FINAL TRANSCRIPT

Thomson StreetEvents℠

WD - WALKER & DUNLOP INC at Morgan Stanley Financials Conference

Event Date/Time: Feb. 02. 2011 / 4:45PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Willy Walker
Walker & Dunlop Inc. - Chairman, President, CEO

CONFERENCE CALL PARTICIPANTS

Matthew Kelley
Morgan Stanley - Analyst

PRESENTATION

Matthew Kelley - *Morgan Stanley - Analyst*

Okay. We'll go ahead and get started here. It's my pleasure to introduce Walker & Dunlop. Today, we have Willy Walker, Chairman, President and CEO; and Deborah Wilson, CFO.

Walker & Dunlop was established in 1937 and recently completed its IPO in December of 2010. It's traded on the New York Stock Exchange, ticker WD; has a market cap of roughly $255 million, a little bit higher today, I think.

They're a leading provider of commercial real estate financing in the US. Their primary business model is to originate and sell multi-family loans to investors such as Fannie Mae, Freddie Mac, HUD, commercial banks, and life insurance companies.

Willy has been President of WD since 2005, and CEO since 2007; has more than 20 years of leadership experience. Debbie has been CFO since 2008 and served as VP of Counterparty Risk at Fannie from 2000 to 2008.

So, I'll turn the mike over to Willy now.

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

Good morning. And to any of you who traveled significant distances to get here, thanks for making it through in the storm.

I want to jump right in -- I've got to look at -- there we go. Great. What I'm going to do this morning is try and run through pretty quickly on a little bit of background on the Company. I know some of you know a lot about the Company; others don't know a lot about it.

So I want to give you a little bit as it relates to what we do on a day-to-day basis and what differentiates us; talk about the franchise that we have, our market position, the business model that we operate under.

We have, throughout various cycles in the commercial real estate industry, been very profitable and maintain that profitability throughout the cycles, and we can talk a little bit about how we did that. And through that profitability, we've also shown that our credit and the way we go about analyzing credit has been extremely thorough and has benefited the Company over the long-term.

A very motivated and aligned management team with significant equity ownership in the Company. And given the numbers that we've seen published over the past month as it relates to origination volumes, both for us and for some of our competitors -- JLL's earnings, which came out last night -- I think that the [thesis] that is the commercial real estate is coming back and the transaction volume is coming back to the commercial real estate space, and that should benefit those companies, like Walker & Dunlop, that are in the commercial real estate financing and services business and is clearly playing out right now.

I want to -- for two seconds -- this is a very business slide, if you will. Bear with me as I run it through, but I think it's the easiest way for you to understand who our clients are, where we get our capital, what Walker & Dunlop does with that capital to meet our clients' needs. And then, what are the, if you will, specialized services we do in each one of those executions.

So, in our Multi-family Finance group, we are working with apartment building owners and operators across the country. Our primary source of capital there are Fannie Mae and Freddie Mac. And in each one of the loans that we do in our Multi-family Finance group, we will originate the loan, we underwrite the loan, we close the loan, and then we asset manage the loan and service the loan after we've originated the loan.

In our FHA Finance group, similarly working with apartment building owners and, in many cases, affordable apartment buildings across the country, HUD FHA is our source of capital there. And similar to our Fannie and Freddie business, we're doing origination, underwriting, closing, warehousing, asset management, and servicing.

Our Healthcare Finance group is focused on the Healthcare Finance vertical, working with hospital owner/operators, skilled nursing, and senior's housing operators. There Fannie, Freddie and HUD are all sources of capital for that vertical. And again, in that vertical, we are doing all of those specific tasks to originate a loan and then underwrite it and service it.

Then, our Capital Markets and our Investment Services groups focus on other asset classes. And in those other asset classes -- office, retail, hospitality, industrial, and other, so all commercial real estate asset classes -- there we are working with life insurance companies, CMBS lenders, pension funds when they've been in the business, and then also the GSEs. And in that, we will originate and service those loans.

Origination fees will be reasonably typical or consistent across all the platforms; servicing fees very significantly between the various executions. And as it relates to our Investment Services group, there we are using money from large institutions, pension funds, and making both equity investments as well as mezzanine and structured investments in commercial real estate properties. We have a very small, but hoping to grow, our institutional investment business.

