WALKER & DUNLOP (1ST QUARTER 2017)

Moderator: Claire Harvey
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3:00 p.m. ET

Operator: This is conference # 050317walker

Operator: Welcome to the Walker & Dunlop's First Quarter 2017 Earnings Conference Call and Webcast.

Hosting this 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, Investor Relations.

Today's call is being recorded and will be available for replay beginning at 11:30 a.m. Eastern. The dial-in number for the replay is 800-283-8183. The archived call is also available via webcast on the company's website.

At this time all participants have been placed in a listen only mode and the floor will be open to your questions following the presentation. If you would like to ask a question at that time please press star, one on your touchtone phone. If at any point your question has been answered you may remove yourself from the queue by pressing the pound key. We ask the you please pick up your handset to allow optimal sound quality.

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

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

Claire Harvey: Thank you, (Erika). Good morning, everyone, and thank you for joining the Walker & Dunlop First Quarter 2017 Earnings Call.

I have with me this morning our Chairman and CEO, Willy Walker; and our CFO, Steve Theobald.

This call is being webcast live on our website, and a recording will be available later this morning. Both of 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 some of what Willie and Steve will touch on this morning. Please also note that we will reference the non-GAAP financial metric adjusted EBITDA during the course of this call. Please refer to the earnings release posted on our website for a reconciliation of this non-GAAP financial metric. Investors are urged to carefully read the forward-looking statements language in our earnings release.

Statements made on this call, which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements describe our current expectations and actual results may differ materially. Walker & Dunlop is under no obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our annual and quarterly reports filed with the SEC. With that I'll turn the call over to Willie.

William M. Walker: Thank you, Claire, and good morning, everyone.

I recently celebrated my 50th birthday and as a gift, my father arranged for me to visit the USS Roosevelt aircraft carrier as part of the Navy's distinguished visitors program. It was an amazing experience to watch fleet operation and spend time with the men and women of the United States Navy. As I lay in my bunk, listening to the final plane coming to a roaring stop at 1:30 a.m. in the morning, and I was awoken only four hours later by the first plain off, I thought about the amount of practice it takes to ensure that flight operations can be executed flawlessly.

Every one of the 5,000 people on the USS Theodore Roosevelt knew exactly what his or her job was, how to do it and how it fit in the mission of launching and retrieving squadrons of F-16s. And while operating an aircraft carrier and flying fighter jets is dramatically different than leading a commercial real estate financial company, I couldn't help but look at Walker & Dunlop first quarter 2017 performance and think that our focus, definition of mission and exceptional execution is somehow analogous to what I watched happening on the USS Roosevelt: Define the mission, establish roles and responsibilities, practice, improve, execute. Do it again.

And once again, W&D is posting financial results that reflect our team's incredible performance throughout the first quarter. $5 billion of total transaction volume is a first quarter record. We grew volumes much more significantly than the market due to the brand we continue to build and the additional loan origination talent we have added to the platform. Record loan volume usually generates record revenues which topped $158 million this quarter, setting us up nicely for over $600 million in revenues for 2017. Net income swelled to $43.2 million, an increase of 180 percent over Q1 last year, generating $1.35 per share. As shown on Slide three, trailing 12-month revenues now total $640 million, with $4.52 in earnings per share.

Finally, as we mentioned in our last earnings call due to the size of our servicing portfolio and the cash flow it is generating, we surpassed $50 million in quarterly adjusted EBITDA for the first time in the company's history and skipped right over the $40 million in the process, as our previous record was $36.2 million.

Our first quarter financial performance underscores many of the themes we have been discussing for several years. Continued growth of our loan origination platform, recruitment of highly talented mortgage finance experts, organic growth of the loan servicing portfolio and the economies of scale achieved when executing on our strategy.

In February, we provided investors with our view of the market opportunity over the next several years, with continued growth in all business lines and the specific target of generating over $1 billion in revenues by 2020. We also established ambitious strategic and financial goals for 2017. And with one quarter under our belt, we're firmly on the path to achieving our annual objectives.

