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Walker & Dunlop, Inc. *(WD)*

Q1 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to Walker & Dunlop's First Quarter 2013 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 AM Eastern Standard Time. The dial-in number for the replay is 800-839-1180.

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. [Operator Instructions]

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

Claire Harvey
Vice President-Investor Relations, Walker & Dunlop, Inc.

Thanks, Zach. Good morning, everyone and thank you for joining the Walker & Dunlop first quarter 2013 earnings call. Joining me this morning are Willy Walker, our Chairman, President and Chief Executive Officer; and Steve Theobald, our Executive Vice President, Chief Financial Officer and Treasurer. 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 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 much of which Willy and especially Steve will be touching on this morning. So participants who are interested in following along should pull those up and have them available.

Please also note that we may reference certain non-GAAP financial metrics such as adjusted net income, adjusted earnings per diluted share, adjusted operating margin, adjusted income from operations and adjusted total expenses during the course of this call. Please refer to the earnings release and presentation posted on our website for reconciliations of the GAAP and non-GAAP financial metrics and 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, including the 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 SEC. Willy?

Willy Walker

Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

Thank you, Claire. Good morning and thank you for joining us. This is our first call with Steve Theobald the CFO of Walker & Dunlop and I'm very pleased to have Steve sitting next to me this morning. Steve arrived at Walker & Dunlop on April 1, and has made a quick and very smooth transition to his job as Chief Financial Officer. I will outline a number of the quarters' accomplishments, touch on the regulatory environment, turn the call over to Steve to explain our financial performance in more detail and then I will finish the call by providing insight into the coming quarters and the rest of 2013 from a strategic growth standpoint

Walker & Dunlop closed the acquisition of CWCapital in September 2012 and rolled into the fourth quarter with robust pipelines and a huge challenge of flawlessly processing more business than we'd ever seen. After meeting that challenge, we entered 2013 with time to focus on outstanding integration issues and driving Walker & Dunlop and CWCapital together.

I am pleased to report that we made significant progress on the outstanding integration items and a relatively minor issue still to address. That does not mean we are done. Integrating two great firms such as Walker & Dunlop and CW takes time and consistent effort to ensure we get it right. We have lost very few people since acquiring CW due to exhaustive work to ensure compensation, responsibilities, workflows and our culture are properly aligned for all employees. That is no small feat, particularly given the highly competitive landscape for human capital in our industry.

We participated in many conferences during the first quarter and saw first-hand market participants' reaction to Walker & Dunlop's new scale and standing within our industry. Several clients that either CW or Walker & Dunlop have targeted for years were, for the first time, interested in working with us due to our new scale, breadth of services and expertise. Although we are still young as a merged organization, the internal and external feedback to this combination is very exciting.

As we announced at the beginning of April, Q1 origination volume was $1.73 billion and reflects very strong year-on-year growth. Loan originations with Freddie Mac were up 509% from Q1, 2012 to $515 million, a fantastic start to our year with Freddie. Volumes of Fannie Mae were up 185% from Q1 2012 to $763 million, a solid start to the year with our largest lending partner.

Our expectation when bringing Walker & Dunlop and CW together was that one plus one would equal more than two. We originated $1.28 billion of loans with Fannie Mae and Freddie Mac in Q1 increasing combined Walker & Dunlop and CWCapital originations by 48% from the first quarter of 2012, a clear demonstration of the power of this combination and our ability to continue gaining market share.

As we mentioned in our April 8 press release, the Department of Housing and Urban Development reduced their loan commitments dramatically during the month of March due to the delay in the passage of the federal government's continuing budget resolution.

This reduction in commitment volume impacted our ability to rate lock and close HUD loans, bringing our quarterly volume to $147 million, up 31% over 2012. HUD began issuing commitments again after the passage of the continuing resolution and is essentially business as usual for now. However, HUD recently announced a significant re-organization and office rationalization which may cause uncertainty within the agency over the coming months.

We believe the changes implemented by HUD will be very positive in the long term although we will miss many of the expert HUD staff that will be electing to take early retirement during this process. As well, there is no guarantee that the funding provided by the passage of the continuing resolution will be sufficient to satisfy HUD's funding needs through the remainder of the year given borrower demand for HUD's long term fixed rate products. Our HUD pipeline is strong and we are confident in our teams' ability to navigate the HUD process and political overlay to meet our annual origination target.

We made significant investments in our capital markets origination platform last year by adding teams in Florida and Wisconsin. Our capital markets origination volume of $306 million was up 46% over 2012, which is stronger than the 9% industry growth in the first quarter. We have excellent originators with fantastic client relationships and it is our belief that our capital markets volumes continue to grow throughout the year as life companies, CMBS, banks and the agencies all try to meet their annual origination goals.

First quarter originations of $1.73 billion produced revenue of $69.2 million, up 101% over Q1, 2012. Adjusted operating margin of 20% is in line with previous first quarters on a normalized basis due to the relatively low origination volumes in Q1. We have the people and infrastructure to originate between $2 billion and $3 billion in loans per quarter and we expect to be on that pace in Q2 to achieve our annual origination guidance of $10 billion to $12 billion. As quarterly origination volumes move up to the $2 billion to $3 billion range, our operating margins will expand into the high 20s and low 30s.

Net income for the quarter was $7.7 million or $0.23 per share, up from $5.8 million or $0.27 per share in Q1, 2012. Steve will dive into the numbers in greater detail when I turn the call over to him. But I would simply say that growing originations over 100% year-on-year, integrating two companies almost flawlessly and producing the most profitable quarter (sic) [first quarter] in the company's 75 year history is quite an accomplishment.