So, the displacement in the commercial real estate market is something that all of you have seen take place over the past couple of years. You can see the volumes in 2007 on the left-hand side, significant volumes where Walker & Dunlop was the 45th largest commercial real estate lender in the United States. You can see in 2007 CMBS doing $230 billion of originations.

Go to the right in 2009, capital flood, CMBS down to $3 billion, of 99% over that two-year period. Banks, pretty much every source of capital, flood the system, other than Fannie and Freddie. As you can see, the government is staying in there in $40 billion in 2009.

I think one important point to take from this slide -- Walker & Dunlop doing $2.1 billion in 2007. Of that, we did $1.6 billion of agency originations. That was a 1.2% market share of that $93 billion of government financing that was done in 2007.

Fast forward in 2009, there are 24 Fannie Mae [DUS] lenders, 26 or 27 Freddie Mac seller servicers, over 80 FHA hard lenders. So we're not the only ones in that space, and everybody out there knew that the only real sources of capital that were lending in 2008 and 2009 were the agencies. Walker & Dunlop increased its market share to 5.2%.

So during that displacement, when everyone knew that the only place to find capital was with Fannie, Freddie and HUD, Walker & Dunlop not only competed, but we succeeded in growing our market share significantly. And as you can see, we moved up from being the 45th largest commercial real estate lender in 2007 to being the 9th largest in 2009.

As you can see on this slide, that growth in our originations for the agency put us into the lead tables, the ninth position on the left. You can see large banks and insurance companies that we compete with on a day-to-day basis. Fannie Mae, number five; Freddie Mac, number ten; and HUD being the ninth largest. These are 2009 lead tables.

As you can see in these numbers and on the list, are some of the world's largest commercial banks and life insurance companies. I would just go back to what I just said as it relates to it was no secret over the last three years that the place to raise capital and be able to put the money out was with the agencies. All of these people had access to that capital, and Walker & Dunlop picked up significant market share. So we have shown in this type of a competitive environment that we have not only been able to compete, but we've been able to win and gain share.

While I'm on this slide, let me talk for two seconds about an issue that is on many people's minds, which is GSE reform. This here shows where we are with Fannie, Freddie and HUD. We are following that issue closely, as you can imagine.

I would put forth that in 2007, as I said previously, we did 60% of our financing with the agencies and 40% with other sources of capital. So Walker & Dunlop has shown that we've been able to originate significant volumes when the agencies have not been as predominant, if you will, as they had been for the past couple of years.

My understanding of what's coming out next week, and I understand it is next week that the proposal will come out from the Administration. My understand as well is that it is not a legislative proposal -- it is a white paper -- and that it will be the Administration's view on GSE reform as well as the overall real estate financing market.

So it will dive into components of Dodd-Frank. It will dive into risk retention. It will dive into hedging. And that information comes from a lot of people who are following this very, very closely. It's total anecdotal; I have not seen the report myself.

But at the same time, what that says to me is a couple of things. First of all, it's going to be broader than just the agencies. Second of all, it is a white paper and not legislative proposals; therefore, it will be sometime before Congress can figure out what the actual specific legislation will come out of that proposal.

And I did speak to a staffer on the Senate Banking Committee yesterday. And I said, how much work have you all done in preparation for the Administration's proposal? And for lack of a better word, he basically said, nothing.

So the bottom line is you've got a new chairman of the Senate Banking Committee in Senator Johnson. He is going to look at this, he's going to hold hearings, they're going to get on what the proposal is. But I think it is fair to say that it will be a reasonably long timeline as it relates to what they're going to do on figuring out how the policy proposal from the Administration will be enacted, and it will be quite some time before we see actual legislation passed that will impact the agencies.

In the meantime, what Walker & Dunlop will do is continue to use them as a source of capital for our core business and at the same time, also grow our non-agency lending operations. And so you can expect to see from Walker & Dunlop growth in our originations for life insurance companies, CMBS, and other forms of capital.

Some key performance metrics on W&D and what we've done over the past couple of years. On the top, you can see our origination volumes for 2007, 2008, and 2010. We announced our origination volumes on '10 two weeks ago at $3.17 billion. I think that it's -- we're very proud of the fact that during that downturn our origination volumes actually grew and didn't go off like that previous slide I showed you.