The two Fed fund rate increases seem to have impacted investment sales activity across the industry, which according to Real Capital Analytics, was off more than 18 percent in Q1 from the previous year. At Walker & Dunlop multifamily investment sales team posted 83 percent growth in Q1, generating $287 million of investment sales activity. That is the great start to the year. And while we saw plenty of volatility in long-term rates throughout the first quarter, the cost of borrowing was not greatly impacted by the 50 basis point rise in short-term rates. With the weighted-average coupon for fixed rate loans we originated in Q1 being 4.42 percent, up only 14 basis points from 4.28 percent in Q1 of last year. It is our belief that due to the attractive yields on 10-year U.S. treasuries versus others sovereign debt instruments, that the yield curve will continue to flatten and that borrowers on the margin will continue to put long-term, fixed-rate financing on their properties as interest rates rise.

Before I turn the call over to Steve to run through our financial performance, I want to underscore an achievement we recently announced. In 2012, we established the objective of being a top five lender with Fannie Mae, Freddie Mac and HUD over the ensuing five years. We took the core team at Walker & Dunlop at that time, added CWCapital, Johnson Capital, Engler Financial and Elkins Mortgage and ended 2016 as Fannie Mae's second-largest partner, Freddie Mac's third-largest partner and HUD's fourth largest partner.

Achieving such an ambitious goal in just four years is a testament to the outstanding professionals at Walker & Dunlop, and reflective of the brand and market presence we've built in the commercial real estate industry. It is also reflective of our strong corporate culture, and our ability to acquire companies, seamlessly integrate them and then grow their loan origination and brokerage volumes dramatically on our platform, all while providing our clients with exceptional execution and high-touch customer service.

Deerwood Mortgage, which we required in Q1, is our sixth acquisition since the financial crisis and provides us with an exceptional team focused on the massive greater New York area. We're extremely pleased to have our Deerwood colleagues with us. Let me turn the call over to Steve. And I'll come back with further comments on our strategic objectives and outlook. Steve?

Stephen P. Theobald: Thanks, Willy, and good morning, everyone. At the risk is sounding like a broken record, Q1 2017 was yet another stellar quarter for Walker & Dunlop. And speaking of breaking records, this was the most profitable first quarter in the company's history, with just over $5 billion in transaction volumes and diluted earnings per share of $1.35 compared to $0.50 in the first quarter of 2016. Diluted earnings per share include the $0.27 benefit from reduced tax expense related to the vesting of employees' stock awards during the quarter that I will explain in a moment.

As the bottom line results imply, our key metrics for the first quarter were all above our expected target ranges. Slide five provides a summary of our key metric performance for the quarter, and as you can see, they all outperformed the prior year rather dramatically. Operating margin was above our range of 27 percent to 33 percent at 35 percent and well above the 26 percent we achieved in the first quarter of 2016.

Margins benefited from strong revenue growth in the quarter, as we originated over $4.7 billion in financing volume and completed just under $300 million in the investment sales. We continued to see strong market dynamics throughout the quarter, as evidenced by our 108 percent increase in Fannie and Freddie volumes.

We aim to once again one of the largest partners for Fannie and Freddie in 2017 and more than doubling of a volume of business quarter over quarter is a great start towards achieving that goal. Our HUD volumes were up 67 percent to $207 million, as our HUD team strives to originate over $1 billion of loans this year. We achieved that level just once before, in 2013, and with such a positive first quarter and strong pipeline, the team is well on its way to exceeding that mark again.

Our acquisitions of Elkins and Deerwood, along with our existing team, contributed to strong capital market volumes during the quarter as broker originations increased 53 percent year-over-year. Operating margin also benefited from lower personnel costs as a percentage of revenues, which were 35 percent compared to 36 percent in Q1 '16.

First quarter is typically our lowest quarter for personnel expense due to the structure of our commission arrangements. So as our bankers and brokers move towards top-end of the commission list, I would expect the personnel cost to the percentage of revenue to steadily increase over the remainder of the year towards our historic average of around 40 percent.

As we've seen in the last few quarters, gain on sale margin continues to benefit from the relatively high percentage of our business going to Fannie Mae versus other executions, and finished the quarter at 204 basis points, above our range of 180 to 200 basis points. In Q1 '17, 40 percent of our financing business was with Fannie versus 31 percent in Q1 '16, accounting for the increase in gain of sale margin from 188 basis points last year.

