Company Name: Walker & Dunlop, Inc.
Event: JMP Financial Services & Real Estate Conference 2014
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<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Okay. Good afternoon, everyone. My name is Steve DeLaney. I am the senior mortgage finance analyst at JMP Securities. Along with my associate, Ben Zucker here in the front row, is our pleasure to introduce Walker & Dunlop; ticker WD.

The Company was IPO'd in 2009. Currently has a market capitalization of about $420 million. Walker & Dunlop is an internally managed commercial real estate finance company headquartered in Bethesda, Maryland. It is one of the country's leading originators of multifamily loans sold to Fannie Mae, Freddie Mac and HUD.

Last night the stock closed at $13.11. The price to book value is approximately 1.2 times and the stock is trading at about 8 times 2015 estimated EPS. JMP rates Walker & Dunlop market outperform. Very pleased to introduce the Chairman and CEO, Willy Walker, to my right. We also have Steve Theobald, the CFO, and Claire Harvey, Investor Relations, with us from the Company. Now we're going to do something different and liven up the afternoon.

Everybody has had lunch and has been sitting in a lot of presentations. You are not going to have to see one more slide presentation. Willy and I are going to try something. We are going to – I think Claire referred to it as a fireside chat. We are going to have a rolling conversation back and forth about the business, about Walker & Dunlop.

We would love to encourage your jumping into that conversation with questions. So if you would, instead of Q&A at the end, we will have Q&A rolling through. If Willy and I talk about a subject and you would like a follow-up, please just raise your hand. If I don't see you please just speak up, okay? So with that we will kick it off.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Great.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Willy, did you have any opening remarks, or do you want me just to jump in because I can?

<<William M. Walker, Chairman, President & Chief Executive Officer>>

First of all, good afternoon. Nice to be here. Second comment I would make is that the real estate financing markets are extremely robust right now, as many of you probably know. And Walker & Dunlop, having the platform that we have and the client relationships that we have, has a extremely strong market presence in the multifamily financing space, which had been the market to be in for the last several years.

And as Fannie Mae's largest DUS lender, Freddie Mac's second-largest seller servicer, and HUD's fifth MAP originator of mortgage loans in the multivertical, we have great market presence there. And as we announced last night, the acquisition of Johnson Capital, which is a brokerage firm based in Irvine, California, we have been very focused on building out our loan brokerage operations to expand into other commercial real estate verticals such as hospitality, retail, office and industrial. And so we are very pleased with the acquisition of Johnson Capital. It will add around 40 loan originators to the Walker & Dunlop platform. Johnson capital has done about $1.3 billion a year over the last three years on average in loan originations. And we think that there is a huge opportunity to bring that origination platform onto Walker & Dunlop, use our brand and market presence to be able to make those originators far more productive, and then in the process of that do more multi as well as more non-multi in office retail and hospitality.

<<Steven Delaney, Analyst, JMP Securities LLC>>

Let's review. I was going to start by asking you if you had met someone four or five years ago and talked about Walker & Dunlop with them, and they had gone away and hadn't looked at the Company, how different the Company is today. And you just touched on part of it. But can we just review the strategic initiatives of the last couple of years that have moved Walker & Dunlop from being a government – an agency multifamily lender into what I refer to as a comprehensive commercial real estate finance platform?

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Sure, Steve. So if you – I will back up a little bit before IPO, if I can.

<<Steven Delaney, Analyst, JMP Securities LLC>>

Yes sure.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

So in 2009, January 2009, we acquired Column Guaranteed from Credit Suisse in the depths of the financial crisis. Prior to that acquisition we were really just a Fannie Mae DUS lender. And we were the tenth largest Fannie Mae DUS lender in the country and we had a small brokerage operation in Washington DC. Servicing portfolio at that time I think was somewhere around $5 billion of commercial mortgages, predominantly Fannie Mae.

In January of 2009 we acquired Column from Credit Suisse which added to us a larger Freddie Mac origination platform, as well as a large HUD origination platform. So we added Freddie and HUD in early 2009 and gained the scale of that provided us with. We added no brokerage capability in that deal.

Fast forward to 2010, we decided to go public because we saw opportunities to continue to grow as capital came back and as the market healed from the 2008 downturn. Our scale with Fannie and Freddie at that time put us sort of between five and ten on the league tables, seven and eight to be precise, with Fannie and Freddie.