You can see back to the point that I said our 60% agency in 2007 and 40% other of life insurance company and CMBS. You can see how it's grown in 2010, where one of the things that I think is important is in 2007 we only originated for Fannie Mae on the agency side. So that 60% was all Fannie Mae.

You can see in 2010 where we did $1.5 billion of Fannie Mae, $527 million for Freddie Mac, and $616 million for HUD. So in our agency component, we've actually diversified from capital sources from just Fannie Mae to Fannie, Freddie, and HUD.

I have heard nothing that says that HUD is going anywhere. So regardless of what happens to Fannie and Freddie, the fact that we've grown our HUD origination so dramatically, I'm very proud of. But HUD has really stepped into the market and become a significant supplier of capital. I've heard anecdotally that they did $13 billion of originations last year, which is an all-time record for HUD.

The next line shows the originated to related fees. So in 2007, you can see that our average origination fee was 62 basis points. You can move over to the right, in 2010, that's through the third quarter of 2010 because we've not announced full-year origination fees. But through the third quarter of 2010 from our S-1, 1.42%, or 142 basis points.

So you can see during that period of time that the average origination fees grew dramatically in our business. And at the same time, you can also see that back when we were only doing 62% average origination fee, we still ran 32% pre-tax margins.

So what we've shown is in the most hyper-competitive market back in 2007 when CMBS was doing $230 billion of originations, Walker & Dunlop with more compressed origination fees was still able to run a very, very profitable business.

The reason that with 142 we haven't gone well above 34% is two-fold. One is that in 2009 we integrated Column Financial, which we acquired from Credit Suisse, and made some significant investments in people, offices, systems, and things of that nature, as well as in 2010 in getting ready for our IPO in hiring personnel.

And then the final thing is losses. In 2010, we had losses in our portfolio. We take risk on the loans that we originate for Fannie Mae, and so as a result of that the margins didn't grow even higher than 34%.

As I talk about losses in the portfolio, you can see that our risk-sharing portfolio -- our portfolio today is $14.7 billion. That $14.7 billion is comprised of loans that we've originated for Fannie, Freddie, HUD, life insurance companies, and CMBS. Of that $14.7 billion, $7.7 billion are loans that we've originated for Fannie Mae where Walker & Dunlop takes risk.

We take the [beefiest] risk. We take the first loss position on those loans. So if one of those loans goes bad, Walker & Dunlop takes 100% of the first 5% of the loss. We take 25% of the next 20% of loss and then we take 20% of the rest of the loss, capped at 20%. And if anyone wants that written out, we can get it to you. Bottom line is that our loss sharing on it is capped at 20%. We take the first 5% loss.

As you can see to the right, our credit history has been exceptional. As you can see in 2007, we had net write-offs of $900,000. In 2008, we had a provision of $1.1 million. In 2009, we had a provision of $2.3 million and a write-off of $0.5 million. And in 2010, through the first three quarters, we had provisions for $4.4 million and losses of $2.1 million.

Down below, you can see that $0.5 million in 2009 is one loan. That $2.1 million in 2010 is one loan. So you're looking at a scaled portfolio with billions of dollars worth of assets in it with a $7.7 billion risk position. We don't take all the risk on that; we take the first loss on that. And we've had two loans in the past two years that we've taken write-offs for.

A lot of that is due to the way that we approach credit. It is also due to the way that Fannie approaches credit. If you look at Fannie Mae and their DUS program, they're right now at about 60 basis points of losses in their multi-family portfolio.

So as much as I'd like to say it was all Walker & Dunlop and that we've got the greatest and most talented people, it is industry-wide as it relates to the DUS lenders. That when everyone's credit box had widened out, when CMBS came in 2004, 2005, and 2006, really, with a vengeance, that Fannie Mae maintained their underwriting standards. They kept their box quite tight.

And as a result of that, lenders like us and others have benefited from not being able -- not having done stupid loans back in 2006 and 2007. We have been better than others. But at the same time, the core of it is Fannie Mae maintaining their underwriting standards.