I would like to turn to the regulatory environment for a moment. In early March, the Federal Housing Finance Agency, FHFA, came out with their 2013 score card for Fannie Mae and Freddie Mac, calling for a reduction of the GSE's 2013 multifamily originations by 10% to "bring additional private capital" to the market. Many in the industry were surprised by FHFA's actions due to the significant amount of private capital already in the overall multifamily financing market and specifically within Fannie and Freddie's multifamily businesses.

We have met with Fannie, Freddie, legislators and FHFA over the past month to better understand the implications of this action. First, for all practical purposes it is business as usual at Fannie and Freddie. With $30 billion of capital from Fannie and $26 billion from Freddie, the two GSEs will be, by a wide margin, the largest providers of capital to the multifamily sector in 2013.

To put their combined $56 billion of capital into perspective, a total of $103 billion was lent on multifamily properties in 2012. So, if $100 billion is lent on multifamily properties in 2013, Fannie and Freddie will have a 56% market share and will still be the dominant providers of capital to the multifamily sector.

Walker & Dunlop will continue to be one of the largest partners to Fannie and Freddie and continue growing our market share as demonstrated by our Q1 origination growth of 48% with Fannie and Freddie.

Let's focus for a moment on the broader issue of GSE reform and Capitol Hill. What is most dramatic about the GSE debate on Capitol Hill is that the discussion has evolved from how do we wind down Fannie and Freddie to how do we reform Fannie and Freddie before they simply become cash cows of the U.S. Treasury.

Freddie Mac made $11 billion in 2012 and Fannie Mae made $17 billion. To put those numbers in context, the sequester is cutting $85 billion in government spending in 2013. Fannie and Freddie's 2012 earnings are 33% of that number. We are hard pressed to see this Congress pass legislation that would cut a revenue source that can replace over one third of the sequester cuts in the federal budget. So, the debate over the future of Fannie and Freddie appears to be moving from one about housing policy to one about fiscal policy.

Senator Mark Warner, Virginia and Senator Bob Corker of Tennessee are working on the first bipartisan GSE Reform Legislation that would require private capital to share risk in both the single-family and multifamily businesses to keep Fannie and Freddie as part of the federal government and maintain Fannie and Freddie's multifamily businesses much as they are today. Whether this bill or some other bill ends up becoming law, what is clear is that the debate over the future of Fannie Mae and Freddie Mac has shifted dramatically as the economy has recovered, the billions that tax payers invested in the GSEs starts getting paid back, and the concerns over Too-Big-To-Fail banks makes an alternative to the GSEs harder to implement.

I'd like to turn the call over to Steve so we can discuss our Q1 financial performance in further detail. I will then finish the call discussing our progress on creating new proprietary capital solutions and what we see ahead of us for the remainder of the year. Steve?

Stephen P. Theobald

Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

Thank you, Willy and good morning everyone. I couldn't be more excited to be a part of the Walker & Dunlop team. My first month has flown by and I appreciate that I have not yet had the chance to interact with most of you on the phone. I look forward to that chance and the opportunity to meet with you face to face in the near future.

Willy mentioned that I will be covering some of the details behind our financial results for the quarter. As a backdrop for that discussion and as I will explain in greater detail, our results were consistent with our typical first quarter pattern.

Net income for the first quarter was $7.7 million or $0.23 per share. Adjusted net income which excludes selected expenses relating to the acquisition of CWCapital was $8.5 million or $0.25 per share. Operating margin for the quarter was 18% and adjusted operating margin was 20%. This compares to net income of $5.8 million or $0.27 per share and operating margin of 28% in the first quarter of 2012.

As we disclosed several weeks ago, we originated $1.73 billion in loans during the quarter, 157% more than the total originated during the same period last year. A solid number especially by first quarter standards. Gains on mortgage banking totaled $42.9 million or 248 basis points on that $1.73 billion of volume. This is slightly below our annual average of 262 basis points as the lower percentage of HUD volumes during the quarter resulted in a shift of our mix of loans toward relatively lower margin business.

In addition, during the quarter, we locked one large Fannie loan that represented nearly 10% of our first quarter volume. This loan had a shorter expected life than our average Fannie Mae loan, which resulted in a lower than average margin for the related mortgage servicing right.

As discussed in the past, it is not unusual for us to get looks at large deals like this one, but the timing of when they happen is unpredictable and when they happen in our traditionally lower volume quarters, the impact on some of our profitability metrics can be significant. We continue to see healthy origination fees across all the business lines and believe our gain on sale margin will be in line with our historical average over the course of 2013.

Servicing fees were $21.1 million for the quarter compared to $9.4 million in the first quarter of 2012. Our servicing portfolio continues to grow, increasing to $36.8 billion from $35.3 billion at the end of 2012. The average servicing fee remained at 24 basis points. Servicing was one of the most complex parts of the integration with CW and I'm pleased to say that the team has done a great job and is nearly through with its integration work.

Turning to expenses, total expenses during the quarter were $56.9, an increase of 128% from the first quarter of 2012. The increase in total expenses when compared to the year ago quarter was driven primarily by higher personnel costs and an increase in amortization and depreciation, both of which I will discuss next.

Personnel expense was $28.3 million, up from $11.6 million in the first quarter of 2012 as our employee base more than doubled from a year ago, including a 136% increase in the number of producers on our team. Personnel cost as a percentage of revenues were 41% in line with our expectations. We are a substantially larger company than we were a year ago and we have the capacity to handle the significant increase in origination volumes we expect in 2013.

