Walker & Dunlop

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Operator: Okay. Good morning and welcome to Walker & Dunlop second quarter 2019 earnings conference call and webcast. Hosting seem to call today from Walker & Dunlop is Willy Walker, chairman and CEO. He is joined by Steve Theobald, chief financial officer and Kelsey Duffey, vice president of investor relations.

Today's call is being recorded and will be 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 for your questions following the presentation. If you would like to ask a question at that time, please press star one on your touch tone phone. If at any point your question has been answered, you may remove yourself from the queue by pressing the pound key. We do ask that you please pick up your handset to allow optimal sound quality. Lastly, if you should require operator assistance, please press star and zero. It is now my pleasure to turn the floor over to Kelsey Duffey. Please go ahead.

Kelsey Duffey: Thank you, Keith. Good morning, everyone. Thank you for joining the Walker & Dunlop second quarter of 2019 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. 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 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 meeting 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 our 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 filings with the SEC. I will now turn the call over to Willy.

Willy Walker: Thank you Kelsey and good morning everyone. Q2 was another exceptional quarter for Walker & Dunlop, as our team, brand and strategic initiatives continue to drive growth across our business.

We grew two Q2 total transaction volume to $7.3 billion, an increase of 18% from Q2 2018 and a record for the second quarter of the year. Strong banking and brokerage volumes generated Q2 revenue of $200 million, a second quarter record up 12% over 2018. Our continued mortgage banking growth has steadily increased our servicing portfolio to $90 billion at the end of Q2, only $10 billion shy of our 2020 goal of $100 billion. Servicing fees, escrow income, and interest income from our balance sheet lending, along with significant growth in cash origination fees, were key drivers of our exceptional second quarter adjusted EBDA of $63 million, up 25% from $50 million in Q2 of 2018.

The macro environment from our business remains very strong. If you look back four years to the summer of 2015, many characteristics of that economy mirror what we are seeing today, the Dow Jones industrial average is at 18,000, an all-time high. The economy had added a robust 223,000 jobs in the month of June and the 10-year Treasury was at 2.32%. Many investors began questioning how much longer the cycle would last and specifically projected that interest rates would rise and asset values would fall. What many investors forgot is that in a slow growth, low interest rate environment, wage earners stand still while asset owners surge forward. Four years later, the Dow is hovering around an all-time high of 26,000 to 27,000, almost the exact same number of job additions were reported in the month of June at 224,000, and the 10-year Treasury has been hovering around 2% for the last quarter before dipping down to, I believe, 1.65% this morning, due to this week's flight to safety.

We saw this economic backdrop in 2015 and know what it's done for the value of commercial real estate over the past four years. Commercial real estate should continue to attract investment flows, particularly as major sponsor groups such as Blackstone, Brookfield, and Starwood are all sitting on huge amounts of equity capital and raising additional capital through private REIT vehicles. As we've repeatedly said to our investors, as long as household formation continues at its current rate and there is limited supply of entry-level single family housing, the fundamentals of the multifamily industry will remain extremely strong.

As the graph on slide five shows, throughout many economic cycles, as the value of single family housing has gone up and down, the supply of new single family housing has tracked very closely. And as the graph shows, somewhat dramatically, since the great financial crisis, the value of single family housing has risen steeply while housing starts have lagged significantly. This increase in value has priced many potential buyers out of the market and the lack of new supply has kept many would-be home buyers in rental housing, as reflected by the decrease in the home ownership rate for the second consecutive quarter, the 64.1% in Q2. To underscore the decrease in home ownership rate, the second quarter absorption rate for multifamily housing was the strongest seen in the past five years, dispelling many concerns about the market's ability to absorb the 320,000 new units expected to be delivered this year.

The net result of huge amounts of equity capital looking to be deployed and strong asset level performance is that Walker & Dunlop's property sales business had a fantastic quarter, with $1.1 billion of sales volume up from $484 million in Q2 of last year. Year to date, our multifamily focused property sales group has done $1.8 billion in total sales volume, a 119% increase year over year, with significant contributions from several teams we added to the platform last year in Boston, Dallas, and Southern California. We started building our property sales group in 2015 with the idea that it would expand our product offering and generate not only new revenues but also incremental revenues to our financing business, and it has done both. With the current consolidation taking place in the commercial real estate services industry, we have a wonderful opportunity to expand our capabilities in strategic markets across the country by adding talented bankers and brokers who want to be part of our entrepreneurial, customer-focused company.
We added eight property sales brokers to our platform last week, including teams in Portland, Chicago, and San Diego, increasing the size of our team by over 40%. We will continue adding

brokers to our property sales platform to expand our footprint across the country and achieve our 2020 goal of generating $8 billion to $10 billion of annual property sales volume.