Return on equity was 28 percent, above our target of high-teens and over double the 13 percent we achieved in Q1 '16. We have seen our return on equity above 20 percent in each of the last four quarters, even as our stockholders' equity has increased from $502 million to $644 million due to the effective deployment of capital and the strength of our core earnings.

As I mentioned in our last earnings call, it is our expectation that due to the size of our servicing portfolio and core profitability that EBITDA is going to grow dramatically in 2017. As highlighted on Slide six, we generated $50.3 million of adjusted EBITDA in Q1, an increase of 55 percent over the $32.4 million achieved in Q1 '16. This is a record amount by a wide margin and reflective of the strong growth we've achieved in both our loan origination and servicing businesses. The servicing portfolio grew by 26 percent to $64.4 billion and the weighted average servicing fee increased from 25 basis points at March 31, 2016 to 27 basis points at March 31, 2017.

We ended the quarter with cash in the balance sheet of $51 million, down from $119 million at year-end. In addition to paying our annual bonuses during the quarter, we also used cash to acquire Deerwood, grow the interim loan portfolio by $91 million in outstandings, pay income taxes and purchase and retire shares of our stock to facilitate employee tax withholding on stock compensation.

As I mentioned earlier, our results included a $0.27 per share benefit from reduced tax expense associated with the vesting of employee stock awards during the quarter. In Q1 '16, we adopted a new accounting standard that requires the difference between the book expense and tax benefit from the vesting of stock awards be recorded to income tax expense rather than as a direct adjustment to equity, as required under the previous accounting method.

The difference between the book expense and tax benefit relates to the difference between grant date fair value of the stock, which drives book compensation expense and the vesting date fair value of the stock, which creates the income tax benefit. This accounting change had a meaningful impact on our quarterly results due to the vesting of our 2014 performance share plan and the significant appreciation in our shares over the last three years. On Slide seven, we provide a summary of all the stock awards that vested during the quarter, along with the calculation of the $0.27 benefit.

As you can see, the average grant price of each share that vested during the quarter was just over $17, while the value of the stock on the vesting date averaged almost $40 per share, resulting in a reduction in tax expense of $8.7 million compared to just $300,000 in the year-ago quarter. It is important to note that we did not consider this tax benefit when setting our objective of double-digit growth in earnings per share for 2017, as the ultimate adjustment from future vestings either positive or negative is difficult to predict. We were expecting a strong first quarter, particularly in comparison to the relatively slow first quarter of last year and we certainly achieved that.

At this point, we could simply repeat our results from the last three quarters of

2016 over the next three quarters of 2017 and achieve our objective of double-digit earnings growth. However, we believe we can continue to grow earnings over the next three quarters given the current market dynamics, the strength of our pipeline, the increased size of our origination team and the steady growth in servicing-related fees and income. As such, we remain optimistic in our belief that will continue to show year-over-year growth trends through the remainder of 2017. With that, let me turn the call back to Willy.

William M. Walker: Thank you, Steve. I want to loop back for a second to the aircraft carrier I visited recently. When a fighter pilot lands its F-16 at the carrier, he's shooting for the third catch wire on the deck. If he picks up the first or second cable he is coming at too steep an angle. If he catches the fourth cable, he's coming too flat and missed the target. And if he misses all the four cables, and needs to take off immediately, it is called a bolter.

Every day, the landing performance of the fighter pilot is analyzed and if a pilot gets too many bolters, he won't be flying fighter jets on the carrier much longer. As I listened to Steve run through our financial performance, I think it is fair to say that W&D team caught the third cable pretty consistently throughout Q1. The results Steve just discussed are a fantastic start to the year and our business is very well-positioned to perform at a high level going forward.

We established a goal at the beginning of the year to build an $8 billion to $10 billion asset management business at Walker & Dunlop. Last week, we reached agreement with Blackstone Mortgage Trust to create a joint venture with the strategic purpose of originating multifamily interim loans. This new partnership with Blackstone will greatly enhance our ability to scale our interim loan business and also bring with it a partnership with the largest owner of commercial real estate in the world.

