing finance reform.

The White House recently released a Presidential Executive Order that calls for an end to the conservatorship of the GSEs. Senator Mike Crapo, Chairman of the Senate Banking Committee, released an outline of the legislation his committee is hoping to draft and pass that calls for an end to conservatorship and the potential privatization of Fannie Mae and Freddie Mac's multifamily businesses. We are encouraged by these efforts to end conservatorship and either create a multi-guarantor model or turn Fannie Mae and Freddie Mac into utility-light public companies with an established rate of return and significant regulatory oversight.

While there will be hearings, proposals, and plenty of regulatory and legislative ideas, themes, and initiatives between now and any ultimate administrative or legislative reform, we are confident that Fannie and Freddie's multifamily businesses will endure due to their negligible losses during the great financial crisis, their core business models which place private capital ahead of public capital, and their mandates and missions of providing financing for the largest and fastest-growing source of affordable housing in America--apartments.

Our current outlook for the remainder of the year is positive, given the macroeconomic fundamentals that are driving continued investor appetite in commercial real estate. Recent economic forecasts are for 2019 GDP growth in the low 2% range, with a core inflation rate near the Fed's target of 2% and a sustained low level of unemployment. If wages and oil don't spike, the Fed should remain on the sidelines with regard to further rate hikes, leaving short- and long-term rates at very attractive levels for commercial real estate investment.

Household formation should continue around 1 million households per year. Yet as we have discussed before, the dearth of new entry-level single-family housing is pushing the value of existing entry-level single-family housing higher and higher. And so while the economy continues to expand and many Americans would normally be looking to move from multi-family housing to owning a single-family home, there is limited new supply, which is making the existing housing stock more and more expensive.

As shown on Slide 8, the average price of existing single-family inventory has steadily risen from $267,000 in 2015 to $299,000 in 2018, a 12% increase, while the supply of existing homes has decreased by 14% over that time. This phenomenon is keeping renters renting and forcing them to not only start households in multifamily housing, but start families there.

To further this point, the US homeownership rate dropped in the first quarter of 2019 for the first time in 2 years by 60 basis points to 64.2%, reversing a 2-year trend of upward movement. The fact that this downward shift occurred in a quarter that saw declines in 30-year mortgage rates reflects the significant barriers to homeownership that first-time homebuyers are currently facing. This macro trend will support continued strength in the financial performance of multifamily assets and the loans we have on them.

2% to 3% GDP growth and the 10-year Treasury between 2.50% and 3% has been an extremely strong macroeconomic environment for the dramatic growth in commercial real estate since the great financial crisis, and with those same economic conditions looking likely for the foreseeable future, we see continued strength.

A survey of investors by Preqin at the end of 2018 revealed that 81% of investors expect that their capital commitments to real estate over the next 12 months will either remain the same or increase as compared with the previous 12 months. Global investors continue to find opportunities in the commercial real estate sector, particularly in the United States, that offer attractive returns relative to other asset classes. Based on Preqin's Real Estate Index shown on Slide 9, North America focused real estate funds have outperformed all other regions since 2011. At the end of March, a record $327 billion of capital sat in real estate private equity funds, and over 65% of that capital, or $213 billion, is targeted towards North America.

All of these macroeconomic trends create a very positive operating environment for our business as we enter the second quarter. We operate in an incredibly competitive market, yet Walker & Dunlop is in the unique position of competing head-to-head with global firms while still being a small, entrepreneurial company with nimble and efficient operations. It is that magical combination of big company capabilities with the touch and feel of a small family company that differentiates us from the competition.

W&D was recently ranked as the sixth best workplace in the financial services industry by Fortune Magazine--sixth among the thousands of financial services companies across the country. It is our unique corporate culture that centers around our customer service that sets us apart from the competition and allows us to continue to attract the very best professionals in our industry.

I would like to thank all my colleagues at Walker & Dunlop for a great start to 2019, and as always, thank our shareholders for your investment and trust in Walker & Dunlop. I will now ask Catherine to open the line for any questions.

Operator: The floor is now opened for questions. At this time if you have a question or comment, please press star-one on your touch-tone 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. Your line is now open.

Steve DeLaney: Thank you. Congratulations on the strong start to 2019. Willy, if I could start with you, we've been watching monthly the GSE delivery reports, the new business reports, and quite a reversal in 2019 versus 2018 in terms of Fannie Mae's aggressiveness on a relative basis. We're showing them up 26% over Freddie Mac in the first quarter. Any comments there as to what's going on? What's different this year than last year between the two? And should we think about in terms of the mix, more Fannie and more fixed, as you showed in your slide deck, certainly is positive for the overall margins. Thank you.