Our mortgage banking business had a very strong quarter as well, with total volume of $6.2 billion versus $5.7 billion last year. This 9% growth was largely attributable to our debt brokerage volumes being up 17% and our GSE lending volumes up 8% year on year. HUD and principal lending were both down slightly on the quarter, but our joint venture with Blackstone Mortgage Trust had a strong quarter of $129 million of originations up from $42 million last Q2.

The lending market remains extremely healthy, with low interest rates driving both acquisition activity and refinancings. As I just mentioned on the property sales side, we have been very successful at using the strength of the Walker & Dunlop platform and brand to take advantage of the current market conditions, reflected by the seven new mortgage bankers that have joined us from competitor firms over the past week. I would note that the team that joined us this past Monday in Houston is significant for a number of reasons. First, it is a marquee team in one of the most active commercial real estate markets in the country. Second, we had a long-stated goal of establishing a mortgage banking presence in Houston and this experienced team gives us significant foothold in the region. And finally, the team came from one of the large global commercial real estate services firms that we have been so successful competing against, due to the size of our platform and focused customer service. We expect additional hiring to follow in the coming month as we continue scaling our mortgage banking business to reach our 2020 goal of $30 billion to $35 billion an annual loan originations.

We remain focused on growing our asset management platform after acquiring JCR Capital last year. We ended the quarter with one point $1.6 billion of AUM and the related cash fees from this business have started to grow nicely. Our goal is to scale this business to $8 billion to $10 billion in assets under management to achieve two objectives. First, to meet our client's financing needs with capital we control, and second to generate meaningful long-term annuity-like revenue streams that will complement the recurring servicing fees we generate today. We are early into the development of this strategy and are very focused on its execution.

The final point I'd make about the quarter before turning it over to Steve to run through our financial performance in more detail is to share that we are making significant investments in technology to streamline our lending processes and improve the overall customer experience at Walker & Dunlop. We acquired a technology firm in Q1 called Enodo. It specializes in artificial intelligence and machine learning and Enodo has a fantastic development team and its core technology focuses on streamlining the loan underwriting process, while also analyzing data associated with each transaction. We believe the core technology has many benefits to our business beyond the underwriting process, and when successfully implemented Enodo will make us more efficient, insightful and relevant to our clients. Continued investment in Nodo and other technology initiatives will be a major focus for us in the coming quarters. With that, I'll turn the call over to Steve.

Steve Theobald: Thank you Willy and good morning everyone. Second quarter of 2019 represents another period of strong financial performance by our company. During this quarter, we grew both the top and bottom lines, achieved exceptional adjusted EBITDA, and continued to make the investments necessary to drive our continued growth and success into the future. Previous investments in the platform, coupled with consistent execution by our team, fuels our strong financial results over the first six months of 2019, driving Q2 total transaction volume to $7.3 billion, an increase of 18% over the second quarter of 2018, and total year-to-date transaction volume to $13.2 billion. The strong growth in agency and broker debt, as well as the dramatic increase in multifamily property sales, contributed to the 12% year over year increase in total revenues for the quarter to $200 million. Year-to-date, revenues have increased in impressive 19% to $388 million.

Q2 diluted earnings per share was $1.33, a 6% increase over last year, with pretax operating income up 8% over the same period. Our effective tax rate increased from 23% in Q2 last year to 26% this year, due to excess tax benefits recognized last year from the exercise of employee stock options and adjustments this year to the deductibility of executive compensation under the new tax laws. We believe that our effective tax rate for the remainder of 2019 well stay around this 26% rate.

Year-to-date, income from operations was up 17% from the first half of 2018, while earnings per share increased 13% to $2.72, positioning us well to meet our annual objective of double digit EPS growth. The cash components of our revenue continue to grow rapidly, leading to a 25% increase in adjusted EBITDA, to $63 million. Year-to-date EBITDA is $129 million, up 27% from the first half of 2018 and well on pace to achieve our double digit annual growth rate goal.