We will fund 15 percent of the equity investment in the JV as well as underwrite, service and asset manage the loans originated and held by the joint venture. If we're successful in growing the outstanding loan balances through this partnership from the $313 million in loans on our balance sheet today to over $1 billion, our capital commitment will be somewhere between

$30 million to $50 million, significantly lower than the $100 million of capital invested today. This partnership provides us with a fantastic opportunity to expand our product offerings, while freeing up capital to grow our core loan origination and investment sales platforms and invest in new lines of business.

We've accomplished many things at Walker & Dunlop throughout the company's long history and worked with many fantastic institutions. It is a true honor to be in a partnership with Blackstone. And it is our intention to make this joint venture the cornerstone of both our asset management business, and a more expansive partnership with Blackstone over the coming years. We will continue to grow loan origination in 2017 with a long-term target of $30 billion to $35 billion by 2020.

That will require us to continue adding mortgage bankers and brokerage experts. And with the addition of Deerwood capital in Q1, we are well on our way to meeting our goal of adding between 15 to 25 bankers and brokers this year. We also have a goal of growing our servicing portfolio to over $100 billion. And at our current loan origination pace, we are on track there as well.

We have gained economies of scale by growing our top line and managing costs. In Q1, our only expenses that exceeded budget were commission expense, bonus accrual and depreciation and amortization. And those are all good expense overages as they are all directly correlated to increased loan origination activity.

As Steve mentioned, a 35 percent operating margin in Q1 exceeded our target, but it also demonstrates the financial results that can be achieved by maintaining cost discipline during a time of exponential growth. Even in a quarter with robust origination volumes that drove overages in compensation expense and amortization and depreciation, personnel cost as a percentage of revenues decreased year-over-year due to the scale we have created.

We're very focused on how we can implement technology to reduce our costs and enhance the client experience. And we'll likely make some significant investments over the coming years to remain technologically competitive in our ever-evolving industry. Those investments could take the form of additional technological resources inside Walker & Dunlop, consulting contracts to third parties, or the acquisition of a firm with technology that can be integrated into W&D's existing product offering.

I'd like to finish by discussing our servicing portfolio and the forward revenues we have amassed in growing the portfolio to over $64 billion. As Steve mentioned, servicing revenue has grown dramatically and our weighted average servicing fee is now 27 basis points. Due to 86 percent of our servicing fees being prepayment protected, we currently have nearly $1 billion of forward revenues that are contractually obligated to Walker & Dunlop.

Mortgage servicing rights are the present value of the future servicing income, and are very similar to software licensing fees or subscription fees. They are contractually obligated income and unless a loan defaults, we will collect every dollar of those forward revenues. Similar to a software or subscription fee business, investors in Walker & Dunlop should pay close attention to the quarterly change in net mortgage servicing rights as a leading indicator of future growth in servicing fees.

I'd ask you to turn to slide nine which provides the data to illustrate at this point by showing our net MSRs, defined as a mortgage servicing rights added during the quarter, net of any amortization and any prepayments in the portfolio during the quarter. If you add up the quarterly totals for 2016, we added $110 million of net mortgage servicing rights during the year.

If you look at the Black Line showing servicing fee income, you can see that our quarterly servicing fees have increased from $31 million in Q1 2016 to over $41 million in Q1 2017. And as the slide finally shows, we add $41 million of net mortgage servicing rights in Q1 of this year.

Walker & Dunlop's forward revenues are an extremely important component of our company's current and future financial performance and as such, we will start focusing on this as a key metric in our reporting going forward. I want to congratulate my colleagues at Walker & Dunlop for yet another fantastic quarter.

Our business and financial results speak for themselves. It is the culture and people of W&D that made us a great company. The demographic trends behind growth in the multifamily industry are well known, and W&D is extremely well-positioned to benefit from this continued growth. With that, I would like to thank everyone for joining us this morning. And open the line for any questions.

Operator: The floor is now open for questions. At this time, if you have a question or comment please press star, one on your touchtone phone. If at any point your question is answered you may remove yourself from the queue by pressing the pound key. Again, we do ask that while you pose your questions that you pick up your handset to provide optimal sounds quality, thank you. Our first question is coming from the line of Jade Rahmani from KWB – I'm sorry KW – KBW.