Amortization and depreciation expense totaled $18.6 million in the quarter up from $7.3 million in the first quarter of 2012. The increase in amortization and depreciation is no surprise after 118% growth in the servicing portfolio. In addition, $2.7 million of the amortization expense was related to the write off of MSRs due to the prepayment of the underlying loans. Of that $2.7 million, $2.3 million was related to prepayments of HUD loans. As we have discussed in the past, the underlying HUD loans do contain prepayment penalties but unlike agency loans when a HUD loan prepays none of the prepayment penalty comes to Walker & Dunlop.

Also included in total amortization and depreciation expense is $1.3 million for the amortization of the intangible pipeline asset acquired in the CW transaction. The remaining intangible asset at the end of the quarter was $2.2 million which we expect will be expensed over the remainder of 2013.

On the credit front, we provided 401,000 to increase our allowance for risk sharing obligations compared to $1.2 million in the first quarter of 2012. It is important to note that at the end of the first quarter we had no 60 plus day delinquencies in our at-risk portfolio. We continue to be very pleased with our credit performance and the continued low levels of defaults and losses.

During the quarter we produced an adjusted operating margin of 20%, lower than our annual target but consistent with our typical first quarter performance when the prior quarters are normalized for significant one-off benefit. For example, during the first quarter of 2012 we recognized $2.5 million of other income related to the amendment of a fee arrangement between the company and a correspondent. Removing this one-off benefit from the prior year's results reduces the operating margin in that quarter from 28% to 22% comparable to this year's 20%.

Similar positive benefits occurred in the first quarter of 2011 as well. The point of all this is that except for the fact that we have more than doubled in size, the results of our core business in the first quarter of 2013 do not look much different than first quarters in the past, as we typically enter the year with capacity to achieve our annual volume goals, knowing that first quarter is typically our lightest volume quarter and operating margin will reflect that pattern.

Before I turn the call back over to Willy, I want to mention a few items related to the second quarter. First, we've been able to negotiate pricing reductions of 20 and 25 basis points on our two primary warehouse lines, which will begin to benefit us immediately in the second quarter as volumes pick up. We also recently realized or finalized the restructuring of the lease for our Needham, Massachusetts office, which we had anticipated as potential future expense, when we closed the CW transaction. The result of the restructuring will be an $800,000 expense in the second quarter.

As Willy will discuss in a moment, we've also made great progress in our proprietary capital initiatives. As we previously told you, we expect to incur $5 million to $15 million of expenses related to these initiatives and we incurred very little of that expense in the first quarter.

Finally, we expect second quarter volumes to increase from the first quarter and are establishing loan origination guidance for the second quarter of $2.3 billion to $3 billion.

As I reflect back in my first month at Walker & Dunlop, I've been most impressed with the caliber of the people I have met and their passion for this company. As an anecdote, a couple of weeks ago I was fortunate enough to participate with about 40 of my co-workers in the American Odyssey Relay Race from Gettysburg to Washington DC. The relay is a 200 mile race with teams of 12 alternate running 36 legs of varying miles and terrain over the course of the about 24 hours.

Participating in this event gave me first hand insight into the spirit of the Walker & Dunlop team, not just their competitiveness and drive to win, but the mutual respect and support they showed for each other and this spirit went beyond just the participants and volunteers but extended to the entire company as we raised over $12,000 for the victims of the Boston Marathon bombing through the generosity of the entire Walker & Dunlop employee base.

I am proud to be a part of this company and look forward to many more months ahead. With that I will turn it back over to Willy.

Willy Walker

Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

Thank you Steve and I would reiterate what a pleasure it is to have you on our team. I would now like to discuss the significant progress we made during Q1 to raise capital for Walker & Dunlop's Proprietary Capital Group.

As we have discussed before, Walker & Dunlop's loan origination, underwriting and asset management businesses are scaled, efficient and expertly run. Walker & Dunlop is a very significant partner to the three major sources of capital for multifamily financing which rely on our expertise to deploy their capital that there are multifamily loans which do not fit Fannie Mae, Freddie Mac and HUD's programs such as interim loans and higher leverage loans. As well Walker & Dunlop's expertise in the multifamily market can and should be used to lend on other commercial property types such as office buildings, retail centers and hotels.

Our Proprietary Capital Group is focused on raising capital, so that Walker & Dunlop can expand its market reach in multifamily and also grow as a lender into other asset classes. Each initiative builds a scalable platform with the people and capital to grow dramatically over the coming years. You will note that each initiative is focused on distinct forms of capital to meet our clients needs and investors return expectations.

The first initiative is a bridge loan program that will invest in multifamily and senior housing loans of $30 million or more. Walker & Dunlop is in final negotiations with a foreign pension fund and large US real estate investment firm to commit a combined $380 million into a limited partnership where Walker & Dunlop will serve as general partner and co-invest $20 million, bringing the total anticipated equity commitments to $400 million. Many of the properties are likely to be high profile assets due to the target loan size of the program and some loans will be backed by portfolios of properties rather than single assets for the same reason.

Typical transactions will likely be acquisitions where borrowers looking to rehabilitate or reposition an asset and needs bridge financing. We expect to have this program in full operation before the end of Q2.

The second initiative is the establishment of a CMBS loan origination platform. The commercial mortgage backed securities industry is coming back strong with originations of over $50 billion in 2012 and expectations of $60 billion to $70 billion in 2013.

As investors know the CMBS industry has waxed and waned over the years, surging origination volumes in the mid 1990s collapsed around the long-term capital management crisis in 1998 and then surged again in the mid 2000s only to have the 2008 financial crisis literally decimate the industry. It is with this historic perspective in mind that Walker & Dunlop enters this arena with very specific designs and risk tolerance. We are in final negotiations with a leading global private equity firm to form a joint venture for the origination of multifamily and commercial mortgage loans intended for securitization through several Wall Street firms.