Second quarter total mortgage bank volume of $6.2 billion was led by Fannie Mae originations that included a $540 million portfolio for a large REIT investor, pushing our Fannie volumes to $2.4 billion. This transaction was a big win for us and contributed to our growth in market share with Fannie Mae to 14.1% year-to-date. However, as is typical of large structured deals, it carried a significantly lower servicing fee than an average Fannie Mae loan. Putting some downward pressure on our quarterly gain on sale margin. Despite the impact of this transaction, Q2 gain on sale margin was still very strong at 176 basis points, above our forecast range of 150 to 170 basis points. We expect that our Freddie Mac and brokered volume will increase in the second half of the year to align our annual blend of volumes more closely with our historical average. This leads us to maintain our forecast range for gain on sale margin have 150 to 170 basis points for the remainder of the year.

Our scaled business model continues to produce healthy operating margins, with the second quarter operating margin of 28%, down from 30% in a year ago quarter, but within our target range of 27 to 30%. Personnel expense as a percentage of revenue was 42% in Q2, above our historical second quarter average, due to year over year increases in commission and bonus compensation, along with an increase in head count, related to our ongoing strategic initiatives. We continue to build out our property sales and debt brokerage teams, the GSE small loan platform, our fund management business, and our technology capabilities. We are generating huge amounts of adjusted EBITDA, stable cash flows, and healthy operating margins, even as we pursue these strategic growth opportunities, demonstrating the earnings power of our core business. The expenses we are incurring today are beginning to drive additional diversified revenue, as seen our Q2 revenue growth, and we expect to gain additional scale benefits as these initiatives become more meaningful contributors to our bottom line financial performance in the future.

During the quarter, we increased our provision for risk sharing losses by $961,000 compared to $800,000 in a year ago quarter. This charge represents an increase to our general reserve and typically happens each Q2 as a result of the completion of our annual portfolio review. The increase is in line with the year over year increase in the size of the at risk portfolio and is not a function of elevated risk at all. The student housing loan that defaulted in our community portfolio last quarter was foreclosed on by Fannie Mae and the one interim portfolio loan in default in Q1 is in the process of being restructured. No additional adjustments were needed to our previous loss provisions for either of these loans.

Our $90 billion servicing portfolio continues to exhibit strong credit performance with no other at-risk loan in the portfolio delinquent at June 30th. We continue to maintain very healthy underwriting standards, with an average loan to value of 64% and an average debt service coverage ratio of 1.43 times on the loans we originated in Q2, slightly stronger than what we have seen over the past several years.

As we add profitable mortgage servicing rights on loans with healthy credit fundamentals, the book value of our MSRs has steadily increased to $688 million as of June 30th, while the fair value increased during the quarter by $6 million, $874 million, despite the sharp decline in interest rates. With a low rate environment expected for the foreseeable future, it's worth a reminder of the unique characteristics of commercial mortgage servicing rights that make them such a valuable piece of our business model. Unlike single family loans, 86% of our multifamily lending is prepayment protected, meaning if the borrower prepays a loan, we receive a cash payment for the future value of the forgone servicing fees, discounted at the risk-free rate. This construct not only serves as a deterrent to prepayment over the life of the loan, but also increases the size of the prepayment fee as interest rates decrease. This dynamic makes the value of our MSRs virtually immune to changes in interest rates, eliminating both the volatility to earnings and the need to hedge our portfolio against rate movements. This is in stark contrast to the significant downward adjustments to MSR values that have reported by many large banks and single family servicers this quarter.

Our strong results in the second quarter generated a return on equity of 18%, bringing year-to-date return on equity to 19% in line with last year and within our high teens to low 20% target range. During the second quarter, we used a small amount of our $50 million share repurchase authorization to buy back 30,000 shares at a weighted average price, a $51.88 cents per share. We have $48.5 million dollars of remaining repurchase capacity to use for opportunistic buybacks over the next six months but continue to prioritize reinvesting our capital in the future growth initiatives and supporting our proprietary lending activities in the short term. In addition, yesterday our board of directors authorized another quarterly dividend of 30 cents per share.

We are very pleased with our financial results in the first half of 2019 I feel that we have the business model and team in place to deliver strong financial performance for the remainder of this year and beyond. We are excited to see our previous investments positively impacting our financials and by the many growth prospects ahead of us. Thank you for being with us this morning and for your continued to support in her long-term growth. I will now turn the call back over to Willy.

