

**Walker & Dunlop**

**October 31, 2018  
8:30 a.m. ET**

Operator: Welcome to Walker & Dunlop's Third Quarter 2018 Earnings Conference Call and Webcast. Hosting today's call from Walker & Dunlop is Willy Walker, Chairman and CEO. He is joined by Steve Theobald, Chief Financial Officer; and Kelsey Duffey, Assistant Vice President of Investor Relations. Today's call is being recorded and will be made available via webcast on the company's website. At this time, all participants have been placed in listen-only mode and the floor will be opened for your questions following the presentation. [Operator Instructions] It is now my pleasure to turn the floor over to Kelsey Duffey. Please go ahead.

Kelsey Duffey: Thank you, David. Good morning, everyone. Thank you for joining the Walker & Dunlop's third quarter 2018 earnings call. I have with me this morning our Chairman and CEO, Willy Walker and our CFO, Steve Theobald. This call is being webcast live on our website and a recording will be available later this morning. Both our earnings press release and website provide details on accessing the archived webcast. This morning we posted our earnings release and presentation to the Investor Relations section of our website, [www.walkerdunlop.com](http://www.walkerdunlop.com). These slides serve as a reference point for some of what Willy and Steve will touch on during the call.

Please also note that we will reference the non-GAAP financial metric, adjusted EBITDA during the course of this call. Please refer to the earnings release posted on our website for a reconciliation of this non-GAAP financial metric. Investors are urged to carefully read the forward-looking statements language in our earnings release. Statements made on this call which are not historical facts maybe deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements describe our current expectations and actual results may differ materially. Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our annual and quarterly reports filed with the SEC.

I will now turn the call over to Willy.

Willy Walker: Thank you, Kelsey and good morning and thank you for joining us. Q3 marks another successful quarter for Walker & Dunlop as the investments we have made in growing our company and the strength of our underlying business models produced strong financial results in a very competitive market. Walker & Dunlop's brand is one of the very best commercial real estate finance companies coupled with the investments we have made to scale our platform, generated the third highest transaction volume in the company's history and record adjusted EBITDA by a wide margin.

I am going to turn the call over to Steve to talk through our quarterly and year-to-date financial results and then I will discuss what we are seeing in the market today and our outlook for the business. Steve?

Steve Theobald:

Thank you, Willy and good morning everyone. As Willy mentioned, Q3 represents the third highest transaction volume in our history and another quarter of successful execution towards the achievement of our long-term strategic goal to become the premier commercial real estate finance company in the United States. Our total transaction volume in Q3 was \$7.7 billion, an extremely strong quarter given rate movements and a typical summer slowdown in commercial real estate lending activity. Strong growth in the servicing portfolio helped generate revenues of \$185 million, up 3% from Q3 '17. As a reminder, in the third quarter of last year, we closed the largest transaction in our company's history, a \$1.9 billion Freddie Mac financing for Greystar's acquisition of Monogram Residential. Even in the quarter with no large notable deals impacting our volumes, we generated \$1.17 of earnings per diluted share and record adjusted EBITDA of \$58.3 million, up 10% and 30% respectively from Q3 '17.

Our business model continues to generate huge amounts of cash with 10% growth in adjusted EBITDA in the first three quarters of 2018. We are benefiting from the investments we made last year to add bankers and brokers to the platform, which is most apparent in the record \$2.5 billion of brokered loans we originated in Q3. As we have grown our capital markets footprint over the past several years brokered volumes have steadily increased as a percentage of our total transaction volume, a trend we expect to continue in the future.

We originated over \$2 billion of loans with Freddie Mac, the second highest Freddie Mac originations in our history after Q3 '17. Fannie Mae originations were also strong at \$1.7 billion, up 22% year-over-year. Investment sales volume of \$882 million was down 6% year-over-year. However, our Q4 pipeline is very robust and we continue to see a strong demand for multifamily properties in the marketplace. The three investment sales teams we have hired this year in Boston, Southern California and most recently Dallas will contribute to continued growth in our volumes over the coming years. Our HUD volumes were down 25% in the quarter, but HUD volumes are inconsistent and our team continues to build its pipeline and processed deal flow at a strong pace. We just learned that we ranked number three in HUD 2018 lender rankings, which accomplishes one of our long-term growth objectives to be a top three lender with Fannie, Freddie and HUD.