Walker & Dunlop will set up a separate subsidiary to serve as a minority partner in the venture, which will aggregate loans for a very limited period of time prior to securitization. Walker & Dunlop plans to invest somewhere between $15 million and $20 million of capital in this venture. We have hired Tim Koltermann to lead our CMBS origination platform. Mr. Koltermann is a 25 year industry veteran, who previously ran the new issue capital market CMBS business at Bear Stearns and has a fantastic reputation in the mortgage securitization markets. Tim is currently working to assemble the rest of his team.

With a deeply capitalized venture partner, a strong team of professional under Tim's leadership and access to deal flow through our proprietary sales force, we believe this venture has a great opportunity ahead of it.

The business plan for the CMBS platform is to execute one securitization per quarter, meaning upwards of $650 million per year of loan sales. The interim loan program is initially being capitalized with $400 million of equity and with approximately 65% leverage, we'll have $1.2 billion in initial lending capacity. We're also continuing to explore commercial mortgage REIT strategy with our advisors and are also focused on raising a separate account to provide long term fixed rate capital to our borrowers.

Life insurance companies originated $10 billion of whole loans on multifamily properties in 2012 and our strong competitive bid to the agencies so far this year. With Walker & Dunlop's access to deal flow, underwriting and servicing platform and extremely strong credit track record, we believe there is long term pension fund and life insurance company capital that would invest in such a vehicle managed by Walker & Dunlop.

Why is all this activity so exciting? First, we have stated since going public that we would diversify our sources of capital. These initiatives do just that. Second as the commercial real estate markets continue to recover and clients needs evolve from simply a first trust mortgage to acquisition financing or first trust loan at a higher leverage point or longer maturity, Walker & Dunlop will have the appropriate capital to meet those needs.

And finally, by having these capital solutions managed by Walker & Dunlop, we believe we will be able control more deal flow. If a long standing Walker & Dunlop borrower wants to know the cost and dynamics of the CMBS loan, an agency loan or a long term fixed rate life insurance company loan, Walker & Dunlop will have the ability to underwrite structure, price and execute on all of these alternatives with our own capital or with third-party capital through our capital markets business.

This broadening of our business model will capture more deal flow and maintain strong operating margins as a lender and asset manager. I am extremely pleased with the progress we have achieved along these lines during Q1 and very excited by the potential of this business model.

In closing I'd reiterate several of the messages Steve and I have made this morning. First quarter was a solid quarter for our company growing origination volumes and revenues by over 100% year-on-year and dramatically faster than the industry at large. We have effectively brought together two fantastic companies without skipping a beat and delivered operating margins that are in line with previous first quarters on a normalized basis.

We did this while meeting our client's demands and maintaining the culture that made CW and Walker & Dunlop such great firms. And we made great progress on building proprietary capital solutions that will allow us to meet our clients' financing needs with capital we control that benefits from the scaled origination underwriting and servicing platform Walker & Dunlop has successfully built.

I continue to be exceedingly impressed and proud of the fantastic work that everyone at Walker & Dunlop does every day. With that, I want to thank all of you for joining us this morning and I will now turn the call over to the operator for any questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Bose George with KBW. Please go ahead.

Ryan O'Steen
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Hi good morning. Actually this is Ryan O'Steen on for Bose. First just a couple of questions on HUD, I missed some of your earlier comments, but I think you noted the reorganization could cost some uncertainty.

Could you just expand on this? I mean, do you see a material risk of loss of HUD volume? And just in regards to your 2013 guidance, do you assume any material loss of volume or does that guidance is just kind of same business as usual at HUD?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

Yes, Ryan good morning. First of all, we reiterated our annual guidance at 10 to 12 so there is no adjustment to that whatsoever. As it relates to HUD, HUD today has 17, what they call hub offices across the country and then they have 50 satellite offices that feed loans into those hub offices. So they've got 67 offices across the country and they have announced a reduction from 67 to 10.

So they will have 5 hub offices and 5 satellite offices of those hubs. That planned rationalization is taking place over the next three years but – and everybody at HUD is being offered a job in one of those either satellite or hub offices but with a rationalization from 67 to 10, as you can imagine there are plenty of people who may not want to move from, let's just say Nashville, Tennessee to Jacksonville, Florida where Jacksonville will be one of the regional hub offices.

So there's a significant expectation that there will be a number of people at HUD who will take early retirement. And so we're putting that out there as there are moving parts inside of HUD today and does that end up delaying loan processing? We certainly hope not. But there's no doubt that an announcement of that type of a restructuring has got people inside of HUD talking and thinking about what their future is going to be.

We are very focused on processing as much business as we possibly can and given our present scale and the size of our HUD operation, we are very focused on navigating through both the internal and external issues related to HUD financing today.

Ryan O'Steen
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, great. Switching just to the expense side, the margin came in a little weaker than we were expecting. I know there's some seasonal factors there but it sounds like you're still – plan to get that back up into the low 30s. Could you just kind of walk through what drove the higher expenses this quarter and how you plan to gain back some margin?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

So, if you look at the Q1 originations of $1.7 billion, as we've shown that was a fantastic growth year-on-year. We also gave you in there our growth in our Fannie and Freddie business in combination with what CW did in Q1 of last year, growing that number 48% year-on-year, which is stronger than the agencies and stronger than many of our competitors.

The issue is that Q1 as Steve said is always a relatively low quarter as it relates to overall aggregate origination volumes. So as we move into the $2 billion to $3 billion a quarter origination level, we will gain economies of scale.

The underwriters in Q1 that were busy but not running around the clock will be busy and running around the clock again. And you will gain economies of scale in our platform and you will move margins back up as you get to those high origination volume numbers.