What differentiates us? When I was at business school, we had a class called Lead, which was basically a human resources class, and everyone came in and went to sleep in it every single day because nobody likes to talk about the soft aspects of business.

They all like to come into a finance class or what have you and sit there and talk about hard numbers and what really business is all about.

Well, in our business, this is what it's all about. Because the only thing that makes Walker & Dunlop's money greener than somebody else's is the people who work with it every single day. Our money is no different from anybody else's other than these people and the structure that they put behind the money and the relationships that they have with our clients.

So I put this up there. And every time I put this up there everyone's like, oh, you can't put a picture of the Company and our employees and all that stuff. This is it. It's these people that differentiate W&D.

I would say one other point on this slide is that we have 160 employees at Walker & Dunlop. I was talking the other day about one of our competitors, who I will not name by name, but they have a market cap of under $100 million and they have 6,000 employees across the country.

And I said to somebody, who's seat would you rather be in? Mine, with a market cap of $250 million and 160 employees or theirs, of under $100 million and 6,000 employees? To try and move that ship is very difficult.

For us to grow this platform, for us to add originators to our platform --. I'll show you our origination platform here, which is our offices across the country. We have one originator in Manhattan. We have three originators in the state of California. Those two markets are the two largest multi-family markets in the country, and we have one originator in Manhattan and three in California.

If you're at CBRE and you want to grow your Manhattan originations and you go hire somebody from one of CBRE's competitors, and you bring that person in and you automatically cannibalize a piece of somebody's book because they have overlapping clients. For us to add originators in New York, to add originators in Chicago, to add originators in California, it doesn't cannibalize any of our existing business.

And so the opportunity for us to grow the platform that we have today -- eight offices across the country are the red dots and then the blue dots on this are our correspondents. We have 24 indecently owned correspondents who feed us deal flow.

Some of you know, that's the way that many life insurance companies gain their deal flow is through correspondents across the country. Walker & Dunlop is a correspondent to a number of large life insurance companies. So those correspondents are local brokerage firms. They have contacts with local owner/operators of commercial real estate, and they feed us deal flow for the agencies.

It's great. It's a variable cost platform. As we look at expand Walker & Dunlop, there's probably a pretty good chance that if we go and acquire an origination company it will be a correspondent of Walker & Dunlop. We know them. We've worked with them.

There are 24 of them that we have -- we know what geographies they're in. We know what their deal flow is. We know what life insurance companies they work with, et cetera, et cetera. So, that would be a way for us to gain origination talent in a way that we know who they are. We know how they operate and we've had a longstanding relationship with them.

But the opportunity for us to scale this platform is significant. So, why do we need to scale it? Well, if you look on the left-hand side, commercial real estate is a $3.2 trillion market --commercial real estate finance, $3.2 trillion. We've announced we did $3.2 billion of financing last year. So Walker & Dunlop did 10 basis points in this market last year -- 10 basis points, okay?

In our core market of multi-family, there's $847 billion of paper outstanding in multi-family. If you look to the right-hand side on the refinancing wave that's coming up in multi-family, you can see that in 2011 we've got $28 billion of non-bank multi-family paper that's coming up for refinancing. The dark blue at the bottom is CMBS. The gray is life insurance companies. The light blue is agency and the green at the top is credit companies, warehouses, and others.

So, in our core market business -- in Fannie and Freddie, the light blue there -- over the next seven years there's over $100 billion worth of paper that needs to be refinanced, all which was done with very, very strict, good underwriting guidelines during the 2000 era that has to come up and [sizefine]. We, last year, I think, had one deal in our entire originations last year that had to be re-equified.

So one of the big questions we keep getting is, "Well, yes. But what happens when all of these deals come out and they're upside-down, and they were done with 10-year IO, 90% LTV by XYZ investment bank?" That's the dark blue at the bottom here. And what percentage of that dark blue at the bottom is stuff that Walker & Dunlop wants to re-fi or how it gets re-equified to be able to be re-fied under out standards? We'll see.

But the bottom line is that if you take that kind of funny stuff and move it out, there's still a massive market opportunity in our core market. Add on top of that office, retail, hospitality, which are all asset classes that we have lent on in the past, there's just a fantastic market opportunity in front of us for growth given the refinancing boom that's coming up in commercial real estate.