Willy Walker: Thank you Steve for your analysis and insights into our Q2 and year-to-date numbers. The growth we are currently experiencing and have experienced for the past three, five and 10 years is all due to the exceptional people at Walker & Dunlop and the continued achievement of ambitious, clearly articulated five-year strategic plans that expand our reach, enrich our service offerings, and provide our customers with exceptional service and execution.

Our growth in terms of customers, transaction volumes, offices, number of employees, cash generation, market capitalization, you name it, has created a wonderful market position for our company today. We are an entrepreneurial, client-focused company with the capabilities of our large competitors, yet the to touch and feel of a family business. This combination -- big company capabilities with highly personalized service-- is gold in the services industry. These qualities make Walker & Dunlop an extremely attractive company to work for, as noted by the 15 mortgage bankers and property sales brokers who have joined us over the past week. These professionals are now component parts of Walker & Dunlop's growth and success going forward. And as we have seen time and time again, as these bankers and brokers join our platform and exceed their client's expectations, their personal brands, earnings and job satisfaction skyrocket. Similarly, our clients who have the ability to work with any firm they choose, pick Walker & Dunlop due to our flawless execution, focused customer service, and understanding that their transaction is important to everyone at Walker & Dunlop, from the receptionist in one of our offices all the way up to our

board of directors. These are real differentiators in a commercial real estate services and financing industry that is becoming increasingly homogenized by consolidation and big financial services firms that seem more focused on net interest margin then their clients' business needs.
We just held our annual summer conference in Sun Valley, Idaho, where we talked about the economy, politics, technology, leadership and social impact. There were a few takeaways from the conference that are worthy of mentioning on this call. First, the client group we had in Sun Valley this summer was an amazing group of developers, owners, and investors. Truly an amazing group. We have been able to expand our client base to include the very largest and most sophisticated commercial real estate investors due to three factors.

First, our growth and providing more capital and more services to more clients across the country. Second, the depth and breadth of the relationships our bankers and brokers have built and nurtured over many years with our clients. And third, the unique nature of our conference due to W&D having the financial wherewithal to put on a major event, yet with the touch and feel of a family owned business.

The second takeaway from the conference that there is still a very bullish sentiment across geographies, asset classes, and investor types on commercial real estate. Our annual round table discussion can be summarized by the following statement. Have capital, need product.
The third takeaway was it the economic fundamentals today are exceedingly healthy. Former speaker of the House Paul Ryan talked about the Tax Cuts and Jobs Act of 2017 and how deregulation is helping economic growth. Marty Chavez, former CTO and CFO of Goldman Sachs, talked about the underlying strength in the economy and how the fact that we are in year nine of this expansion area economy has absolutely zero relevance to when a reception will happen. And several clients made the comment that in a slow-growth, low interest rate environment with limited inflationary pressure, which is the economic backdrop that has existed since the great financial crisis and shows few signs of abating, asset values will continue to appreciate, making commercial real estate and exceedingly attractive place to invest.

Our current strategic growth plan, called Vision 2020, has been touched upon several times during this call and it's the focus of our long term budgeting process, strategic investments and annual goals and objectives for our senior leadership team. And the successful execution of these long-term goals has driven growth in revenues, earnings and shareholder value. But Vision 2020 is purely economic, and does not touch upon the culture at W&D, the amazing people we have working at W&D, and the impact we make every day on the communities we work in and the properties we finance. That is where the true value of what we do at Walker & Dunlop really shows itself -- in the teamwork we utilize every day to exceed our client's expectations, in the careers we have launched and nurtured to transform the lives of our employees, and in the communities that we have financed, that allow people across the country to live, eat and work in safe, affordable spaces.

Walker & Dunlop today has a unique market position as a client-focused firm with big company capabilities, and that market position is creating more and more opportunities for us to invest in expanding our product offering, recruit exceptional professionals to our company, and provide our clients with a unique service offering. I want to thank and congratulate all my colleagues at Walker & Dunlop for are their hard work during the first six months of this year. Our Q2 results were excellent and with our current outlook on the economy and our business, we are extremely excited about our ability to continue growing Walker & Dunlop and delivering strong financial performance going forward.

Thank you for joining us this morning and I'll now turn the call over to the operator for any questions.

Operator: And at this time, if you have a question or comment, please press star one on your touch tone phone. If at any point your question has been answered, you may remove yourself from the queue by pressing the pound key. Again, we ask that while you pose your question, you pick up your handset to provide optimal sound quality. Thank you.