I would also say that one of the other areas that I believe that there was – if you will some – I don't want to say confusion but when we announced our Q1 origination volume of $1.73 billion, we put out there the breakout between Fannie, Freddie, HUD and capital markets. And if you run what most people's models say on our average servicing fee for those four executions, I would believe that most analysts would have come out with a lower MSR number.

And so, I think that one of the things that you'll see is we did so much Freddie in the first quarter as Fannie and HUD do greater percentages of the volume in Q2, Q3, Q4, you're booking larger MSRs and that obviously produces higher revenues and that obviously then allows us to get expanding margins.

Ryan O'Steen
Analyst, Keefe, Bruyette & Woods, Inc. Q

Thanks. And one more if I could, you mentioned the large loan, Fannie Mae loan that was lost in 1Q and the impact on...?

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc. A

It wasn't lost it was locked in Q1, it was...

Ryan O'Steen
Analyst, Keefe, Bruyette & Woods, Inc. Q

I'm sorry, locked in Q1.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc. A

So it was a larger loan, Ryan, that was locked in Q1. So when you have a $150 million plus loan where we are taking limited loss sharing on that loan and this loan happened to have a shorter term. It wasn't a 10 year loan.

You're just on $150 million plus of aggregate origination volume, where it is a large loan where we're taking limited loss sharing, so our servicing fee is smaller. And then it's on a shorter duration so you're using a shorter average life.

You're going to book an MSR that is not in line with what $150 million of $10 million Fannie loans would have computed to if you had 15 $10 million deals versus $150 million. Does that make sense?

Ryan O'Steen
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yes, it does. Thanks for the clarification there. I'll jump off thank you.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Yup, thanks.

Operator: And we'll go next to Will Marks with JMP Securities. Please go ahead.

Will C. Marks
Analyst, JMP Securities LLC

Q

Thank you, good morning everyone.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Good morning Will.

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Morning.

Will C. Marks
Analyst, JMP Securities LLC

Q

I guess I first wanted to ask, you had mentioned back to operating margins, that – about first quarter being near the normal first quarter. Is there a normal for second, third, fourth? I just – it's so hard for us to get a sense of margins. We can get the revenues right. Not that we always do, but is there any good way to look at it?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

I think Will, as you well know because you've covered us so closely since becoming a public company, a lot of it depends on origination volumes and as you have seen in our history, Q1 is our lightest volume quarter, two and four are the strongest and three sort of sits somewhere in between. And then inside of that, it really depends as it relates to margin on what the mix is.

So you've seen some margins like Q2 last year, where we had a significant origination volume of Fannie loans in Q2 of last year. And I think I'm correct, I don't have it in front of me, but I think we had a greater than 40% operating margin.

I think we had like a 41% operating margin in Q2 of last year. I've got – Claire is looking it up right now. I don't want to misspeak on that. But I believe that Q2 was a very strong quarter because we had so much Fannie and we also had a very strong HUD quarter.

And so it really does, I mean as we've tried to explain to investors, we are looking at this business on an annual basis, not on a quarterly basis, we obviously report on a quarterly basis. But as you have seen over the years, we've both hit our volume numbers as well as our margin expectations. But those are going to vary quarter-by-quarter.

And so, we just keep our head down and move through it. I've got – I've just gotten – yes, Q2 2011 of 43% was the operating margin in Q2 of 2011 and Q2 2012 was 32%. So you can see just in those two quarter, a pretty significant variance. And again, that's back to aggregate origination volumes and then also the mix of how much is Fannie, how much is Freddie, how much is HUD and how much is capital markets.

Will C. Marks
Analyst, JMP Securities LLC

Q

All right. Well, thank you and I have another unrelated question to that is on this 2012, I think we call this conservatorship scorecard. I was reading about Representative Watt taking over. I am curious and I don't know if this is something for a conference call necessarily, but your view on the change in leadership and how that impacts origination volumes by the GSE's?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

So a lot of the discussion right now is focused on FHFA, given their 2013 scorecard. Acting Director DeMarco has been Acting Director, I believe now for four, going on five years. And many people have been – if you will, waiting for his replacement for quite some time. The fact that the President has nominated Representative Watt is not surprising that because people were waiting for a nomination.

As you may have seen, Will, Representative Watt's nomination was met with some significant opposition on the Republican side of both the House and the Senate and there are plenty of questions as it relates to whether Representative Watt will get through the confirmation process. I do believe that there's an editorial in today's New York Times focused on the nomination of Watt. I didn't have time to read it, but I saw the headline this morning.

So, I think you will likely see a new director at FHFA in 2013 and I do believe that the administration will put their shoulder behind Representative Watt's nomination. Whether he gets through the confirmation process or not I think is a question, and then how all that plays into what FHFA does in 2014 and beyond, I think a lot depends on who is the director of FHFA and how they look upon what FHFA has done in the past, well, this year and last year, as it relates to the scorecard and where they believe FHFA's role ought to be vis-à-vis the legislative reform process that's taking place up on Capitol Hill. I think that FHFA stepped forward this year because they saw very little happening on Capitol Hill.

It has been very evident that since FHFA stepped forward and put forth their scorecard that there has been a tremendous amount of activity on Capitol Hill to, if you will, pull the regulation or the reform of Fannie and Freddie back from FHFA and onto the Hill and onto a legislative debate.

Will C. Marks
Analyst, JMP Securities LLC

Q

Okay, thanks for the color on that. And I guess that's it from me for now. Thanks.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Thanks Will.

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Thanks.

Operator: And we'll go next to Jason Stewart with Compass Point. Please go ahead.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC
Q

Good morning, thanks. Steve, welcome back to the specialty finance world.