Willy Walker: Good morning, Steve, and thanks for joining us. I wouldn't read too much into it, Steve. As you know very well, Fannie and Freddie--both, if you will--wax and wane quarter by quarter as it relates to their client base, their partners with companies like Walker & Dunlop, general pipelines. And if one tends to get too much ahead of the other, then the other kind of gets aggressive and gets back up and catches up to them. And so as you've seen for many, many years, it's--quarter to quarter there are variations, but by the end of the year they both sort of end up in the same spot.

So I wouldn't--as it relates to overall annual volumes, which is what we're very focused on--I wouldn't read too much into it. With all that said, as you know, last year we were Fannie's second-largest partner, and we've been their largest partner for 4 of the last 6 years. We have a very strong partnership with them, and we also have great clients who come to Walker & Dunlop for that execution. And so it was a great quarter, and we expect to continue to do a big volume with Fannie Mae for the rest of the year.

Steve Delaney: Thanks. And a lot of comments this morning, this quarter, about interest income. Obviously, with the Fed hikes last year, escrows kicking in more, but that's not something as far as the on-balance-sheet loans, et cetera, that you've really emphasized in the past. Obviously, it's recurring, has some nice features. Is that something that you expect to continue to grow, and would you consider acquiring additional capital to build a larger on-balance-sheet loan portfolio? Thanks.

Willy Walker: Yes. Steve, I think historically we've used the balance sheet, I would say, more opportunistically. We do, as you well know, generate a lot of capital through operations, and we've invested that in both growing the business through M&A as well as allocating some of that capital to the on-balance-sheet portfolio. I wouldn't anticipate any change in strategy there. I think we still view that as a way for us to deepen the relationship with the customer. We're getting a good return off the capital we're deploying there, and then we're obviously hoping to do agency execution on the back end on all of those loans once they are ready for permanent financing.

Steve Delaney: Got it. So still more of a strategic synergy thing than sort of a separate capital allocation strategy, it sounds like.

Steve Theobald: Right.

Steve Delaney: Okay, thanks. And Steve, since I have you, can you give us an update on producer headcount currently? And in terms of your business plan for 2019, do you have a specific goal for producer growth?

Steve Theobald: Yes. I think as we've put out there in the past, I think we're looking to grow 10% to 15% on the producer headcount again this year. We're continuing to be pretty active on the recruiting front to try to get after that.

Willy Walker: I think we're right around 170.

Steve Theobald: Yes, 168.

Steve Delaney: 170 currently.

Steve Theobald: 168 right now is the count.

Steve Delaney: 168. Okay, great. Okay, thank you, gentlemen. Appreciate the comments.

Operator: Once again, if you do have a question, you may press star-one on your touch-tone phone at this time. Our next question is coming from Jade Rahmani with KBW. Your line is now open.

Jade Rahmani: Thanks very much. In terms of the strategic outlook, does the HFF pending sale to JLL change your thinking? Lots of talk in the industry about consolidation and potential cross-selling of products across platforms and across client bases. Do you think that Walker Dunlop would complement a larger platform well, and is that something that you and the Board have considered?

Willy Walker: Good morning, Jade. How are you?

Jade Rahmani: Good, thanks.

Willy Walker: Great. So I'd say first of all to the point about cross-selling--our Q1 numbers--I haven't seen everybody report, but our Q1 numbers are either above or right at the very fastest-growing numbers for our competitive set. So we clearly have been able to grow dramatically and put up fantastic financial results without having all of those additional cross-selling things that many people talk about. So I would say that we have continued to grow faster than the competition, staying focused on our customers and focused on our core business. And as you well know, we go up against the largest commercial real estate services firms and the largest commercial banks in the world and we compete very successfully, given our focus on our market and the way we go to market.

So I would just say to you that the HFF/JLL transaction furthers the theme of consolidation in our industry, but I'd also say that the removal of HFF from the landscape as a very client-focused--to some degree, boutique firm like Walker & Dunlop--actually creates space for us to continue doing what we're doing and remain very focused on our core business strategy. And obviously, our growth in numbers sort of speak for themselves as our ability to continue to scale and grow in a highly competitive market on our own. So hats off to the HFF team for what looks like a fantastic transaction, and as you can imagine, we're watching the integration of JLL and HFF very closely.

Jade Rahmani: And in terms of the broader strategic outlook and M&A opportunities historically, as you mentioned, Walker Dunlop has been acquisitive. Are you seeing a healthy transaction or potential transaction environment for properties that might be complementary? And also, as you think about risks of beyond GSE reform, just a decline in potentially the GSEs' market share in multifamily, does that change your thinking about the types of assets you might consider acquiring?

Willy Walker: Yes. So as you know, we've been quite acquisitive on the mortgage banking-mortgage debt brokerage side over the past couple of years. We continue to look for acquisition opportunities in that space and, obviously, have nothing to report at this time. But as you know, we're constantly looking. I would say as it relates to the core business, the macro environment is just extremely healthy right now.