We'll take our first question from Jade Rahmani with KBW. Please go ahead.

Jade Rahmani: Thanks very much. I was wondering if you could comment as to whether you're seeing a pickup in refi business as a result of the decline in rates?

Steve Theobald: It's a little early for that one, Jade. We're seeing just a lot of activity across the board.

Jade Rahmani: Okay. Yeah.

Willy Walker: --maybe, as you can see from our investment sales volumes in the quarter, there's a strong acquisitions market out there still as well.

Jade Rahmani: Okay, great. In terms of the back half for Fannie Mae, would you anticipate net growth year on year versus last year? I think last year's fourth quarter had a really strong performance.

Willy Walker: So as you know, Jade, we don't give quarter by quarter projections as it relates to volumes or what we'll do with Freddie, broker, whatever capital source we're working with. I would just say that the macro environment is extremely positive. There is a tremendous amount of activity going on in the market, and we are exceptionally positioned as having been Fannie's largest partner for four of the last six years, to do a significant amount of business with both Fannie as well as Freddie.

Jade Rahmani: Okay. Are there any large deals that you're working on in the current pipeline?

Willy Walker: I think you know I can't give you any insight into that.

Jade Rahmani: Okay. I'll keep trying. Can you quantify the growth in a brokerage headcount, year on year and also maybe some color on the split between mortgage bankers and investment sales?

Willy Walker: Yeah, that when we can do, um, so as we said in the call, the teams that we just added on the investment sales side grew our invest in sales team by over 40%. I think the specific number was 46% growth a year-on-year in the headcount in our investment sales group. So a significant growth there. As it relates to the total number of bankers and brokers, I think it's just under 180 total bankers and brokers. And in that I think 25 are in the investment sales side. I think I'm, I know-- 26, just got, so 26 on the investment sales side, out of a total 109 bankers and brokers. So as you can see, as you can see, Jake, we not only have been successful at adding people to the platform, but we really believe that this environment, where being in a company where you're really making a difference to what's going on and not one of these big global services firms where you're just a number, adds a lot of value to the bankers and brokers. And we are one of the few out there with the, if you will, being a publicly traded company with the scale to do pretty much anything for our client, yet still a relatively small company as it relates to overall head count and focused customer attention.

Jade Rahmani: And lastly, could you provide any update on technology initiatives and where you're focused on making investments in the platform?

Willy Walker: Yeah, so I ran through the investment in the Nodo, which is very focused on both underwriting as well as capturing data in the loan origination and loan sizing process. And we continue to look at many areas to invest in technology. I think one of the most exciting things from our perspective, is given our relatively small size, there are lots of technology applications out there that will allow us to enter new businesses with- being technology technologically enabled where we wouldn't be, if you will, disintermediating any existing business lines. And I think that that is very distinct from some of our large competitors, that basically have lots and lots of people doing lots and lots of different things. And so there are many, many verticals inside the commercial real estate finance and services industry where I think we somewhat uniquely can make some investments, incorporate technology, and have the ability to grow our platform and enter new areas where we really don't have, if you will, the issue at hand of displacing any humans who are presently doing that type of work.

Jade Rahmani: Thanks very much.

Operator: We'll take our next question from Jason Weaver with Compass Point. Please go ahead.

Jason Weaver: Hey, good morning. Thanks for taking my question. I was wondering if you could give any comments on what you're hearing out of FHFA? Specifically, we've heard some views about potential tightening for GSE loan standards for green and affordable property?

Willy Walker: Jason, I met with both Fannie and Freddie on Monday of this week. I'm headed down to meet with people at the regulator later this week. You know, it's always a reasonably fluid discussion. I'm at the end of the day if the regulator would like to get Fannie and Freddie out of conservatorship and attract private capital, FHFA really can't shrink the footprint of that much if they want to attract private capital to it. And I believe that that is the overreaching goal of both FHFA and more specifically director Calabria. And so, I'm certain that they're looking at things they mentioned to us that they're looking at exactly the types of things that you're talking about.