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.
A

Thanks Jason, I appreciate it.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC
Q

And Willy, along the same lines as the last question, I mean one of the things we've seen out of the FHFA recently is this viability of the multifamily business release. And I was curious to know, if you had any further comments on the way that the FHFA has just effectively, I guess, concluded what this is worth to them and any impacts on Fannie and Freddie and HUD going forward from it?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

So Jason if you – there was nothing really surprising in the white papers as it relates to the value of Fannie and Freddie's multifamily businesses both inside and if you will in a spinoff model with or without a guarantee, numbers that I actually think that we talked about before.

I think the message that has come out of it is that the multifamily businesses would have loved to have been spun off from the agencies. I think that's a not a path that's going to happen any time soon. And that the value of them without a guarantee is significantly less than with the guarantee, I don't think anybody is surprised by that.

I think the bigger story here is that people are understanding both the fact that the multifamily business has performed extremely well during the downturn. You may have seen the hearing that Director DeMarco had up at Senate Banking Committee where Senator Mark Warner asked him significantly about the multifamily business and about that it wasn't the problem and its performance was fantastic throughout the downturn.

And that was actually followed by a question by Senator Shelby asking about the risk sharing model in the multifamily business and whether it might be a good move to put risk sharing on the single-family side.

And so, I think that there's a lot of focus on the multifamily model right now, and I think that the white papers release makes people realize that Fannie and Freddie through their multifamily businesses provide capital to sectors of the multifamily market that private capital probably wouldn't provide capital to.

And so, I think that, that underscores the importance of Fannie and Freddie's multifamily businesses and that if they were spun off and made private enterprises, they would probably focus on the exact same assets and the exact same borrowers that life insurance companies and CMBS focus on which would mean the capital would not be broadly distributed across the country to all asset classes into all geographies.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Okay. So, if we think about that to what it means to you, I mean effectively the score card and this white paper are sort of at odds, is that true?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Well, if you're saying that the white paper says, Fannie and Freddie's multifamily business is really important and then you've got FHFA pulling them back by 10%? Yes.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

You could say that they are at odds. You could also say that with $56 billion of capital 10% reduction or from $61 billion back to $56 billion really isn't a major move. When I met with FHFA two weeks ago, they sort of said what do you sort of complaining about, this is nothing. And my comment to them was well this came out of left field and as a publicly traded company investors don't like surprises.

And so, if you guys have a roadmap for where you want to go in the future, it would be very nice of you if you shared it with the industry, so that we could message these types of things to our investors, so they don't wake up one day like we did and find out that you've decided that you're going to take 10% of multifamily.

They understood that, they agreed with the way that they acted wasn't helpful as far as guiding or things were going. But I guess, that's a long way of saying Jason, we don't know who will be the director of the FHFA next year when the new scorecard comes out and if they were to go and take another 10% out of it that reduces Fannie and Freddie from $56 billion down to $50 billion. They're still going to be the dominant sources of capital of the multifamily industry and we continue to gain market share with them.

And so even if they are a smaller portion of the industry, we continue to grow there and then we are developing our own proprietary capital to be able to expand if and when they take more out of the agencies.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Okay. I appreciate the color on that and then on your last point, historically, you've talked about three avenues for growth in private capital at Walker & Dunlop. I think you mentioned two, I didn't hear a third, I apologize if I missed it, but historically you've talked about a mortgage REIT as an avenue and I know you spend a lot of time.

And it appears like you're making pretty significant progress in the other two. Did, I miss the third or if you didn't mention it, could you give us an update on where you stand on the third?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Yes. I can just – I'll just read back to you quickly what I've said which is, we're also continuing to explore commercial mortgage REIT strategy with our advisors and are also focused on raising a separate account to provide long-term fixed rate capital to our borrowers and I went on to talk about life insurance companies and the attractiveness of either a pension fund or life insurance companies investing in a separate account with Walker & Dunlop to provide that type of capital.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Okay. And then last one and then I'll jump out. The progression of cost that's associated with those avenues of private capital, could you just talk about maybe Steve this question is for you, how that's impacted the income statement and maybe perhaps going forward just broad numbers about where it's been reflected and where it could go?

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Yes, Jason we've – I guess prior to the beginning of the year we flagged that we were going to spend somewhere between $5 million and $15 million on the proprietary capital initiatives in 2013. Very little of that has been spent in the first quarter, but we still are providing that range as our current estimate of what we think the expense will be over the course of the rest of the year.

Jason M. Stewart
Analyst, Compass Point Research & Trading LLC

Q

Okay. Thanks, thanks for the questions.

Operator: And we'll go next to Brandon Dobell with William Blair. Please go ahead.

Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Thanks good morning.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Good morning.

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Good morning.

Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Just to segue on that last question for a second, decent range of what second or third quarter expenses related to these new capital sources could look like, should we expect given your comments around the bridge and CMBS platforms should we expect a big chunk of that 5 to 15 to show up in Q2 or do you think Q3 is a better place to put it?

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Yes, Brandon, I don't know that I would say a big chunk. I think certainly I would expect that some of that expense will start to flow through our income statement in the second quarter.

Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Okay.

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

But because of the fluid nature of our ongoing discussions around these initiatives, it's hard to pinpoint the exact number.

Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Okay, okay. And then maybe kind of a from a prospective point of view, how should we expect to see the kind of disclosures or reporting around these new source of capital? Is it going to show up on other line, I know there are some different structures that are going on here? So how should we think about building our either revenue or expense lines to account for these initiatives?

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

A

Yes. I think the costs are going to – will show up in multiple different lines in the GAAP income statement. I think it is our expectation that to the extent that those costs are material to the overall performance of the company, we will provide some detail on those.

Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Okay, okay. And then switching maybe to a comment you made at the outset really about the market reception to your guys momentum, how do you think about that relative to increase in the producer head count? Should we continue to expect you guys to be really active somewhat active, do you think you've got the right team in place for those kind of, let's call it head count questions from a producer point of view.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Yes, Brandon. If I look at I mean as you know are constantly looking for a good origination talent. I would put forth that as you well know, some of our competitors hired a lot of people and didn't have originations if you will to keep with the amount of head count and as a result sort of when they had origination volumes go down quarter-on-quarter got hit with that if you will mismatch.

We're as you know because of the CW acquisition we've grown our producer head count dramatically and in the process of also doing that acquisition we've also locked in on long-term employment contracts many of our origination talent which heavily de-risk the platform and makes it that we know that those people around here are originating loans for Walker & Dunlop for the coming years.

And so, all of those costs are running through there and at the same you can see the growth that we've had on a quarter-over-quarter basis as well as the growth that we had with our two primary lending partners, where we are clearly gaining share.

We still need to add capital markets execution in the Southwest and in the West. And so, we're still out there looking to complete that that was something that we set up as a strategic initiative last year. We got through the Southeast and sort of the Midwest and we need to now get teams out on the West.

So, we're still very much looking there. And then as it relates to other production talent, we always are looking for those people. But right now what we're looking to do is we got a fantastic team on the field, if you will and we know that that team has the ability to originate the $10 billion to $12 billion that we have in annual guidance.

And so, really right now we're very focused on getting to that number. We have the team on the field to get to that number so, we don't need to hire additional people to get to it. And then running our platform as efficiently as possible to maintain the margins that we put in the past. And so, that's really the focus right now with obviously as you know us, we're constantly out there looking for strategic opportunities to hire new people and to grow the business.

Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Okay, okay. And then touching at a point you made about the CMBS platform, what kind of timeframe should we expect for you guys to be holding those aggregated loans? I just want to make sure I understand kind of the – how to bracket the risk profile again...

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

Yes. That's a great question. As I tried to emphasize in my comments Brandon, we enter the space with a lot of excitement but also with plenty of – if you will understanding of the risks

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Brandon B. Dobell
Analyst, William Blair & Co. LLC

Q

Right.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

A

You mentioned in this space. So, as I said in my comments, this will be a joint venture, where Walker & Dunlop has a minority interest. So, we're not taking the majority equity position here. And the second thing is you can't really hedge the risk in a CMBS platform. You can buy all sorts of instruments but when the market goes sideways on you all of those hedges they go away.

And so, the only true way to hedge out the risk is to turn your book as quickly as possible. And so one of the things that we are doing here is we are setting very specific parameters on how much volumes we will pool. We will not exceed $200 million of pooling to begin within this venture and it is our expectation to do a securitization once a quarter, so that would mean that we will hold the $200 million for less than 90 days.

So that's the business model at the outset and we're setting it up to be pretty true to that sort of construct because we have seen in the past people who start with really good parameters and then they allow their parameters to fade away a little bit as the market gets hot and they start making more money.

And next thing you know they're taking on more risk than they should be and they're holding their pools for longer trying to make additional spread income and the whole things blows up on them. So we're setting this up with pretty strict parameters and we intend to stick to them to the best we can.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Okay. And then, as you think about the bridge loan fund, the interim loan fund that you guys have going right now, [ph] any way you can potentially get (50:16) the CMBS platform how much cross over are there in individual properties or I guess potential customer base if you want to use that term, how much cross over overlap do you guys expect to have?

I mean is it a small group of customers that you're doing everything with or should we expect a broadly different base of people that you're working with for example in a bridge loan versus the interim loan fund?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

So we have plenty of demand for the bridge loan product with our existing client base. And because many of them right now in the cycle Brandon are going from, if you will, simply refinancing assets to, I mean if they don't want to buy an asset at a 4.5 cap, the way to go and create value is to buy a fee asset that might be 65% leased, pour some TI into it, reposition it and lease it back up and make some real money.

And so some of the major developers that we work with are either putting shovels in the ground to just do construction projects or they're doing ac/rehab. And so this is a product that will meet the demands of that existing client base.

As it relate to CMBS or the separate account initiative, the issue there is that we today lose deals to those sources of capital and as you well know those sources of capital are structured distinctly. If you want to get a higher leverage loan or if you are in the manufactured housing business and you have a site that has a portion of it in the flood zone, Fannie and Freddie, Fannie, excuse me, Freddie doesn't lend on manufactured housing, but Fannie doesn't allow for the income in the flood zone to be used as income in underwriting that loan.

CMBS lenders don't care about it. If there is a piece of the property that is in the problem zone, they'll include that in their NOI calculation. So as a result of that you can do things in a CMBS structure, you can't with the agencies today.

So as we roll out our CMBS and as we look at doing longer term fixed rate financing in a life insurance company model in the separate account, we're going to creating sources of capital that there is a true investor demand for today and that quite honestly we're losing deal flow too today.

So the idea here is that we will have the ability to lend on those deals with proprietary capital or we'll be able to broker those deals off to another source of capital.

We in no way expect to win 100% of the deals that come to us, just because we have these offerings up and going. And so the people, who are brokers on our platform will still have the opportunity and the ability to go out to all sources of capital because quite honestly, there are plenty of sources of capital that are going to beat us on given deals.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Okay. And then a final quick one from me. It doesn't sound like there's going to be any exposure to new construction activities. There's going to be still refinancing, repositioning, acquisitions things like that. But I want to make sure I understood how these platforms are going to be positioned.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

Yes. No, right now nothing as it relates to construction. That's, as you know, the realm of the commercial banks.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Yes.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

And they'll continue to – I would assume be the dominant providers of constructing financing and other than our (d)(4) program with HUD, Brandon...