We raised money through the IPO; what are we going to do with it? I just talked about adding origination capabilities. We will go out and add to our 30 originators we have across the country. We will hire people. We will get teams. We will just hire new teams from other companies. We will continue to grow organically by training and promoting people.

Acquiring complementary businesses. We will either buy, build or partner on the investment sales side. The tie-in between investment sales and financing activity is clearly -- back in 2006 and 2007, when there was a lot of investment sales activity, was a great way for some of our competitors to capture deal flow before the financing decision was made.

That has not been a competitive threat over the past couple of years as there has been really no investment sales activity. But when it comes back, that will be important. So we will either buy or build or partner in the investment sales space.

Our fund management business, as I said previously, we have a small fund management business. We like that. We'd like to be in the equity space where we go and raise funds from third parties, difficult sort of two and twenty structure.

But where an originator at Walker & Dunlop can sit there with a client who says, great. I want a First Trust mortgage from Fannie Mae or Freddie Mac or whomever on this property. But there's an acquisition I'd like to make and I'm actually looking for some equity. Do you guys have any equity sources I might talk to? Clearly in that business, we would structure it so that Walker & Dunlop was putting equity into the overall fundraising, but not taking the full risk of an equity position in real estate.

And then finally, acquiring competitors with strong origination capabilities. As I spoke about previously, some of our correspondents would be great first suspects, if you will. But beyond that, we need to grow if there's a huge opportunity for us to expand our origination capabilities.

And then finally on expanding our product offerings, we've talked previously about interim financing. There are plenty of deals today that don't qualify for Fannie or Freddie because they are not fully leased up. So to have an interim product that would allow us to go and lend on a 65% leased property as it can lease up for nine to 12 months and then take it out with a Fannie or Freddie is a product that we are trying to put together right now.

And then also, broadening our lending focus. As I said previously, looking at other asset classes and growing our origination in office, hospitality, and retail primarily, and all of that while maintaining the credit standards that we have exhibited throughout our history.

So in summary, it's a pretty compelling growth story, at least it is from my perspective. We've shown that we have become a leading originator and servicer. As we went out on the roadshow, a lot of people sat there are looked at our management team and they sort of said, this is kind of a new Company. They're like young, they've grown a lot, all this great stuff.

We've been in business for 74 years. This Company and the culture inside of it -- the credit culture, the origination culture -- when you look at the default rates in the agency's book, commercial bank's book, CMBS book, and -- I've got agency, life, commercial, and CMBS.

And if you look at them, all of them -- CMBS didn't really exist in the early '90s. But banks, life insurance companies and the agencies all lost their shirts in the early '90s. All of them got delinquency rates up into the 7%, 8%. And then you watch, and none of them had any losses throughout the late '90s and into the early 2000s.

And then CMBS comes in. And if you look at the delinquency rates and what happened, the agencies and the life insurance companies didn't commit the same mistakes they made in the early '90s. Life insurance companies and the agencies have had less than 1% delinquency rates in their commercial real estate portfolios.

But banks didn't learn in the last credit cycle, and all have had 6%, 7% delinquency rates in their commercial mortgage portfolios. And then CMBS, I guess they didn't get to learn in the '90s because they hadn't started, and so they're just sort of off the charts in losses. The reason I raise this is not to poke fun at commercial banks. It's because Walker & Dunlop over its history has worked with two sources of capital -- life insurance companies and the agencies.

And as a result of that, every person who's in our Company has understood how they look at commercial real estate, how they underwrite commercial real estate, and how you take risk on commercial real estate. And that is the culture that has been built up over the Company's history and is what we will continue to do. And so that time tested credit culture is very, very important. There are lots of growth opportunities for us.

And the final thing is we do have a very experienced and aligned management team. We own a bunch of the Company and we're very, very focused and motivated to see that stock price in the middle continue to go up and to provide our shareholders as well as ourselves with significant returns. So with that, I will stop and go to Q&A.

QUESTIONS AND ANSWERS

Matthew Kelley - *Morgan Stanley - Analyst*

I'll start it off. One of the questions I get a lot on you guys is on GSE reform. Could you just talk a little bit about the adaptability and flexibility of your business model? Obviously, that's going to be up for debate in 2011. But how you just kind of see it playing out for your business?