And what we've been able to do is build out a loan origination platform that essentially gives us access to deal flow that we can then take and take to various sources of capital. So whether it's an agency loan, whether it's a HUD loan, whether it's a life insurance company loan, whether it's a CMBS loan, whether it's for our Blackstone joint venture, whether it's for our balance sheet, or whether it's for one of the funds that we now manage at JCR Capital, the business strategy that we outlined 5 years ago, we have executed on, which is to gain access to deal flow and then raise capital that we control and then deploy that capital to meet our clients' needs.

So certainly the GSE business is a great business. We've created an extremely strong brand and reputation in that space, but we also have access to other sources of capital that we both broker to and also control that allows us to basically meet our clients' needs, regardless of whether the agencies are very active in the market, as they were in Q1, or less active in the market as Steve DeLaney said previously, as they were in some quarters of 2018.

Steve Delaney: Turning to the tech side, I think in the past you made a tech investment in a prop tech company that--or data analytics company--and that company was later sold. And Steve mentioned a small tech company acquisition this quarter to drive efficiencies and servicing. Are there any hidden sources of value within Walker Dunlop's servicing portfolio in terms of the data that it generates--the number of properties, all the touch points, the historical performance that could become a source of value in the future by using that data analytically?

Willy Walker: So we--as Steve outlined in his comments, the acquisition we made in Q1 is very much focused on streamlining our loan underwriting process, and we had a presentation to our

Board yesterday that was absolutely fantastic on taking that technology and implementing it at W&D. That's really a cost-focused investment right now to try and make us more efficient in what we do and also allow us to underwrite loans quicker to get responses back to our clients faster.

All of that then plays into having better insight into the loans that we are underwriting, the properties we're underwriting, and using that data to become more insightful into where opportunities lie as well as having data and information that we can share with our customers to make them more insightful about where they're making their investments.

So I think the broad answer to your question, Jade, is yes, very much so. The more specific answer to your question as it relates to where we're focused right now is getting that technology implemented and streamlining some of our operations.

Jade Rahmani: Just on the FHFA side, beyond whatever happens on GSE reform, when/if it ever happens, do you have any thoughts around whether preemptively Calabria might move to curtail the GSEs' market share at all in multifamily, whether it's revisiting the caps through, on the quarterly review process, or do you have any concerns that particularly Fannie Mae's resurgence in volumes might draw his attention to that market share?

Willy Walker: So I have no ability to figure out what draws Director Calabria's attention to anything. What I do know is what I read in the papers and what I hear from people who have met with him. So you may have seen the Wall Street Journal article last week where the Director clearly stated that he has no intentions to change the footprints of Fannie and Freddie in the short term. And so he's on record in the Wall Street Journal as saying that. The American Banker had an article on an interview with him as well that I would say was extremely constructive and positive as it relates to how the Director is looking at the markets today.

And we obviously know several people who have been in to meet with the Director since he's been in the seat, and everything I've gotten back so far is that he is taking a very measured approach. He is taking a long-term outlook to his role as being the Director of the FHFA.

And the one other thing that he said in both The Wall Street Journal article as well as been mentioned anecdotally is that he does not want to get ahead of Congress, that he understands that Congress really wants to play a role here. And as such, he's looking for legislative reform before he's looking for administrative reform.

So I think all of that is a very positive landscape, and as we said in our call, Jade, we support the efforts to end conservatorship. And given that there is private capital ahead of public capital in every loan that is originated by Freddie Mac and the great majority of loans that are originated by Fannie Mae, and side by side with public capital in the other portion of Fannie Mae's multifamily lending, the model works, and we have great confidence that the model will stay in place.

I don't want to say regardless of what happens to the agencies, but as you well know, the entire discussion has changed dramatically over the past couple of years, and the role of the federal government in the secondary mortgage market is pretty well established. It's just a matter of trying to end conservatorship and what changes come about in that process.

Jade Rahmani: Just lastly turning to credit, you noted that there were two loan defaults. I wondered, Steve, if you could give any color there on recent credit trends, if that signals anything. And in particular, one of the loan defaults was in the interim loan book. was that within the BXMT JV, and just what drove those two situations?

Steve Theobald: Jade, I'll take that one. One, I think the high-level answer to your question is we don't believe either of those two loans signals any trend from a credit standpoint. One was a student housing property, one was a memory care facility, so neither were a market rate multifamily property. They are the only delinquent loans in the portions of the portfolios that we have credit risk on. The ILP loan was on our balance sheet, not in the BX joint venture. So again, I think our view was there's no trend here, no change in the credit outlook, just two isolated instances. They happened to happen in the same quarter.

Jade Rahmani: Thanks very much.

Steve Theobald: Yes.

Operator: We have no further questions. I will turn the floor back over to Willy Walker for any additional remarks.

Willy Walker: Thank you, everyone, for joining us this morning. Great first quarter, and we hope all of you have a terrific day. Thank you.