Q3 gain on sale margins of 146 basis points was below our forecast range of 160 basis points to 190 basis points, but in line with Q3 '17. In the third quarter of 2017, the large mostly floating rate Greystar transaction was responsible for pushing the gain on sale margin below our target range, while the Q3 '18 gain on sale margin was impacted by two distinct factors. First, 36% of our financing volume this quarter was brokered loans where we don't record non-cash mortgage servicing revenues. Second, as Treasury rates have risen, spreads have compressed putting downward pressure on our Fannie Mae servicing fees leading to a decrease in the MSR income that we generated on Fannie Mae loans. As we have stated in the past we do not control the mix of our originations or how the market prices Fannie Mae servicing, but given the level of margin compression that has persisted into October and the expected strength of our fourth quarter brokered originations, we are updating our forecast range for gain on sale margins to 150 basis points to 180 basis points for Q4.

Q3 operating margin was 27%, bringing year-to-date operating margin to 29%. On the expense side we continued to incur costs associated with adding bankers and brokers on to the platform. With 16 net additions year-to-date in 2018, most of whom joined the company in the past four months and all of whom came to us via our recruiting efforts versus acquisition. This is an important distinction because in an acquisition we are bringing over an intact firm with a pipeline of business whereas the bankers we recruit have to leave their existing pipelines behind. As

expected these new hires have contributed little in terms of revenues to-date, but they are building their pipelines and we fully expect to ramp in their production volumes in 2019 and beyond. These additional hires may mean we don't achieve our full-year operating margin target of 30% in 2018, but the aggressive investments in growing our sales force will lead to operating margin expansion in the future. It's a pattern we are very familiar with and we feel very good about where we are in the cycle and the opportunities that exist for us to continue growing origination volumes.

We remain optimistic about the market for a number of reasons not the least of which is the continued strong performance of multifamily. With the limited supply of entry level single-family homes and slowing multifamily deliveries, vacancies remain at historically low levels supporting continued rent growth. All the while underwriting standards remain conservative with our own Q3 originations coming in at an average LTV of 66% and debt service coverage ratio of 1.41x, consistent with previous quarters. Our servicing book continues to exhibit strong credit metrics with just two defaulted loans in our at risk portfolio.

Third quarter return on equity was 17%, down from 20% in Q3 '17 as shareholders equity has grown substantially from \$711 million to \$901 million over the past year. With year-to-date ROE of 18% we expect return on equity for the full year will come in slightly below our 20% to 25% target range. We ended the quarter with \$165 million in cash and cash equivalents and an additional \$79 million in unrestricted cash being used to fully fund short-term interim loans at the end of the quarter and it's since been repaid. Our strong financial position, combined with compelling rates and tight spreads, led us to the decision to refinance our senior secured term loan. We plan to raise \$250 million, a level at which we feel very comfortable given our cash generation capabilities and sustained financial performance.

Upon closing the debt refinance, our debt to adjusted EBITDA will be a modest 1.2x based on the trailing 12 months ended September 30, 2018, giving us substantial additional borrowing capacity in the future should the opportunity arise. Both S&P and Moody's have reaffirmed our ratings with this transaction and Moody's has put us on a positive outlook. The offering is going well and we expect the transaction to close the week of November 5. We intend to allocate the additional capital raised after paying off the existing term loan towards investing in strategic acquisition opportunities, growing our asset management platform, increasing our balance sheet lending capabilities, and supporting our dividend payments and share repurchase activities.

We will continue to prioritize allocating our capital to investments in the business that will fuel future growth and the term loan will increase our ability to pursue opportunistic acquisitions without worrying about financing contingencies. We remain active in the M&A space and recently signed a purchase agreement for a mortgage banking platform in a major market. The acquisition is scheduled to close in the next several days and led by bankers and brokers with historical annual brokered originations between \$700 million and \$1 billion.

The firm also services roughly \$2 billion of loans on behalf of life insurance companies that we expect to add to our servicing portfolio by the end of the year. We will also use the debt proceeds to co-invest in future funds raised by JCR Capital, the alternative asset management firm we acquired earlier this year. JCR recently closed its fourth fund with capital commitments of just over \$300 million bringing our total assets in committed capital under management to \$1.1 billion. With an objective to grow our AUM to \$8 billion to \$10 billion by 2020, we are very focused on raising additional funds through JCR. We plan to see those future funds with capital commitments of 5% to 10% and we will need cash to make these co-investments over time.

We had a successful quarter originating \$186 million of bridge loans into the Blackstone JV and for our own balance sheet. We have seen an uptick in requests from some of our larger borrowers for short-term financing solutions that don't really fit the profile of the JV because of their short

maturities. We have done a few of these transactions on our balance sheet and raising additional money right now puts us in an even stronger position to accommodate these requests going forward. The ability to use our capital in this manner deepens the relationship with our customer and enables us to capture more deal flow.

Finally, we will continue to return capital to shareholders in the form of share repurchases and quarterly dividend payments. During the third quarter, we used \$4 million of our \$50 million share repurchase authorization to buy back stock and investors should expect us to continue our share repurchase activity going forward. In addition, our Board of Directors authorized a dividend of \$0.25 per share payable to common shareholders of record on November 16, 2018. This brings our annual dividend total to \$1 per share representing a modest payout ratio of 15% of trailing 12-month net income, a level from which we can comfortably increase while continuing to retain capital for growth.