I think there's quarter shows a couple things. One, our strength with both Fannie and Freddie in the aggregate volumes we did, but also the fact that we've diversified our platform dramatically, that our brokered volumes have grown significantly, that our investment sales business has grown, our balance sheet lending has grown, our joint venture with Blackstone has grown. And so as much as Fannie and Freddie Mae both wax and wane, people who've invested in Walker & Dunlop for quite some period of time know our volumes with both Fannie and Freddie go up. They go down. Lots of people try and track it on a quarter-to-quarter basis. If you look at it on an annual basis, we always end up at the top of the league tables. We have been Fannie's largest partner for four of the last six years. And we will do our, you know, if you will, market share, and as Steve pointed out in his comments, our market share with Fannie through the first six months of the year is at 14.1%. That's higher than our historic average, which has been between 12 and 13%. So we're gaining market share. And quite honestly that's our real focus. Continue to bring on great bankers and brokers to the platform, continue to do more for our clients and we'll pick up our commensurate share of the market. And then when Fannie and Freddie can't take a deal, as we did many, many times in Q2, we'll take that deal flow to another source of capital.

Jason Weaver: Okay. Thank you. And then on servicing fees, the press release mentions intense competition. And also you mentioned a big Fannie loan came through that dragged the fee down for the quarter. Can you tell me what the average servicing fees look like for new-- new loans originated currently?

Steve Theobald: Yeah, we don't really give that Jason. You know, I think the point is, okay, a couple of things. One, yeah, we started to see compression in the Fannie servicing fees and we talked about this last year. You know, that hasn't really changed. It's not getting more compressed, if you will, so the, you know, competition is, it's always been a fairly a fierce. Credit spreads, you know, we're tight, and that's had an impact on servicing fees for the last year plus, at this point in time.

The one particular deal we did was, you know, as I mentioned, a $540 million Fannie deal. You know, as we've pointed out historically, you large transactions, because of the negotiated nature of them and the size of them, typically have lower gain on sale margin, and you know, $540 million on our $2.4 billion of Fannie production was a pretty sizable number.

The other thing that's going on within the servicing portfolio, as far as average fee goes, is just the overall no change in the mix. So, obviously we're still doing a fair amount of Fannie, which is all great. But we're also doing, you know, we've increased the amount of life company servicing that's in our book, which comes at, you know, much lower servicing fees and you know, more Freddie, which also come at much lower servicing fees. And the combination of all that is what's really driving the decline in the overall portfolio average servicing fee. But it's not something that we're concerned by at all.

Jason Weaver: Okay. Thank you. And then finally, you know, given how the shares have performed, it wouldn't seems like so big of a deal of a concern, but I wondered holistically, how do you think internally about the priority of share purchase as use of capital?

Willy Walker: It's a relatively low priority, Jason. You know, first and foremost, we want to use our cash to continue to grow the business. We want to use our cash to support customer transactions. You know, as we've put out there, we've had the opportunities to do a few, we think interesting and somewhat unique transactions that have benefited our clients, have deepened those relationships, have allowed us to pick up, you know, incrementally more business from those clients as a result. And that's-- you know, continues to be a relatively high priority for us as well.

Jason Weaver: All right. Thank you very much.

Operator: Our next question will come from Steve DeLaney with JMP securities. Please go ahead.

Steve DeLaney: Good morning everyone, and congrats on another strong quarter. What I'd like to start on the Nodo acquisition and Steve, is there any way you can impact the-- or comment on what the impact the second quarter EPS was from, from that acquisition, and the additional expenses?

Steve Theobald: It's not material, Steve.

Steve DeLaney: OK.

Steve Theobald: You know, individually, you know, if it was a penny, I'd be surprised. Maybe, maybe a penny.

Steve DeLaney: That's totally what I needed to know. So, you know, we were just a few cents high and I was trying to try to whittle it down. I think we'll, I think we're probably find it in the comps-- And then as far as your recruiting, which, you know, props for amazing job and Willy, I appreciate your comments, that consolidation has helped, because we've noticed where, you know, where some of those folks have come from. But just going back to the end of May, you know, I'm counting 18, I'm sure I'm missing some press releases, but as you said, 15. Last earnings call, you said that, you know, you were looking for 10% growth on what at that point was 168. I guess my question is, the second half of this year, do you still have the appetite to continue to recruit, given the six month or so earnings drag, you know, from those new hires? And should our expectations be a bit more modest for further headcount growth over the 179 that you have today? Thank you.