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Yes.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

...where we are doing construction lending through the (d)(4) program. But other than the (d)(4) program with HUD, we do no other construction lending.

Brandon B. Dobell
Analyst, William Blair & Co. LLC
Q

Okay, perfect. Thanks a lot.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

Thank you.

Operator: And we'll take our last question from Cheryl Pate with Morgan Stanley. Please go ahead.

Cheryl M. Pate
Analyst, Morgan Stanley & Co. LLC
Q

Hi, good morning.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

Hi, Cheryl.

Cheryl M. Pate
Analyst, Morgan Stanley & Co. LLC
Q

Most of my questions I think have been answered but just a couple quick ones. I guess, can you first of all maybe help us reconcile the origination guideline – guidance $10 billion to $12 billion with your earlier comments about

$2 billion to $3 billion in capacity per quarter? I guess sort of – if we take the high end of that, we kind of get to the midpoint. So, I'm wondering what else is sort of baked in there to get to sort of the high end of guidance?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

So, Cheryl, my comment on $2 billion to $3 billion was really focused on margin, if you will, of where you're going to get margin expansion from where we were this quarter. The $2.3 billion to $3 billion is what we've established for Q2. And as you have seen us do, well just in Q4, we were at the high end of that number in Q4 of last year as a very, if you will, newly merged company.

And so it is our expectation that through the coming quarters we continue to see the value of our brand and our team and that as we move through the year, we might give you higher guidance as we go into future quarters, who knows? But obviously it all needs to come together to get us to our $10 billion to $12 billion by the end of the year. And as I said previously, we believe we have the team on the ground and the origination capacity to be able to do that number.

Cheryl M. Pate
Analyst, Morgan Stanley & Co. LLC
Q

Okay great. And then just on the margin side, you spoke to sort of gain on sale sort of being in line with the quarterly average for prior year and understanding that there was this one large loan in the quarter. I guess just sort of thinking forward as we look at the MSR gains in particular and as – HUD back online in Fannie or – sorry Freddie and HUD has sort of the larger MSRs associated with them. How do you think about that MSR gain overall as the capital markets piece comes back which in my understanding there's no MSR booked against that?

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.
A

You're correct on that other than when our capital markets originators originate a loan for Fannie or Freddie or HUD where we do obviously book an MSR. I think one of the things, to your note this morning Cheryl, I think one of the things in the MSR number is that as we've discussed before, the MSRs we book on a Fannie, Freddie or HUD deal are distinct. And we don't break those out, but we have clearly given you and other analyst ranges as it relates to what kinds of MSRs we book based on the servicing fees we make on those loans.

And so when we put out the percentage of business that we did with Fannie, Freddie and HUD in the first quarter, and we're happy to sit down and talk through, it was surprising to me that there was a surprise as it relates to the MSR calculation, just because your model actually in the past has worked very, very clearly on that. And so because there was a disconnect there, I don't think it was all due to that one large Fannie Mae loan. And so, it'd be interesting for us to sit down and have a conversation about that at the appropriate time.

But just more – more generally on it, HUD is back, but as I said their commitment authority throughout the year is something that a lot of people are focused on, but we have a very strong HUD pipeline and a great HUD group and we're working very diligently to get as much of our deal flow into HUD as quickly as possible to get as many commitments from them as we possibly can.

Fannie is clearly, where we make the most from a gain on sale margin basis and we had very good 185% quarter-on-quarter growth with Fannie Mae. We are the largest Fannie Mae DUS lender in the country and we're working very hard to do as much Fannie Mae business as we possibly can.

Freddie has been and we've had just a fantastic success with Freddie Mac, early in 2013. As you could see, by 508% growth quarter-on-quarter and Freddie is less profitable business from an MSR standpoint but it's still fantastic business.

And so, we love seeing the growth that we've had with Freddie Mac year on year and year-to-date, we are one of the largest Freddie Mac seller servicers in the country and we plan to continue to grow that business line.

So I think one of the tricks here will be for us to try and both be very – as clear as we possibly can be as it relates to our origination volumes and what we're looking at through the various executions. But at the same time as I said to Will previously Cheryl, it's very difficult for us to be able to figure out what percentage of our quarterly volumes are going to be in what bucket and the economics on those various executions as you know are quite distinct.

And so, we'll try and be as clear as we possibly can, but I'd go back to it that if you look at our overall year, we're still looking at that 10 to 12 and I believe that most of the models out there are built off of our historic percentages of what percentage of our business was with Fannie, what was with Freddie, what was with HUD and what was with capital markets.

The final point I'd make is, you mentioned the capital markets business, I think that that business has a lot of growth opportunities to it. We've added in that area that is clearly a lower margin business, but as we buildup these proprietary capital sources, the only way for us to gain access to that deal flow through our own distribution network is to buildup that capital markets business. So, we as I said to Brandon, we'll continue to look to high talent in the Southwest and the West and build that access to deal flow in non-multifamily assets such as hospitality, office and retail.

Cheryl M. Pate Q
Analyst, Morgan Stanley & Co. LLC

Okay, great. I appreciate the additional color there.

Willy Walker A
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

Thanks, Cheryl.

Operator: And we have no further questions at this time. I'd like to turn it back to our presenters for any closing remarks.

Willy Walker
Chairman, President and Chief Executive Officer, Walker & Dunlop, Inc.

Great. Thanks, Zach. Very nice to have all of you with us this morning. Thank you for taking the time and we look forward to talking to many of you in the coming days and weeks.

Stephen P. Theobald
Chief Financial Officer, Treasurer & Executive VP, Walker & Dunlop, Inc.

Thanks.

Operator: This does conclude today's conference. You may now disconnect and have a wonderful day.