Before I turn the call back over to Willy, I want to mention the recent decision we made to bring in-house the entirety of our servicing platform at the end of next year once our current co-sourcing arrangement ends. As the 7th largest commercial loan servicer in the country, we thought it was the right time to fully in source to gain full control over the technology and operations for this important part of our business. We will be taking the next year to implement, convert and train our people on the new system. This will result in approximately \$2.5 million of incremental costs over the next year as we operate redundant platforms, but once converted we expect to realize annual cost savings of roughly \$1 million compared to our current operations. We have an incredibly strong financial position today with the servicing portfolio that continues to generate significant amount of cash to support our future growth. We feel optimistic about the current macroeconomic and demographic fundamentals supporting the multifamily market and are confident in our team's ability to continue executing our business strategy to deliver strong shareholder returns.

I will now turn the call back over to Willy.

Willy Walker:

Thank you, Steve. As Steve's remarks demonstrate Walker & Dunlop's operating and financial results thus far in 2018 have showcased the profitability and durability of our business model as we continue to execute on our strategic growth initiatives. Before I discuss those growth initiatives in more detail, I want to give some color to the current market dynamics.

The Federal Reserve's three interest rate hikes so far this year with an additional rate hike expected in December have done little to dampen investors' general enthusiasm for commercial real estate. GDP growth, job creation and increased consumer spending are all positive and as inflation worries mount, commercial real estate assets have become increasingly attractive. Yet investors are not getting overly bullish on the sector, due to how late in the cycle we are and rising interest rates. But the current economic environment is defying historic cycles, and if you look below the surface, the cost of borrowing hasn't increased in line with rate increases. For example, we looked at two nearly identical seven-year fixed rate loans on two phases of a multifamily development project that we financed in December, 2016, and October, 2018.

As Slide 5 shows, the loan terms on these two transactions, we rate locked the loan on Phase 1 almost two years ago when the seven-year treasury was at 2.40%, the investor spread was 1.82%, and the all-in coupon to the borrower was 4.22%. We rate locked Phase 2 earlier this month with the seven-year treasury at 3.09%, and investor spread of 126 basis points, and an all-in coupon of 4.35%. So, the seven-year was up by 69 basis points, the investor spread was down by 56 basis points, and the cost of borrowing increased by only 13 basis points to the borrower. This tightening of credit spreads has allowed all-in borrowing costs to remain relatively stable and made investment sales activity continue forward without significant changes to cap rates.

Logic could have it that investor spreads can only compress so much and that at some point rising rates will translate into cap rate adjustments. But with the amount of equity capital having been raised for commercial real estate, it will take a significant softening of the macroeconomic environment to make cap rates adjust dramatically. The overall market conditions and macroeconomic trends that underpin commercial real estate and more specifically, multifamily housing, are very strong. GDP growth is driving existing and start-up businesses to look for office space.

A robust economy is driving strong business travel and occupancy rates at hotels. And while the Amazon effect is still having a huge impact on the retail sector, there are plenty of companies that have adapted their physical store presence and online offerings to interact with their customers where and how they want. This type of robust economic growth would typically drive a large number of renters to start looking for their piece of the American Dream, a detached single-family home. Yet rising interest rates, huge amounts of student debt, and a dearth of entry-level single-family housing is keeping large numbers of Americans in rental housing.

As you can see on Slide 6, deliveries of new multifamily properties peaked in 2017, and with a limited competitive bid from single-family, the fundamentals of multifamily properties should remain very strong. This is a major shift from the last expansionary economy of the early 2000s, and it will pay long-term benefits to owners of multifamily properties.

Walker & Dunlop was the fourth largest lender on multifamily properties in the United States in 2017 with nearly 8% market share and we will continue building our company and market share with the support of these positive market dynamics.

Let me go from a macro outlook to W&D's long-term growth initiative called Vision 2020. The long-term growth strategy we established in 2016 is focused on generating \$1 billion in revenues by the end of 2020, and I'm pleased with the progress we've made this year to achieving that goal.

In a choppy market underscored by rate increases and two significant sell-offs in the equity markets, year-to-date we have been able to originate \$19 billion in total transaction volume, while adding 16 new bankers and brokers and closing on our next acquisition later this week. All of this has us well on our way to our goal of originating \$30 billion to \$35 billion in debt financing on an annual basis by the end of 2020. We've gained a huge amount of momentum in our multifamily investment sales business with the addition of teams in Boston, Dallas, and Los Angeles this year. And our current growth rate has us on target to meet our 2020 goal of \$8 billion to \$10 billion of annual investment sales volume. Our servicing portfolio just crossed \$80 billion and will cross \$100 billion by 2020 given the current pace of our loan originations and minimal run-off in the portfolio over the next two years.