Jade J. Rahmani: Thanks very much. Just on the MSR point, how do you think about the net present value versus where it's carried on the balance sheet?

William M. Walker: Specifically, Jade, what you mean? I guess.

Jade J. Rahmani: Well, how much higher do you think the MSR is worth versus where it's marked, at I think $563 million.

Stephen P. Theobald: Clearly, as you know we do a fair value on the entire MSR portfolio each quarter. And that has historically been significantly higher than what we're carrying the book at. I think the point that we're trying to make here is what we are booking is an indicator of future growth in the servicing fees as opposed to necessarily a valuation point.

Jade J. Rahmani: And on loans that repay out of the servicing portfolio, what's your historical capture rate on the refinancing?

William M. Walker: We haven't disclosed that publicly, Jade. As you can imagine track it very closely. And work very hard to capture as much of it as we can we can. But we have not disclosed that number.

Jade J. Rahmani: I guess, can you maybe give some color on the current environment and commercial real estate investor sentiment, since there's seems to be mixed data, whether it's the real capital analytics volumes you cited or the market share gains that players such as yourselves appear to be experiencing. Just how do you characterize overall sentiment and sort of deal volumes?

William M. Walker: From the public data that we've seen as far as our competitor firms, Jade, everyone had solid first quarters. We grew, I believe, faster than everyone that I've seen. But nonetheless, it was a solid quarter for the industry.

I would put forth that the election and the subsequent market movements changed the attitude in the commercial real estate industry dramatically. And I believe that Q1 was somewhat of a sorting out as it relates to where interest rates were going to go and whether there were going to be any cap rate adjustments related to interest rate movements. And that is what if you put, if you will, downward pressure on investment sales although as you saw in our investment sales business, we actually had growth in the quarter.

But my sense is as we head into Q2, and without having a dramatic rate increase, those price adjustments that some investors are waiting for are not being waited for further. And I would think that we have increased investment sales activity in Q2 and continued refinancing and financing volumes in Q2 and throughout the rest of the year given the current market environment, as Steve mentioned.

Jade J. Rahmani: And since visibility from our perspective is limited, are you able to comment on whether volumes increased sequentially through the quarter? Maybe what percentage of volumes came in March and also, any color on how April looked?

William M. Walker: Yes, I put forth the following. As you know we had a very strong Q4 and there wasn't a lot of carryover business between '16 into '17. It was a very consistent flow throughout the first quarter. And as Steve mentioned our pipeline for Q2 looks very good.

And I would say to you that as we look out at the overall activity across every business line we have, they're all in very active. There's not one that's sitting there saying oh, investors haven't gone there or people don't like that source of capital. We're seeing very active markets across all of our business lines.

Jade J. Rahmani: And just lastly, on the joint venture with Blackstone Mortgage Trust. Can you comment on the structure? You mentioned the 15 percent capital that you would be contributing, but also if you'll receive any management fees? And how you envision the business growing from here, that $1 billion in volume target, is that a one year target or is that a year-end target?

William M. Walker: That's an annual origination target. And we haven't disclosed the specific fees as it relates to asset management fees and origination fees as such in the joint venture. But there are fees between us and Blackstone to reward both parties for helping grow the venture.

Jade J. Rahmani: Thanks very much.

William M. Walker: Thank you Jade.

Stephen P. Theobald: Thanks Jade.

Operator: Thank you. Our next question will come from Steve Delaney with JMP Securities, please go ahead.

Steven Cole Delaney: Well good morning and congratulations on the strong start to 2017. Willy, obviously volume up 90 percent is kind of mind-boggling. Can you estimate for us how much of that increase you would attribute to your 2016 acquisitions versus what we might call same-store production? Thanks.

William M. Walker: We haven't broken that out, Steve. I would just put forth that as we talked about in our Q4 call three months ago -- a little bit less than three months ago, the team that we put on the field, if you will, in 2016 really didn't have that much impact on our 2016 financial results, which as you know were fantastic.

So, I do believe that what we are now gaining right now is the additional flow from having added quite significantly to the team in 2016. And as you know, we continue to add the team in 2017. But I would also put forth to you that our top mortgage bankers, the people who are at the top of lead tables, if you will, as it relates to production volume, are as productive if not more productive than they have ever been.