And we went public, raised capital, continued to grow those operations and then in 2012, two years ago right now we acquired CWCapital from Fortress. The acquisition of CW basically doubled down on our Fannie/Freddie/HUD businesses and moved us dramatically up in the league tables.

We became Fannie Mae's largest DUS lender two years ago and maintained it for last year. We have moved from number eight with Freddie up to number two with Freddie. And by the way, we weren't even a lender for Freddie in 2009 before acquiring Column. We weren't even in that business. Today we are their second largest lender. On the HUD side we were way, way back in the league tables. We are now number five.

And then we also invested in bringing on teams in the capital markets business. So we added a team in Florida, we added a team in Wisconsin, we added a team in Tampa, we added a team in Phoenix, we added another team in Southern California and started to grow out our commercial mortgage brokerage business. As we grew out the mortgage brokerage business one of the issues that anyone who invests in Walker & Dunlop can go and comp us to some of the peer brokerage firms. Look at us versus HFF or CBRE, you will see that we are far more profitable than either of those two companies, because we're a lender and we take a risk on the capital we put out, we're not just brokering. As we grow up the brokerage operations, if we did nothing but grow out brokerage we would be dilutive to margins for as long as we are just doing the brokerage operation growth. Nice because it diversifies us. Bad because it is just dilutive to earnings.

So one of the pieces of our strategy has always been to try and put as many loans through loan executions, where we book mortgage servicing rights. So on Fannie execution we book mortgage servicing rights, Freddie we book mortgage servicing rights, HUD we book mortgage servicing rights. And then we started using our balance sheet for lending. And on our balance sheet we're not booking mortgaging servicing rights, because we're not selling loans, but we are booking interest income. And that has actually become a very significant – not very, I should say it has become a significant piece of our financial statement.

And so three years ago we launched an Interim Loan Program to take non-stabilized multifamily deals, put them on our balance sheet, let them season and then take them out with loans from Fannie, Freddie and HUD. And then as CMBS came back, we said, hey, we need in CMBS, as well. So last year, we put together a joint venture with Fortress and we just did our first securitization of CMBS loans. It was only $58 million of collateral, but the first is always the hardest. We've got not done and we are now back in the market and growing the CMBS platform quite dramatically.

So what we've done over that period of time, if you back up to where I was previously before we went public, we were just Fannie Mae, then we added Freddie and HUD, servicing portfolio was at $5 billion today, it's at $40 billion. Servicing portfolio back then was kicking off, I don't know somewhere between $10 million and $20 million a year. Now it is up to almost $100 million a year. In that servicing portfolio, I think, one of the things that you said we are trading at 1.2 times book value.

I think a lot of investors get confused at our servicing rights versus single-family MSRs. Single-family MSRs are obviously prepayment unprotected. You go re-fi your loan and you pay it off and you go get a new one. In the commercial space it is predominantly prepayment protected.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Much harder asset.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Much harder asset. 89% of our servicing portfolio is prepayment protected. So that's a 10.2-year average life on the servicing portfolio. 89% of it is prepayment protected and we're earning 24 basis point on average over the entire portfolio. So that is a huge asset for us to have at W&D. And so if you will the name of the game is continue to grow the origination platform, gain access to more deal flow. We did $8.4 billion of origination's last year and we feel very good about where the markets are right now and where origination volumes are. And we will continue to broaden the platform and continue to move forward.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Just a housekeeping question. But with the first CMBS conduit loan sale, how is that joint venture branded as far as when we read commercial mortgage alert and we see the list of sellers, will we know that is Walker & Dunlop.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Yes, we contributed to Wells and I don't know whether if you read the tape, Steve, you will be able to see that it is Walker & Dunlop Commercial Property Funding that actually contributed in. But that's what we're doing it under is Walker & Dunlop Commercial Property Funding.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

We tracked those weekly. So, okay, great. Now, okay so that is a lot of different pieces have come into play. But I'm going to use your own words that in 2012 with CW that you doubled down.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Yeah.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

On your multifamily strategy. And then in 2013, Ed DeMarco, who is running the FHFA, just kind of threw one of those 12 to 6 curveballs kind of right over the plate. And I'm not be making light of it because you were making a very strategic move and at the same time doubling down you were also committing capital to branching out. And talk about the 2013 experience – and I didn't explain what – I maybe just gave a little analogy there – you can better than I explain to everyone kind of what 2013 was like in the agency multifamily space.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Not a lot of fun.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Yeah.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

So if Ed DeMarco had stayed in as regulator of FHFA and the head of FHFA, our bet on CWCapital I think would have been a good bet but not a great bet. The fact that Ed DeMarco is not running FHFA anymore, our bet on CWCapital is going to turn out to be a great bet. It gave us all the scale that we were looking for. It gave us the market presence that we were looking for and it gave us the servicing portfolio that has added dramatically to the financial performance of Walker & Dunlop.