The final component of this strategy is to build an \$8 billion to \$10 billion asset management business. We acquired JCR in Q2 of this year, recently closed fund four oversubscribed, and have now crossed the \$1 billion in AUM mark. We plan to organically grow AUM from \$1 billion to over \$3 billion over the next two years at JCR, and we were focused on additional acquisition opportunities to add AUM in pursuit of our 2020 goals. While achieving Vision 2020 will require a huge amount of work and the integration of several acquisitions, we now how to get there and plan to do just that. But I also think it's important to keep in mind the fantastic core economics of our business today. As you can see on Slide 7, steadily increasing servicing fees, a lift in escrow earnings and growth in broker originations have driven a 10% increase in year-to-date adjusted EBITDA to \$160 million and a 30% increase over Q3 2017.

I would first like to focus on the growth in the servicing portfolio shown on Slide 8, which continues to drive steady increases in cash servicing fees. Our servicing portfolio crossed the \$70

billion mark during Q3 of last year and our total originations in the 12 months leading up to that milestone were \$23.3 billion. We just crossed the \$80 billion mark with loan originations of \$23.8 billion over the past year. So while origination volumes were essentially flat, we added \$10 billion of loans to our servicing portfolio, which are almost entirely prepayment protected have a weighted average life of 10 years and will generate annual servicing revenues of \$25 million and over \$200 million of high margin revenues over the life of those loans. Unlike many banks and specialty finance companies that originate short-term loans that are constantly running off their portfolio, we have the wonderful advantage of generating long duration assets that have a very limited runoff in a rising interest rate environment.

Given the hiring we have done this year and the acquisition we are about to close, we remain very focused on growing transaction volumes to add even more servicing to the portfolio over the coming years. Related to our \$80 billion servicing portfolio is over \$2 billion of escrow deposits. As short-term interest rates have jumped up in 2018, our year-to-date escrow earnings have grown to \$29 million, 110% increase from the same period in 2017. As interest rates continued to increase so will escrow earnings providing a meaningful boost to the adjusted EBITDA and cash flow. Finally, as Steve discussed our brokered loan originations have been increasing due to the investments we have made to grow this part of our business. Because we book on the cash origination fees on our brokered loans as these volumes increase, the cash component of our gains from mortgage banking activities will increase. It is our expectation that cash origination fees, servicing fees and escrow earnings will all continue to grow nicely and drive additional growth in EBITDA as we move towards achieving Vision 2020.

Walker & Dunlop was recently ranked on Fortune Magazine's list of fastest growing public companies based on 3-year growth rates in revenues, earnings per share and total shareholder return. This is our second consecutive year to rank in the top 1% of the over 4,000 publicly traded companies on U.S. exchanges due to our sustained financial performance. We were also just named one of Fortune Magazine's best places to work, the sixth time we have appeared on that list. Great places to work and fastest growing companies don't always go together and we are extremely proud of the people, culture and financial performance we have been able to build and sustain at Walker & Dunlop. I would like to thank all 703 of my fellow W&Deers for all they do everyday to make Walker & Dunlop so successful. I would like to thank our shareholders for your continued investment and trust in our company.

With that, I will ask the operator to open the line for any questions.

- Operator: [Operator Instructions] We will take our first question from Steve DeLaney with JMP Securities. Please go ahead. Your line is open.
- Steve DeLaney: Good morning and thank you for taking the question. Regarding the pending acquisitions, I didn't hear you referenced a specific geographic market and I assume that maybe due to just trying to be confidential on this until it actually closes, is that correct and will you – do you intend to press release the closing of that acquisition? Thanks.
- Willy Walker: Yes and yes. These are major MSAs Steve and the press release is drafted and ready to go.
- Steve DeLaney: Alright, great. Yes, that's instilling the competition you are in the process of doing something and inviting other bits, so we got that. So when I look at the quarter, as analysts we put numbers up there and we don't always hit them and so we start scratching our head. But when I really settle back and look at the quarter, it might take big picture is that volume and margins look pretty solid, but it really comes in terms of EPS, it really seems to come down to some of these expenses. And then I understand the hiring of the producers and impact that might have on the personnel line, but

I am curious about this almost \$3 million increase year-over-year and other operating expenses if you could comment on that since that was a 25% increase year-over-year? Thanks.