And I do truly believe that is due to the brand that we have. And the fact that when people are thinking about specifically agency financing and HUD, they say, if you want to go to the best, you go with Walker & Dunlop. There are one or two other competitors that are in same, if you will, competitive set with us and you know well who they are. But I do believe that the brand and the reputation we've built is starting to incrementally win that additional, if you will, unit of business. So I think it's a combination of new feet on the street, access to deal flow, as well as the overall platform growing in the productivity of the very, very talented bankers that we already had at W&D.

Steven Cole Delaney: That's very helpful. Thanks. Sounds like the long timers are stepping up the game as well, so not just adding incremental producers. In the first quarter, if we look at the sort of the mix between -- you had nice Fannie, you had nice HUD – 40 percent Fannie, close to five percent HUD. Can you comment on sort of if you look at over the year, whether you think that mix is sustainable, obviously given that those are highly profitable products versus Freddie Mac?

William M. Walker: Yes. There are two things there. First of all, as you look at our market share over the past several years, we have sort of been in a band with both Fannie and Freddie in sort of 10 percent to 12 percent of each their annual volume. It's obviously our hope and expectation to continue to grow market share with both of them. But to some degree, as we move up with one on our given quarter and have a sort of slow quarter with other one, invariably they kind of revert back to the mean.

With that said, I did underscore what we're seeing from a borrower preference standpoint, which is going with long-term fixed-rate financing as we are in this increased rate environment. And Fannie has been stronger than Freddie. Doesn't mean that they won't change their strategy and get very, very competitive on these products in the next quarter or two. But year-to-date and throughout 2016, Freddie Mac was a stronger floating rate lender and Fannie Mae was a strong fixed-rate lender.

And so as our clients are opting for long-term fix rate financing, Fannie has been the more competitive bid. And that has therefore, driven stronger volumes of Fannie Mae. But I would underscore Steve that both Fannie and Freddie move in and out of the market and move in and out of certain products throughout the year given their overall origination volumes, and where they sense the competition playing and where they want to play.

And so I wouldn't sit there and sort of, sit back and say OK, for the rest of the year Fannie's going to own the fix rate market and Freddie's going to own the floating rate market. The two of them jump in and jump out. And then the only other thing I would underscore there is the following, private equity firms, the big sponsors, typically like floating rate debt, because it gives them prepayment flexibility and as you know their fund lives are typically seven years. So they would want to buy assets and move them inside of a 10-year window.

And so therefore, they typically shy away from long-term fixed-rate financing and opt towards short-term floating-rate financing. And as you've seen with some of the big deals that we've been in the past with big sponsors, those have typically been large deals, but typically done with Freddie Mac on floating-rate debt.

Stephen P. Theobald: I would just add…

Steven Cole Delaney: So you’re – go ahead Steve.

Stephen P. Theobald: Yeah. Sorry Steve, I was just going to add to what Willy said on the brokerage side, so -- where we are seeing a pretty significant lift from the acquisitions we have done is on the broker production. And I would expect to see outsized performance on the brokerage side, which is why we've guided gain on sale margin to the 180 to 200 basis point range.

Steven Cole Delaney: Got it, because obviously that is a lower margin product. OK, thank you both for that. Just to wrap it up, I mean, we could talk about seasonal patterns and things, but I think you covered it pretty well for us and we'll be in good shape for modeling.

So just stepping back from kind of how obviously the momentum that you've built, the macro risk to the business model generally to W&D, what do you see out there, Willy, that could -- forget things being -- I'm talking about things beyond your control that could change the marketplace and slow the kind of momentum that you're on? I think about the 10-year treasury yield as impacting borrower, but is that it or are there other factors that we should be thinking about?

William M. Walker: We'll see, what the Fed does from an interest rate standpoint, Steve, but as we have spoken about, where we are projecting that if the yield curve continues to flatten. And that the 10-year U.S. Treasury remains relatively low, given buyer interest in continuing to hold that.

As such, long-term fixed rate financing is still relatively very cheap. And so other than very, very consistent continued rate increases by the Fed throughout this year and into next year, I don't really think that the interest rate environment is going to change too significantly to slow down the normal financing environment.