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

One of the proposals, which I honestly believe is one of the most doable, is if you look the G-fee, the guarantee fee, that Fannie and Freddie charge on both single-family as well as on multi-family and you said raise it by 10% a year. A lot of people have talked about the fact that the agencies raise debt at about a 30% discount to what AAA issuers issue it at.

So let's just say for two seconds that the G-fee is 30% under market. And G-fees are distinct from what they raise capital in the markets at, so it's not a perfect correlation, but it's close enough. And you said raise it by 10% a year. So in year three, the private sector ought to be looking at it and saying, you're now at market. I might actually want to step in and put a [wrapper] on this bond at the same price at what the agencies are priced at. And in year four, the agencies are 10% priced on competitive and the private sector steps in.

And if they went through that model, Matt, for Walker & Dunlop to have a three to four-year timeframe to figure out whether want to go and partner with somebody as it relates to putting that mortgage insurance on the bond or not, that's a long period of time for us to be able to adapt to that, to be able to go out and partner up with somebody to do that.

The second thing is, will the market require it? There's a lot of people out there saying, quite honestly, to try and make it so that GSE reform slows down, oh, the 30-year fixed rate mortgage is a great thing and nobody's going to want to put 30-year money out, and so Fannie and Freddie have to stick around.

I'm not one of the people who sits there and uses that as a really good reason why the agencies have to stick around. But I would say to you that the CMBS market coming back the way it is right now, there's very much a case to be said that you won't need that mortgage insurance. You won't need the wrapper on it.

I am very surprised at the fact that the CMBS market is recovering to the degree that it is with no structural changes made whatsoever to what caused the meltdown in 2007, 2008. Nothing. There's no change in [BP]'s risk. There's no change to subordination levels. There's no change to the rating agencies -- none. It's the exact same thing that everyone bought in 2007 with 2010 on it.

Maybe the LTVs are a little bit lower, coverage ratios are a little bit higher, it's better quality. So you say, okay, I'm in at the beginning and I'll buy it now, but I won't buy it two years from now. But the bottom line is that the secondary market is very much there to buy CMBS.

So I would put out there if you put that kind of [razorGP] at 10% a year and you do it over a period of time, the private sector might come in and price right at it. And the other issue is does the private sector need it to continue to buy the bonds? And if it doesn't, then you're just basically in a securitization model.

So that would be one type of scenario; I could bore you all day with all the different ones that have come out. The bottom line there is that I think we will see that the last thing that Congress or the Administration want to do right now is do something that's going to trip up the recovery. And as a result, it is going to be phased in over time so it doesn't have an immediate impact. Because every member of Congress, if there's one message from the 2010 election, it is improve the economy or you're out of your job.

So if they're going to do anything to strip liquidity out of the market, I think they'd try and do it after they get re-elected, not before, and that gives us some timeframe to react and adapt. And I'd say we're a small Company, we've got a very focused, targeted management team, and we will adapt.

Unidentified Audience Member

(inaudible - microphone inaccessible) about what your spread outlook would be? Presumably, it's relatively attractive now because of the availability of relatively cheap funding. Are you looking basically at secular trend of rising funding costs and then how you think about that in terms of your long-term spreads?

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

I guess there are two things there. One is we are not a spread lender. And therefore, the spreads we make, if you will, really it's origination fees and then servicing fees that we make. Spreads on borrowing short-term and lending long-term is not something that impacts Walker & Dunlop.

And so as a result of that, a rising interest rate environment, we will make more money off of our escrow deposits, okay? We have $250 million on our balance sheet today of escrows. We'll make more on our escrow deposit.

There's some flexion point -- and I don't know what it is -- where that incremental piece of business doesn't size because interest rates have gone up to a point where it doesn't size and there's no equity to come into the deal. But I think we have a --. The bottom line is that graph that I showed as far as the refinancing volumes that are coming up, that's all ten-year paper. It's got to get redone. It's got to get redone.

So it's either going to be re-equified or done under different terms or what have you, but it's all term. So unlike the single-family world where interest rates start to move up and everyone just sits on their 30-year mortgage and doesn't do anything, in our world it's all got to get redone.