So if hindsight had been perfect at that time and I had known what is coming up in 2013 from a regulatory standpoint, we probably wouldn't have gone forward with the deal, but we obviously didn't know. I think we reacted extremely well to what the market – the hand the market – the hand that we were dealt by the market in diversifying the business in 2013.

But it was a year ago at this conference, here, that my CFO, Steve Theobald, and I got to sit around as we had preannounced on our origination volumes that we had given guidance of $2.2 billion to $2.4 billion of originations in the quarter and we preannounced to do $1.7 billion to $1.9 billion.

It was a long day. And the shift in the last year I cannot in any way adequately tell you what a difference it has been. DeMarco at this time a year ago was saying I want Fannie and Freddie out of the market. We want to bring as much.

[Inaudible]

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Yeah.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

So before the alarm goes off.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Yes.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

If you look at Fannie and Freddie's lending volumes in the multifamily space, and that is all publicly available information, you can see that both of them were doing about $1 billion a month for January, February, March and April of 2014.

Each of them, so about $2 billion between the two of them. And then the moment this new scorecard came out under Mel Watt in early May, it was you're back in business, get going. And both of them have stepped their monthly originations up to $2.5 billion to $3 billion a month. And they have both been the dominant providers of capital in the multifamily space. And so being Fannie's largest partner and being Freddie Mac's second-largest partner and fastest-growing partner has paid massive dividends for us.

And so a year ago right now if I went to meet with a multifamily borrower they would say great, I am a big Fannie or Freddie borrower, I have done a ton of loans with them but I am concerned about them being around in the future. Can you take it out to a life insurance company, can you take it to a bank, can you do CMBS? Today it's take it to Fannie and Freddie get me the best deal you possibly can. And so it has really become a two-horse race again. And as one of the biggest players in the two-horse race, we're benefiting dramatically from the scale that we gain by doing CW.

So everything that we wanted in the CW transaction is now bearing fruit. But we went through a difficult 2013 from a regulatory standpoint when the regulator was pulling Freddie and Freddie out. Mel Watt is there for the next four years. So he was confirmed in January, so he is there until January of 2018. And on the regulatory side on Capitol Hill, you add the Johnson-Crapo GSE reform legislation that basically didn't come out of committee. It got through committee with 13 votes, six Republicans, seven Democrats. Harry Reid said that is enough – not enough for me to take it to the floor. And for all practical purposes GSE reform legislation is dead right now.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

It would seem – I would echo – I'd certainly, that is my perspective and for – not choosing sides but I personally was hoping there would be some control primarily on loan size on single-family loans. Because I am very vested in seeing the private label securitization market get going again. In treasury, that is a problem. Okay. But I think – it seems to me that right now, and what – you live there, so you have a better sense, but the concept of GSE reform is off the table with housing trying to get better. It seems like it's just not a priority at this point. The GSEs themselves are printing money for the government and it seems like the status quo. If we were to try to – as executives are trying to plan how do I run my business for the next three to five years, do you view the environment with the GSEs as being status quo?

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Yes. It's hard to find a political scenario that would tell you that you can get momentum on GSE reform. Hard to figure it out. You can have the Republicans take over the Senate and you might have Richard Shelby become the Chairman of the Banking Committee. Is he going to go and try and retread the path that Johnson-Crapo tread and then bring a bill up to President Obama, which he will not sign into law? No. He is probably not going to waste his time on that. You wait till 2016, new president, is it going to be a top-of-the-mind issue for a new president to try to do GSE reform? No.