If -- as we saw in Q1 from an M&A standpoint, big rate movements in a short period of time typically get real estate investors to pause and wait for cap rates to adjust. And so if you get sequential rate increases, I do think that the M&A activity and investment sales activity will slow for a period of time, as people wait to see whether prices adjust. And just as we're seeing right now, once they have seen whether they either adjust or don't adjust, they just come back into the market.

The second thing is that I was very surprised that with only 70 basis points of GDP growth in Q1, that the equity market didn't sell off a little bit more. And that we didn't actually get more of a rally in treasuries. And so as a result of that with the equity markets continuing to perform the way they are, I do think there is a general sense out there that CEOs and owners of commercial real estate are investing. They think that growth is coming.

And I think that, that is net positive for both the equity markets as well as some of our business from an investment standpoint. And then the final thing is on a kind of a political landscape. President Trump came into office with a laundry list of things he wanted to get accomplished. Everybody knows that, that laundry list has not actually come to fruition nearly as quickly as the president would have liked.

And I do believe that right now, there's a sense that those major initiatives are going to need a much bigger lift than the President expected. And therefore, I think that Congress is really focused on the major topics. And as such I think that GSE reform, as much as it gets bantered around, is a topic that a lot of people think needs to happen. I don't know whether you saw Don Layton came out yesterday on Freddie Mac's earnings, and basically said that having a zero capital cushion is not going to impact Freddie Mac's business going forward.

So as much as people hear that there is zero capital cushion at the agencies, given their lines of credit at the Treasury that are established under HERA. Right now GSE reform is a topic that is being discussed on Capitol Hill, but from our standpoint there are two things: one, doubt any significant thing happens either this year, potentially next year; and the second thing that is very consistent in all conversations on GSE reform is that the multifamily businesses of Fannie and Freddie have private capital in front of public capital and that they work. And so our thinking is even if there is something on GSE reform legislation, that it really will not impact the multifamily businesses of Fannie and Freddie.

Steven Cole Delaney: That’s great. Very helpful big picture color. Thank you.

Operator: And as a reminder if you would like to ask a question you may do so by pressing the star and one on your touchtone telephone. Again, that is star and one to ask a question. And we'll go next to Charles Nabhan from Wells

Fargo, please go ahead.

Charles Nabhan: Hi good morning and thank you for taking my question. Most of my questions have been asked, but I want to get your comments on the competitive environment. Specifically, your results would imply that you're getting market share from somebody. So I just wanted to get a sense of what you're seeing out there, whether some of your competitors are retracting, whether they're aggressively pursuing the same business? And furthermore, if you see, if there is potential to go up the rankings in Freddie and HUD during 2017?

William M. Walker: Well, Chuck, a couple of things. One, I follow our competitors press releases quite a bit and also, have a pretty good sense from a recruiting standpoint who is adding people and who is not. And throughout 2016, I don't think it's a stretch to say that we were one of the few that was actually adding people during 2016 because it was our view that the markets were strong and were going to stay strong. Whereas I think some of our competitors felt that the markets were coming to the end of the cycle and therefore, were holding.

And so what we are seeing right now is that additional sales force, the people out there every day are really starting to benefit us when many of our competitors last year were not adding. I think the second thing on that is just as we have continued to grow this platform and grow the brand, we're picking up that incremental piece of business, as I talked about previously. And I think that just comes from having executed for some great clients who then turn to other clients and say, why aren't you working with Walker & Dunlop?

The third thing I'd say there is, as you know we have been some large transactions in the past, although, Q1 really didn't have too many big transactions. It had one specifically on the student housing side which we announced. But we started to work with some of the larger borrowers, some of the sponsors, and clearly working in to get access to them is a very difficult thing. But once you get in there, they're a huge source of potential deal flow and we've been very successful at capturing deal flow from some of the very biggest owners of commercial real estate in the country.

And I think that as it relates to your question on can we move up in the league tables, we were number one with Fannie for three years and then fell back to number two. As you can imagine, we are desirous to get back into the number one spot. On the Freddie side, we have been three and four and we were three at the end of last year.