- Willy Walker: Yes. Steve, I think I would say in our business you have people and people related cost, so increasing headcount, things like office expense, you go along with that. So I think there is an element of that is included in there. I think we are historically and remain highly focused on managing those costs to minimize the impact that, that has on the overall P&L and I think everyone should expect us to continue to stay very focused on that as well.
- Steve DeLaney: Okay. You have added some offices for sure, but I am not hearing that there is anything in there regarding this technology and sourcing effort anything by consulting fees or anything significant in there related to that?
- Willy Walker: Yes, that's right. We just signed the new contract for the technology piece of this a few weeks ago. So the project will be starting in earnest here in Q4 and really pickup speed in 2019.
- Steve DeLaney: Yes, okay. And the next thing would be the provision for credit loss on your Fannie Mae book, it just struck me looking at the model, I mean like in 2017 you had like literally nothing two quarters in a row here we have had a charge in excess of \$0.5 million and just curious if there – is there a trend building there in terms of some things going on the market or is this more coincidental?
- Willy Walker: I'd say it's more coincidental, Steve. This quarter we did have I mentioned two loans that are now in default, the second one just happened this quarter. So part of provision expense was to make sure we felt comfortable with the specific reserve around that loan, but otherwise there is no other trend or pattern of concern going on in the portfolio at this point.
- Steve DeLaney: Okay. And my last I will close out with this if I could on Page 11 of your deck, the growth has certainly been there, especially when you look back over the last year or two both in volume and in revenue, margins obviously year-to-date this year is more challenging. And I was just curious are we enough moving to a new norm or do you -- with sub 30% operating margin, sub 20% ROE or do you think a 30-20 ton of level on those two important metrics, is that still achievable at some point as we move forward?
- Willy Walker: Yes. I think we are still focused on certainly keeping operating margin at 30% or higher Steve and I'd say it again that's a function of last year most of our net new bankers and brokers on the platform came via acquisition, which has a very different P&L profile and start generating revenue right away as you know versus this year is all been recruiting. So I think that's been part of the challenge on that. And then on the ROE, I think long-term we still believe this is a 20% ROE business. One thing to keep in mind is we did have a big positive adjustment to equity back in Q4 of last year related to the change in the tax law and the tax rate. So, our equity balance has grown pretty significantly in the last 12 months as a result of that.
- Steve DeLaney: Does that come into your thinking on the buyback?
- Willy Walker: Certainly, the buyback, I think the buyback is in my mind Steve a separate decision as I walk through the various ways we expect to deploy capital, I think our view on the buyback hasn't really changed, which is – our primary objective is to reinvest into the business to continue our growth, but when the opportunity arises to repurchase our stock at what we think are a wildly attractive prices we'll do that.
- Steve DeLaney: Thanks very much for the comments this morning.

- Willy Walker: Steve, before you hop off the line just two quick things. One, I would – your comment at the beginning of your questions as it relates to the overall margins and performance of the platform, I have been looking at our competitor firms as they have been filing and as you well know, the margins in our business and the underlying financial performance stands above most of our competitor firms by quite some proportion. And so even though these numbers that Steve went through have come down from where we have been historically performing, they are still extremely strong numbers relatively speaking. The second thing I'd say is that, as it relates to loan origination volumes, I think 2017 was noteworthy and that we did a number of what I would call mega transactions, which drove the top-line of both origination volumes, as well as revenue in 2017. And that was the first time that shareholders got to see that W&D was really in that top, top tier of firms that we're out working with big sponsor groups to finance mega transactions. We have been in the hunt and in the mix and bid on several large transactions this year and unfortunately haven't won those. And one of the things that I find to be so reassuring is that even though we haven't done a big mega transaction, A, we've been at the dance, if you will, and B, the core business has continued to move forward in the smaller transaction volume that is sort of the machine that Walker & Dunlop has built up. And so we will have our big transactions that will drive the, if you will, outperformance that we saw previously, and at the same time, the core day-to-day business of being one of the premier providers of financial services to the commercial real estate industry is very much there and reflective of our Q3 performance.
- Steve DeLaney: Got it. Thanks to that additional color, Willy.
- Willy Walker: Yes.
- Operator: We'll take our next question from Jade Rahmani with KBW. Please go ahead. Your line is open.
- Jade Rahmani: Thanks very much. I wanted to ask a bigger picture question about the company, considering the servicing portfolio is now over \$80 billion, generating over \$200 million in annual servicing fees and we estimate about over \$125 million of cash flow, how has your thinking changed around the optimal capitalization of the company considering this growth, I'm just thinking if there might be a better way to finance the MSR? You talked about leverage at 1.2 times debt-to-EBITDA. It was – compares favorably to CRE brokers, but the cash flow consistency of Walker & Dunlop should be much higher, considering the servicing portfolio. One of your peers, Arbor Realty, is actually structured as a REIT, whereas probably half of their income is coming from the GSE multifamily business. So just wanted to see if you can make any comments about that?
- Steve Theobald: Yes. I think Jade as we discussed in the past we're C-Corp I think for a reason, and I think the flexibility that's provided to us as being a C-Corp is perhaps an intangible benefit that we don't often talk about. But I think we still have a view that too much of our income would not be good REIT income, and therefore, I think that structure would not really work for us. From a long-term perspective, I think our strategy is really more oriented towards not being a REIT than it is the REIT. So –
- Jade Rahmani: And just in terms of leverage, the other aspect of the question. I mean, does it make sense for the company to increase its leverage, reduce its equity base as a result of the strengthening cash flows. Is there too much equity, in fact, in the company, and so that increases the accretion potential of share buybacks?
- Willy Walker: So, I'd put forth that Jade, Steve in his comments as you heard, walked through in very specific detail, where we plan to allocate capital. And number one in all that is to continue to grow the business, that is always been our focus and we will continue to make the investments to continue to grow the platform. As you mentioned in your note this morning, the value of the servicing portfolio is right now about 60% of our market cap and so there is a very valuable asset in our