So the one thing that I always thought was going to drive the issue, was the private sector hedge fund lawsuits against Fannie and Freddie, against Treasury, because they had an unjust taking. And if you look at Fannie Mae's stock price today it will tell you that many people believe that that effort in the courts is going to fail. Because Fannie's stock price has fallen from I think it hit a high of $4.75 and it's now down below $3 a share. That tells me that private capital is saying the chance that lawsuit goes through and forces the hand of government to make a decision, do we pay hedge funds money, or do we reflow Fannie and Freddie, or do we wipe them out? That decision, I don't think, is going to have to come up via the courts.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

One of the things that – I think you and I had this conversation, or it may have been on one of your earnings calls – so we now have Mel Watt in a mode of let's preserve, let's sustain, we are not going to rock the boat. But there are things he can do as the regulator, apart from reducing limits along the lines of affordable housing. And you have used the phrase, brass and glass.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Yes.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

I believe, as to define maybe where there was sort of mission drift by the program. The way you are positioned in the market, if there is essentially unlimited capital or no constrains on lending volumes, do you – does Walker & Dunlop's business suffer or benefit if the shift is away from high end to more affordable price control type units?

<<William M. Walker, Chairman, President & Chief Executive Officer>>

So I met this morning with two Johnson Capital originators who we basically just acquired last night. And I met with them this morning to talk to them about our platform. They are both based here in New York. And one of them said to me, how can I compete on the platform? And I said a year ago the regulator was trying to pull Fannie and Freddie out of brass and glass, high end. We were looking at doing a $325 million loan over in Long Island City for TF Cornerstone, which is a big developer here in New York. We had Freddie on it. We were going to win with Freddie, and the regulator whispered in Freddie's ear and said he went to in that deal. We want you out of the high end.

So we will let life insurance company capital, whatever. Today there is none of that. We can do that deal running away with it today with the agencies. The reason is that Watt has changed the scorecard to basically say you can do as much on the high end as you want as long as you do what I want you to do on the bottom. So you do your affordable targets. You do your small loans you do your manufactured housing. I will let you do all you want on the top. But you don't do that and I'm going to take it away from you on the top.

So Fannie and Freddie are both very focused right now. We are Fannie's largest manufactured housing lender. We did Freddie Mac's first manufactured housing loan that they have ever done this July. So we're very focused on manufactured housing. We've got a good affordable presence. By the way, 90% of what Fannie and Freddie do qualifies as affordable housing. 90% in the multifamily space, 90% of what they do qualifies as affordable housing.

So I think at the end of the day the real excitement is that we've got this great platform. We've got a great brand and we're using our market position in multifamily to break into borrowers, to get relationships on retail, office and hospitality.

And that allows us quite honestly Steve, to walk in and someone says I love CBRE. We've worked with CBRE forever. And we say that's great and good but if you want to work with the best in multifamily, you better work with us. And they say, why? Well, tell me what are you doing that CBRE is not doing? And that is a differentiator today that then once you walk in and can get in the door you then create the relationship that can expand out into other asset classes. That's a big, big game changer for us.

<<Steven C. DeLaney, Analyst, JMP Securities LLC>>

Let's talk about the production side because that's a great description of what's going on the client relationship side. You're putting out a lot of press releases lately about loan closings, but also a lot about new hires. You just hired three for the CMBS platform. You have opened an office in Charlotte. What's the pitch? What's the hook right now for recruiting these new originators of all different shapes and sizes I guess because you are so diverse in your lending products? What are you looking for? And, I know you cannot name names, but if Walker & Dunlop is the winner in the recruiting war, where are these people coming from?

<<William M. Walker, Chairman, President & Chief Executive Officer>>

They are coming from all of our competition. They are smart people who want to be on the platform for the next three years. Honestly, they are not picking to go to Walker & Dunlop because we are offering them a nice signing bonus today and they are going to sit on that signing bonus. They want to be somewhere where they can as productive as they possibly can. And so they are saying who is going to win over the next three years and I want to be here.

So it is brokerage firms, its banks who are big competitors of ours. And I will give you one – I mean something that I use as an example is we had one broker who joined us from a competitor in 2012. He had done $250 of originations on the competitive platform in 2012. He came to Walker & Dunlop and did $330 million in 2013 and he has done $360 year-to-date at Walker & Dunlop this year. What's more exciting about that is that the percentage of his business that he is done with Fannie, Freddie, HUD and on our balance sheet is at over 40%. It is 42% of his deal flow this year has been on products where we are booking mortgage servicing rights.