As it relates to average origination fees, I do not expect us to sit at 142 basis points for the rest of my life. And at the same time, I'm also not sure that we get back down to a world where there's $230 billion of capital provided by CMBS and origination fees crammed down to 62 basis points.

So you can model out anywhere you want between those two, but I would say that from a modeling standpoint you're somewhere between the two, okay? I'm not going to give you guidance on what you ought to plug in there.

And then, as it relates to servicing fees, on all of our products, except for Fannie Mae, there is a set servicing fee, okay? And it varies hard to life insurance, to CMBS. On Fannie, it really does have to do with pricing, okay? Because Fannie is going to -- you'll have your Treasury Bill rate, you've got an investor spread, then you've got Fannie's G-fee, and then you've got our servicing fee.

And over the past couple of years, we have been able to put into our deal servicing fees between 35 and 65 basis points. And through third quarter of 2010, we saw no compression in no fees.

And so we have been able to price very good servicing fees into our origination. As those G-fees come down, as the overall investor spread comes down or widens, as the case might be, because you might have to widen them to get investors to buy agency-backed paper, our servicing fee will move accordingly.

And I would go back to 2007, which is a very good year, that shows that even when you had significant compression is origination fees and/or servicing fees, we still ran a very, very tight shop and produced 32% pre-tax margins. Yes?

Unidentified Audience Member

You talked about what you'd like to do with the proceeds or fund to the proceeds from the IPO. But since you've been around since the 1930s, could you address why you chose to come public at this time, because you could have done those things as well previously?

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

I think my dad would tell you you couldn't have. Honestly. And I mean that, because at our closing dinner he actually stood up and said that. We've seen extensive growth in the Company over the past couple of years, and that gave us the scale to even consider doing the public offering.

The second is that because we did so well on the downturn, we saw significant opportunities for growth in this next cycle. And we were capital constrained as a Company because we were privately held. If we wanted to go out and do an acquisition, it was, if you will, pass the hat between myself, my father and my brother.

And quite honestly, there were family members who live off of dividends and quite honestly, I was reasonably capital constrained as it relates to putting leverage on the Company, cutting down on the dividends, etc. So there was a little bit of both family planning, if you will -- my father is 73 years old and has spent his entire career building the business.

I think one of the other things that -- potentially more information than you need to know -- but I never planned on coming back to the family Company. I had gone out and done a lot of other things, including working at Morgan Stanley, before coming back to Walker & Dunlop.

And so my father had spent his career thinking that at some day he had a capital event. And even when I came into the Company and started running it, my dad always had in the back of his mind I have to have a capital event somewhere. So the IPO was a very good way to provide him with capital and not lose control of the Company, even though I now work for public shareholders and not my father.

The second thing is that GSE reform is clearly something that is out there, and I'd much prefer being in a public format with GSE reform sitting out there than in a private format. I don't think the GSE reform is going to have a bit impact on this Company over the next couple of years, and I think we will continue to grow both our GSE originations as well as others. But being public and being able to access the capital markets should there be some change to the GSEs, I thought was a very good move for us to be out there.

And the final thing, which I said at the very beginning, is having capital to go out and acquire businesses right now and grow and not be capital constrained at the beginning of the cycle and not in the middle or the end of the cycle is hugely advantageous.

Most of our competitors have had to -- in past cycles -- had to wait until either the middle or the end of the cycle because they have all the numbers that allowed them to go out. We were fortunate to do really well in the downturn to be able to go out, raise the capital, and then we can take advantage of it.

Matthew Kelley - *Morgan Stanley - Analyst*

So I'll ask another one, on operating leverage in your business. As you grow the originations platform to 34% pre-tax margin that you were talking about, how do you think about that? Is that something that's going to stabilize while you're still in growth mode and then grow from there, or could we see growth in the near-term?

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

If we go and acquire an origination company, a small mortgage banking company, there isn't a ton of operating leverage you're going to get there as it relates to back office. They'll have a servicing portfolio of $2 billion to $6 billion. They've got four people who work in that. You basically either integrate them or let them go, but you gain a little bit of leverage there from an operating standpoint.