Willy Walker: It's a great question, Steve, and no, we will not slow down one iota. The opportunity for us to bring in talented bankers and brokers has never been more apparent, given the scale of the platform and the brand we've created and some of the disruptions taking place in the marketplace. You know, we are still relatively small in the investment sales business. We put out there the goal of growing that to $8 billion to $10 billion and you having been someone who's watched our, our company and our growth know that there were plenty of people when we put that goal out there that sort of said, "Hah, good luck trying to get to that goal." We will achieve that goal, and we have an incredible team that has got a lot of momentum behind them. And as I said in my comments, Steve, when we entered that business, the ability to both create a whole new business and the commensurate revenues that come off of that has been fantastic. But it also brings along the ability to add on ancillary financing fees. And so our relevance to our clients has gone up dramatically by growing that business, and we'll continue to invest in that business as well as our mortgage banking business. And as I noted, we added a number of teams over the last week, including the team I highlighted in Houston. And when teams like that join our firm, that goes out to the industry that says, "Huh, why did they leave that company and go to Walker & Dunlop? There's something that's going on there," and it has to do with the strength of the platform. It has to do that. We only are 750 people. And every one these teams that's joining us immediately becomes part of the Walker & Dunlop story, our growth, and quite honestly, people want to be part of something. They don't just want to be a number at a big global services firm, just doing their business. And so we've seen that and I can guarantee you we will continue to take advantage of it.

Steve DeLaney: Somehow that that response, that reply does not surprise me one bit, Willy. Thank you for that. Steve, couple more, just real quick things -- second half personnel costs, I understood you said 42% would be a good estimate. Just looking at the model and we, you know, last year, 3Q was a little over 43, and then I think, you know, picked up a little bit, you know, later in the year. So I'm just-- are you clearly saying too, is that if we go with approximately 42% for the personnel component of total expenses in 3Q and 4Q, that you think that's a good level for us?

Steve Theobald: Yeah, so Steve, I think what I what I mentioned was it was 42% in the second quarter. I actually didn't put any numbers out there with respect to the second half of the year. But historically, as you know, given the way our commission schedules work, as our mortgage bankers and brokers do more business, they take home a higher percentage of fees through commissions, so as the year goes on and their volumes go up, typically we see that increase in compensation costs over the course of the back half of the year.

Steve DeLaney: Yeah, sorry to misquote you. That's why I asked the question because we would expect sequential increases, which is-- which is what we had.

And then lastly, Willy, you know, it's great that you have a dividend. You know, you can help shareholders either through the buybacks at $51; that was a good buy. You know, but the $1.20 annual rate, it looks like about a little over 20%. I'm just curious when, if the board, you know, a year end or at some point will reconsider that, and do you do think that--you know, looking out, if there is potential for the dividend to move slightly higher?

Willy Walker: Yeah, Steve, as you can imagine, we talk about it on a quarterly basis. Just had a long discussion about it yesterday with the board. I think the long-term objective here, when we established the dividend last year, was to establish the dividend and continue to raise it on an annual basis going forward, based on the continued growth of the company. We are still very much a growth company. We still have lots of places to invest our capital. We love the dividend. I, as a very significant shareholder, love the dividend. And at the same time, we also want to make sure that, as Steve mentioned, not only are we returning capital shareholders to the dividend, not only are we buying back stock, but we also have a very significant cash position to not only pay for new talent to come across, be acquisitive in buying new companies. And as you know, we've bought now eight companies since 2009. And then the other piece to it is to have capital on our balance sheet to be able to do things for our customers that other competitors either can't or won't to do. Our entrepreneurial nature, our ability to underwrite risk and our ability to move quickly has consistently shown itself to be a competitive differentiator in the market. There are plenty of financial services firms that have lots more capital than we do, but they can't move as quickly as we can, so we can beat them because we can move quickly, make credit decisions quickly, and deploy that capital. And there are lots of services firms out there that we compete against who don't have the capital that we have to even contemplate doing what we do. So, we want capital on our balance sheet to be able to step in and take advantage of client situations, when clients call us and say, "Hey, I have a bank that wants to pay down on a bridge loan and I can't pay him down today and they're holding my feet to the fire, can you step in and help us out?" We did that at the end of last year and it earned us a brand new, very large client relationship. "Hey, I had a preferred equity investor who just backed out of this deal at the very last moment. I think we're going to have to walk away from this deal." We stepped in with a preferred equity investment that has been a home run of a deal. So it's those types of situations, where having capital on the balance sheet and being able to move quickly has been a real competitive differentiator and we want to maintain that flexibility.

Steve DeLaney: Understood and thank you both of your comments.

Willy Walker: Thank you, Steve.

Steve Theobald: Thank you, Steve.