Last year of his $330 million, he did $65 million with Freddie and that was it. So, that producer has become massively valuable to us not only because he went from $250 million to $360 million year-to-date and probably will do $400 million, but because he is doing originations with Fannie, Freddie, HUD and on our balance sheet where we are booking MSRs, or interest income.

That's the value of the platform, that's the value of having those executions where we are not just like HFF where it is being brokered off. We are actually capturing more than just an origination fee.

<<Steven C. DeLaney, Analyst, JMP Securities>>

Okay. That's a good segue. Willy, would you mind at this point if we take a second and see if the audience has any questions? We've been rambling back and forth together and I just wanted to get everybody that's been listening in the back.

Question-and-Answer Session

<Q>: [Question Inaudible]

<A – William M. Walker>: Sorry, I couldn't hear – hang on just a second.

<Q>: [Question Inaudible]

<A – William M. Walker>: Pretty much status quo. Status quo. They are both energized again, which is great to see. They are both excited. They are winning. They've got a lot of morale back in the troops and it is great to see. They were both, I would say, dealing with very significant sort of morale issues and sort of were being pulled out of the market in 2013. And they are both back on it in 2014 in a big way.

<Q>: [Question Inaudible]

<A – William M. Walker>: Yeah.

<Q>: [Question Inaudible]

<A – William M. Walker>: They are going to grow, first of all. They are going to grow. They are both capped but the regulator has allowed them to do as much manufactured housing, affordable

housing and small loans as they want to. And that was somewhere between $4 billion and $6 billion for each of them last year. So you can take that out of their total and add it to their total if that make sense?

So if Freddie is capped at $26 billion and Fannie is capped at $28 billion you can add on to that, out of that number you can pull out their small manufactured and affordable and add it on. So theoretically Fannie could do $34 billion this year. They are not going to, but both of them at a run rate of $2.5 billion to $3 billion a month, they are both going to get into the mid $20 billion numbers by the end of the year.

So first of all, there is growth there. The second thing is in getting into small loans, 40% of the multifamily market is small loans. Below $2 million, 40% of the market, and they are nowhere in that market. That has all been banks. So both of them view – we've got 40% of the market they we are not even touching today. We can grow our business. The regulator has given us carte blanche to do as much small loans as we want. They are going to focus on doing more small loans as well, which means that they will be back in growth mode.

The final thing is we have been gaining a lot of market share. We were 18% of Fannie Mae's market share in Q2. 18% and we've gone from being – you look at the graph we did in our Q2 earnings, what we've done with Freddie Mac, we have 13.6% market share with Freddie Mac in the first six months of the year. There is nobody else growing as fast with Freddie as we are. So CB is number one at 20%, we are now number two at 13.6%. So we are winning where others are losing.

<<Steven C. DeLaney Analyst, JMP Securities>>

And we've got 20 seconds left. Any other questions? Well, Willy…

<<William M. Walker, Chairman, President & Chief Executive Officer>>

We didn't even talk about the valuation and how we are valued where we are. I thought you were going to give people some view on why we are trading where we are trading?

<<Steven C. DeLaney Analyst, JMP Securities>>

I owe Willy an updated model and an updated note and I promise to all of you we will get that out. We will get a sum of the parts kind of analysis out very soon. It is an exciting story. There's a lot going on…

<<William M. Walker, Chairman, President & Chief Executive Officer>>

I will only say that Fortune Magazine just named us one of the 100 fastest growing companies on their 2014 list. And if you look at the median and mean PEs of the 100 companies on that list, it is 28 and 21.

<<Steven C. DeLaney Analyst, JMP Securities>>

And you are 8.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

We are trading at 8.

<<Steven C. DeLaney Analyst, JMP Securities>>

Yeah.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Okay. And so that is a three-year average, so people have comped us poorly over the past year fine. We did an acquisition Fannie Freddie were pulled back, but we are now back doing what we are doing. And there is absolutely no reason that a company that has grown as fast as we have shouldn't have a better multiple.

<<Steven C. DeLaney, Analyst, JMP Securities>>

Yes. Willy, thank you very much.

<<William M. Walker, Chairman, President & Chief Executive Officer>>

Thank you, Steve.

<<Steven C. DeLaney, Analyst, JMP Securities>>

It was a pleasure.