servicing. One of the things that I think investors hopefully will realize is that this quarter shows that shift to cash fees, cash servicing fees, escrow income, and cash origination fees. And as you have for quite some time in your analysis of us backed out the mortgage servicing rights and going with just cash EPS and we beat your cash EPS number this morning quite handily because of that shift. And so it's my hope that the market starts to give us more credit for the origination platform than it has in the past. You have highlighted in your questions as well as in your notes the value of the servicing portfolio. And I would also reiterate Steve's point earlier, which is just that we will – we have a board mandate of \$50 million of buyback authority. We constantly at every board meeting revisit that authorization. And as Steve also said, we just declared our \$0.25 dividend for the quarter and we will look at our quarterly dividend payment and how much we are paying out at the appropriate time.

Jade Rahmani: Yes. I mean, just looking at the various sectors I cover, it's striking to me that Rialto was sold for \$340 million, they are a BP's buyer and a fund manager of BP Securities. The \$857 million fair value of servicing doesn't even include potential recapture of that business and they're sitting on \$165 million of cash, that means the platform the market is ascribing about \$500 million of equity value, it seems like a striking comparison, and there's potential ways to unlock this value to be accretive for shareholders, in my view.

Willy Walker: Yes, well, yes, totally understood. And as the largest individual shareholder in the company, you can guarantee that I'm looking at it and that we as a company are looking at just that, but I would go back to it. Our outlook is to continue to grow this company and to achieve our Vision 2020, doing things of financial engineering to benefit shareholders in the short-term is just that -- benefiting shareholders in the short-term. We are very long-term focused and we are very focused on executing on that business plan because that long-term is what will drive shareholder value.

Jade Rahmani: Thanks. And I think that's the right approach. In terms of the 2019 outlook, is there a trend basically that growth is going to come from lower margin businesses considering A, the spread compression you mentioned Fannie Mae new servicing fees, as well as the fact that brokered loan business, asset management investment sales are growing faster or projected to grow faster than the GSE multifamily business?

Willy Walker: Yes, look there are couple of things. First of all, this has been part of the strategy for quite some time. We built up a very, very strong market presence in our Agency business and our HUD business, and then we said okay, that is only going to grow so far. We can only gain so much market share there, even though we believe we still have market share to gain and we continue to invest to grow that business. But we need to start to diversify the platform and grow out our debt brokerage business and then raise capital into an asset management platform to then be able to take that capital and feed it into that brokerage distribution platform and be able to if you will, mimic some of the long-term both revenue and margin that will come from being a lender and leveraging off of our underwriting capabilities. So we are doing exactly what we told to investors we do, which is go out and build a nationwide brokerage platform on the debt side, we are also building out a nationwide platform on the investment sales brokerage side. And then in Q2 we bought the – our first foray really into the investment management space by buying JCR adding that to the Blackstone joint venture, we are now over \$1 billion of AUM and we will use both of those sources of capital to feed into that brokerage operation. So what you are at right now is this sort of flexion point, where we're making the cash origination fees off of the expansion of our brokerage business and we are now spooling up our asset management business that will provide long-term similar higher margin revenues. And so we're right at that flexion point now, where we're doing exactly we said we do, go build out the brokerage platform and then raise capital and feed into that brokerage platform, all the while still continuing to focus on growing our Fannie, Freddie, and HUD origination platforms where we have fantastic both market reputation, a

defendable market position is one of three very largest in that space and the economics of those businesses are fantastic.

Jade Rahmani: In terms of the competitive pressures on the MSR component of the gain on sale margin, how much of it is driven by movements in rates and how much of it is driven by perhaps specific companies looking to grow and compete with Walker & Dunlop?