Most of these firms are really producers. And so what you will get from that is saying today, if they're a correspondent to Walker & Dunlop we split fees, so they'd make 50% of every dollar that we originate with them. If they become direct originators for us, on average our originators make $0.45 on the $1 and we keep $0.55 on the $1, so you get a little bit of accretion there by acquiring them and bringing them in.

But the other thing really is that you get them onto a larger platform, that you manage them better. One of the things that is very true of this industry, and many other industries, is that many of the smaller companies are owner/operator businesses. They're originators who now become owners. They're not really good managers and they kind of originate half their time and they manage half their time. It means that the firm isn't really that well managed.

So when we acquired Column from Credit Suisse, all of the Column originators -- you can talk to any one of them at Walker & Dunlop today -- will tell you that coming to Walker & Dunlop and having real marketing, having real management, having a senior management team that will get them on a plane and go to a client meeting and actually work with them.

To be perfectly honest with you, the CEO of Credit Suisse is not getting on a plane to go for any deal that Column ever worked on, okay? And so they get a lot of support. And so then you're take that producer who originated $100 million of business last year and make them a $150 million producer.

And that's the accretion, if you will. That's the growth that we get, is going and acquiring these shops and making these people more efficient on our platform with our people and our systems and our marketing and support and brand.

And Matt wants to jump in one more time. We'll give you plenty of time, Matt. We've already spent lots of time with you. Anyone else? I've got four minutes left and we're done. Good. You want to go one more?

Matthew Kelley - *Morgan Stanley - Analyst*

I'll go one more.

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

Matt's going to ask one more and then we're --

Matthew Kelley - *Morgan Stanley - Analyst*

As you think about bringing on more originators, is that going to be a regional focus or just an accretion focus? Are you focused on building out your platform in New York, for example, or California?

Willy Walker - *Walker & Dunlop Inc. - Chairman, President, CEO*

Right. So, as it relates to growth in the platform, California and New York are places we want to grow. That does not necessarily say that we want to acquire a business in those two markets.

As it relates to the business that we look to acquire, there are sort of three key components -- I think three is the right number. First of all, does it move the needle for us, okay? So, they have to be originating at least $1 billion a year, or close to $1 billion, or else it doesn't really move the needle for us very much.

The second thing is the non-multi-family originations, who are they doing it with? So, who do they typically work with from a life insurance standpoint and from a CMBS standpoint? And in those life insurance relationships, you get correspondent relationships by acquiring one of those firms.

So if we acquire a company that is today working with Allstate and Pac Life, for instance, which are two insurance companies that Walker & Dunlop doesn't work with, that's very much value-add for us. Because we'd like to be originating for Allstate and Pac Life today, okay? So who they are a correspondent to will make a big difference.

And then finally, what's the size of their servicing portfolio? If we can -- adding $1 billion to our servicing portfolio doesn't really move the needle. Adding $5 billion to $6 billion to our servicing portfolio, even though it is life insurance and CMBS predominantly and therefore, much, much lower average servicing fee, $5 billion to $6 billion, we can get to economies of scale. We can make money out of that.

So those would be the three criteria. And the final one would say we know a lot of these players. We've been in business with them for a long period of time, and so what's the fit as it relates those?

An owner/operator, what role does he -- and I have to tell you, it's generally speaking he -- what role does he want to play in W&D as we go forward? And how can we structure a deal that those originators who we acquire don't get to W&D and all of a sudden the next day jump out and go to one of our competitors?

So it is a people business. Just like most of the firms that you all work for, it's really just the people, and so you've got to make sure you do a deal that's structured so that they're going to stick around and be around for the long-term.

And by the way, being a publicly traded Company on that final one is a real plus. There are not many firms in our industry who are publicly traded companies that can use stock and stock options to retain people. And so that has been a big game changer for us as it relates to just having conversations with people of how we'd structure a deal.

One of the things that we can use now is equity to lock people in, whereas most of our competitors in this space are --. The big people we compete with, obviously -- the big banks, the big life insurance companies -- are all publicly traded. But as it relates to the mortgage origination market to pick these people up, having the currency is somewhat unique -- publicly traded currency, I should say.

[More of a minute], so I think I can end a little early and let all of you go. Thank you very much for spending the time and learning a little bit more about W&D.