Can we jump up to number two? We'd love to. But we've have got to keep our head down and keep going. And then on the HUD side, as you saw in the press release we made just a couple of weeks ago, and I highlighted on my comments, we've now gotten into the top five with HUD. And we're thrilled to have ended last year in the number four position. And as Steve said in his remarks, given what we did in Q1 and given the HUD pipeline, yes, we very clearly move up in the league tables on the HUD side, given the team we have and the pipeline we have right now.

Charles Nabhan: Great. And as a follow-up, just wondering if the BXMT joint venture and your upcoming investments in technology alter your M&A strategy at all? And if not, just wanted to get a sense for what you're looking for, what you're seeing from pricing standpoint, as well as the willingness of potential targets to sell?

William M. Walker: So Deerwood, as I mentioned, was our sixth acquisition since our financial crisis. And as you know, up until now, we've only acquired either loan origination platforms or investment sales platforms. We continue to look for them and continue to think that we know how to both identify them -- identify platforms that are culturally aligned with us and be able to execute on the acquisition and then integrate the people, which is no minor feat, and then actually take their volumes to a whole different level.

So given our track record there, there's absolutely no reason for us to sort of forget about that as a means for our future growth and, quite honestly, leveraging off the capabilities that we have at Walker & Dunlop. With that said, I did outline what we're focused from a technology standpoint.

You may recall Chuck, that we made investment in a technology firm called Rentlytics in Q1 of 2016, which is a real estate technology firm. And we continue, we have seat on their board and we watch what they're doing and their growth. So we have invested in the technology front in the past. But what I outlined in my comments is really very focused on how can we make Walker & Dunlop more efficient in what we do? How can we make our customer experience more customer friendly and efficient on their end?

And then, eventually, once we've made real progress there, how can we start to analyze the data that comes out of our today $64 billion servicing portfolio to try and grow our business in new ways. And that's a multiyear project but what is really exciting from my perspective is that we're very focused on it. We have already embarked on this sort of multiyear strategy to first focus on efficiencies, drive some costs out of the business, make ourselves more customer friendly. And then once we have done that, we then go to the next level, which is really starting to look at the data and how it can help us grow our business.

Stephen P. Theobald: And Chuck, we remain focused on building out our asset management business. And that's another area where we'd be desirous of doing some potential M&A transactions. So that hasn't really changed.

Charles Nabhan: Great. Thank you.

Operator: Thank you. And we'll go back to Jade Rahmani for a follow-up.

Jade J. Rahmani: Thanks very much. In terms of M&A, I was wondering is there a focus and interest level, primarily on acquiring teams such as the most recent few transactions or you are also equally focused on something quite large?

William M. Walker: It really, really depends on the opportunity. As you know Jade, we've got plenty of spending capability, if you will. And we are generating a huge amount of cash right now. And as you know also, with the amount of debt we have outstanding and with the EBITDA we're generating right now, we have the ability to put significant leverage on the company were we to needed to do so.

But with all that said, it really depends on the opportunity at hand. And we have -- since CW which you may recall, we doubled the size of the company when we bought CW. And we integrated them successfully throughout 2013 and have benefited dramatically from that acquisition. But subsequent to that, we've basically being buying smaller companies. And we've gotten great, great returns from them.

So it really -- it's not as if we're out elephant hunting nor we're looking for just smaller firms. We are -- I think we're known as a company that people can be acquired by that the culture is a fantastic place to work. And that the ability for the loan originators and the investment sales brokers to grow their individual business at Walker & Dunlop is dramatic.

And that's out there. And so what ends up happening is that people call us and say, hey, we've got an old partner who wants to retire, would you like to think about buying us? We've got -- we can't seem to grow like you all are, could we benefit from your scale and your capabilities? So those types of opportunities are representing themselves to us. And I would put very good analyzing which ones we ought to engage on, and which one we should pass on.

Jade J. Rahmani: Thanks very much.

Operator: Thank you. And at this time, we have no further questions. I'd like to turn the floor back over to Mr. Walker, please go ahead.

William M. Walker: Great. I thank everyone again for joining us this morning, and congratulate the W&D team again for just an absolutely fantastic first quarter. And wish everyone a very good Wednesday. Have a nice day.

Operator: Thank you. This does conclude today's conference call. Please disconnect your lines, and have a wonderful day.

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