Willy Walker: Great question, I don't think you can as Mark Gibson said on the HFF call last night, there is a general trend in the market right now of that spread compression that we outlined in my comments. And that is just the market, that's the buyers of those securities being willing to accept a lower spread and lower return for buying those securities. With that said, Freddie Mac has been an extremely fierce competitor to Fannie Mae this year and Freddie has on every single deal driven the pricing down to a place where Fannies had to accept lower overall spread and we as a big Fannie partner that I do accept lower servicing fees. Does that continue forward forever, no it is not, in the past both Fannie and Freddie as you know Jade come in and out of the markets and both if you will drive the competitive bid in the market. Q3 was underscored by Freddie being wildly competitive in driving spreads down. And so I think that there is a general market movement here. But we have seen this happen before. We have seen spreads and servicing fees come down in 2013 and 2014 and then gap way out in 2015 and 2016. So we are – the best part of it for investors is that we are a very big player in the market. We are getting access to the deal flow and we are putting up the overall origination volumes and revenues. And quarter-by-quarter, as Steve said, we don't control the mix as it relates to where the deals go and we certainly don't control the kind of spreads we make on the deals that we are originating. But the market waxes and wanes and this quarter was one where there was some significant tightening.

Jade Rahmani: Okay. I think it was reported that this company, Rent Analytics, that you invested in several years ago was acquired by RealPage can you give any color on the anticipated gain and whether that all occurred in the fourth quarter?

Steve Theobald: Yes. Jade it is the fourth quarter transaction, it closed a couple weeks ago here in October. I think we will report a material gain in Q4, but we will talk about it in the Q.

Jade Rahmani: You said material not immaterial right?

Steve Theobald: Immaterial.

Willy Walker: He said immaterial.

Jade Rahmani: Immaterial okay.

Willy Walker: Immaterial gain.

Jade Rahmani: Okay, got it. Okay. Well, thanks very much for taking the questions.

Willy Walker: Thanks Jade.

Operator: [Operator Instructions] We will take your next question from Henry Coffey with Wedbush. Please go ahead. Your line is open.

Henry Coffey: Good morning, everyone. Just for fun I think I will turn the questions into a statement, you generated ton a cash flow which makes for a great business, you got a great 2020 plan and we think you should either be raising your dividend or buying back stock, but I thought it would be simpler if I made it a statement rather than a question and my colleagues are we all seem to be on

the same page. When you look at the long-term future and I have heard this from a couple of other parties that there is probably more potential growth in brokerage than in GSE business, I don't know if that's an accurate statement or not, but it also sounds like there is more balance sheet requirement that may come with some of that. I [don't] know you have the funding capacity to do that, how does that affect you, is that an accurate statement and it may be wrong and how does that affect your capital planning?

Willy Walker:

So Henry good morning and thanks for the – thanks of the statement before the question, I concur. What I would put forth to you as it relates to growth in the GSE space, I think one of the reasons quite honestly why investors put somewhat of what of a cap on the multiple of Walker & Dunlop is because they only thought that we could grow the GSE business to a certain size and then you sort of cap out there. What we have been able to do is show that that wasn't the case and we have been able to continue to grow both our GSE volumes as well as our HUD volumes. And we are very focused on continuing to do that and don't see that there is some cap there at 12% market share with the GSEs that we can take that up from there and we plan to continue to focus on that. But with that said, given the relative size of our brokerage business to our GSE business, everything that we add there puts forth very significant incremental growth and so there is a huge opportunity for us to continue to scale that business and add people to the platform. One of the reasons we have been so successful at bringing those people onto the platform is because they want to join the platform with as strong a GSE presence as we have, because many, many of those brokers love being on a platform that you can walk into a meeting and say we are number one with Fannie Mae and number three with Freddie Mac and the client literally says, "Well I mean I guess I need to be working with you on my multifamily financings."

To your question specifically as it relates to capital and balance sheet and how we are winning a lot of deal flow, what you will have to remember is that unlike many of our brokerage competitors, we are a lender, we have a huge underwriting group that understands credit and we have a track record of having made extremely good loans for over 30 years in the Fannie Mae DUS program of really looking at credit and assessing what we want to do. And so when an opportunity comes in, where there is something that needs to be transacted on quickly someone needs to take down on asset literally overnight. We had one of our large clients in Q3 call me and say my preferred equity investor just backed out I can't move forward with an acquisition, we really want to do this acquisition, but I just want you to know because Walker & Dunlop is both selling the asset as well as financing the purchase for us. And I asked the client how big was the preferred equity investment, he told me I said can you give me the day and six hours later I called them back and said that Walker & Dunlop would step in with preferred equity investment. That's the type of stuff that we cannot uniquely do, because there are others who will do it. But because we are both a broker as well as a banker and we can move very quickly, that's the competitive advantage against the competition. And that's not only what wins that deal, it wins that client's loyalty for a very, very long period of time. And so specifically your question, one of the things that Steve outlined and why we are raising additional debt capital is that we want to have that on our balance sheet to be able to use that to do exactly what we did for that client. And so I think it's a competitive advantage. I think we have used it very, very well and I would put forth that investors should be extremely comfortable given our credit background as well as our credit track record, that we are making good loans that are making investors a lot of money and meeting our clients' needs in a very, very short period of time.

Henry Coffey:

But I guess my real question was, how does that affect your capital allocation, if you had \$100 worth of capital and under a broker-only model you would probably put \$10 of that into the business and \$10 of that into new hires and \$80 of that into stock buybacks and dividends and then now under this model where you – again if I am wrong just correct me, but I think there is more balance sheet commitment likely, does that change--

Willy Walker: Yes. I mean one of these you have to remember is that we started using our balance sheet significantly for bridge loans and we created our Blackstone joint venture to move that collateral off and to basically both de-risk the balance sheet as well as increase the returns on our equity by partnering with somebody else. So, this quarter we were at 17% ROE, year-to-date we are at 19% ROE. We are very focused on our ROE and making sure that we are getting our investors great returns on their capital. So I would just report to you that as Steve laid out Henry we are looking at A, continuing to invest in the core business, B, using that to be able to support our loan origination activities and C, looking at share buybacks and dividends as uses of that capital.

Henry Coffey: And then when you look at the business I am assuming 20-30, 20% ROE, 30% EBITDA margin, is currently the benchmark. How badly is that going to suffer next year with the investments you are making in servicing and new hires and what are your thoughts around how those numbers fall out next year?

Willy Walker: We haven't given our 2019 guidance. As you know at the beginning of the year we are generally speaking give A, this is what we are looking out on the year and what we are trying to drive to and we update those numbers as Steve just did today in this call. But I would put forth that we will continue to invest in the brokerage business. And at the same time as I said in response to the question that Jade had spreads have come in, I don't think we are expecting spreads to get back out where servicing fees are going to grow demonstrably. Steve gave you an adjustment to our gain on sale margin from the 160 to 190 range down to 150 to 180 range and we feel very comfortable with that range as it relates to our gain of sale margin.

Henry Coffey: Okay.

Operator: Next, we will take a follow-up from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani: Thanks. Just wondering if you have heard anything on the FHFA what direction that might be headed and any anything on the outlook for the GSEs in 2019?

Willy Walker: So Jade as you know, we follow it really closely. I would put forth that what we are advocating for is that the Trump administration select someone to be the next FHFA Director who comes from industry and has experience in the capital markets given that Fannie and Freddie contribute paper to the second largest bond market in the world. And therefore that person who is going to be their regulator should have a private sector background and experienced in the capital markets, beyond that trying to sort of guess who that person is going to be is, well it's a guessing game and so there is no reason in guessing. And I put forth from conversations that I have had that whomever they put in there will likely be an acting Director for a period of time before they get a permanent Director in. And there is nothing that I am seeing or hearing that has me concerned with the direction that FHFA is going to take as it relates to Fannie and Freddie's multifamily businesses. And at the same time we have made investments in the platform to expand our business out this quarter being a perfect example that says that FHFA can nip and tuck if the agency is on what their annual allocation is going to be or what their green program will be your what volumes they will be able to do in various lending programs and we will react to it. We have enough scale and enough market presence to be able to do so. And we also have the ability to raise capital around any area that Fannie or Freddie might be asked not to do additional lending.

So one area for example Jade is pretty stable loans Fannie and Freddie have been big suppliers of capital in the pre-stab space. About 5% of their deal flow last year was for pre-stabilized loans. If the regulator will make the decision to pull Fannie and Freddie out of pre-stab deals, we have our joint venture with Blackstone as well as around our balance sheet to step in and do pre-stab deals. So that's something that we are perfectly aligned towards that if the regulator came out and said we want Fannie and Freddie only to be lending on stabilized assets and not pre-stabilized assets, we

could step in with our own capital and Blackstone's capital and be able to meet the market there. So those types of shifts to what Fannie and Freddie are doing don't concern us too much because we have got the scale and the access to capital to be able to meet with market needs.

Jade Rahmani:

Thanks very much.

Operator:

And there are no further questions at this time. So I will turn the floor back to Willy Walker for any additional or closing remarks.

Willy Walker:

Great. I thank everyone for joining us this morning on the call. And I will reiterate my thanks to all of my colleagues at W&D for a fantastic quarter. Wish everyone a happy Halloween. And again thanks for joining us this morning. Have a great day.

Operator:

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