Operator: As a reminder, it is star one on your touch tone phone for questions or comments today. We'll go next to Henry Coffey with Wedbush Securities. Please go ahead.

Henry Coffey: Good morning everyone. And I apologize, I'm a tad horse here. You had one trophy deal, the 540 million Fannie deal. Can you give us any- were there others of sort of notable size or was really that just it?

Willy Walker: I think that was pretty much it, Henry.

Henry Coffey: I mean we can you-- can you give us some sort of insight into what sort of transaction it was, and what was multiple properties or--

Willy Walker: It's multiple properties, mostly California assets, and it's a bit REIT who we've worked with plenty of times before. But I, I think that they ought to underscore this issue, as Steve said previously, Henry, you know, it was $540 million on $2.1 billion or $2.2 billion of Fannie, 2.4 of Fannie origination, so you know, 20% to 22% of our total Fannie volume and still are gain on sale margin on the quarter was over 170 basis points. So I think that it's reflective of the fact that we did do a large transaction in the quarter. It did put downward pressure on the overall servicing gain and MSR calculation on that one deal, which was over 20% of our Fannie on the quarter. And we still, when you add it all together, had a gain on sale margin that was above our established a range of 150 to 170 basis points. So, we'll continue to be in the market for those types of transactions. I would say this -- that I think it is going to be challenging for either Fannie or Freddie to finance a mega transaction in the back half of the year. I think they're much more focused on flow business. And so if any mega transactions come across, and I don't call a $500 million transaction a mega transaction, I'm talking about multi billions of dollars, I think both Fannie and Freddie would have a difficult time doing it this year, given where they are on caps and overall volumes potentially for delivery in 2020 if the proper deal came across that would size for both of them.

Henry Coffey: Would the private market feels we'll absorb that large a deal comfortably?

Willie Walker: Yeah, it would probably have to be clubbed. It'd be very, very difficult for any one source of financing to do it unless you did a single issue or securitization in the CMBS pool. And that hasn't been done for a while. Blackstone did one a couple of years ago, but that hasn't been done in a while.

Henry Coffey: Moving on to technology and I have a bit of a Luddite here, so-- you know, you're doing your own servicing or you're in that process. You now, these are large, bulky loans that you're putting together. How does technology playing in? Is it just making a little bit easier, put the package together, does it, you know, it sounded like you're doing thousands of loans every day and you just want to replicate the process over and over. I mean, so what-- what role does technology play in terms of really changing the process for you?

Willy Walker: It changes the process significantly in the sense of how we pulled together market data, how we spread numbers on deals and comp those deals to other comp to other deals that we have lent on, how we do background, um, information on both the property and the borrower. All of those if you will, data feeds and the compilation of all that data to then make a decision on a-- our average deal size, I think right now is about $18 million , $19 million. All of that automation of that process makes it so that our underwriters can do their work faster, more efficiently, and then also more insightfully. And so that's really where we're focused right now. And then in doing all of that, we will then automate all of that data capture, so that as we continue forward, we're getting smarter and smarter. The technology is getting smarter and smarter. And so rather than pulling all of those disparate data sources together and then creating a picture, that picture quite honestly will already be created. And so it will make us much more efficient, much more quick to respond to our clients' needs and make us more insightful into the markets that we're lending in.

Henry Coffey: And then finally there has been kind of an order to these questions. It looks like, you know, using Steve's numbers, that you're about a 20% payout ratio given, where your ROE is, that's a capital generation rate of 12 or 13 or higher percent. As you contemplate the dividend/buyback -- obviously I prefer dividends, in case people want to know -- would you be upping that payout ratio or no? Or, where do you have to be in terms of cap gen and cash accumulation to be comfortable with the business?

Willy Walker: So I think our board is very comfortable with the business. As I said to Steve's question on that, we had a long discussion on this yesterday with our board of directors. I think the 18% ROE in Q2 and 19% ROE year-to-date are extremely healthy returns on equity for investors and particularly for a financial services company. And we constantly are looking at what are we buying back as far as stock, what are we declaring as a dividend, and what are we using our capital for to continue to invest in the business and continue to grow it. As you well know, our growth rates across any metric over a three, five and 10-year period are stunning, and we will continue to use our capital (inaudible) this business, both top line and bottom line, over the coming years.

Henry Coffey: In case you were wondering, we think more is better. Thank you very much.

Willy Walker: You're very welcome, Henry. Thanks for taking--

Henry Coffey [coughs]

Willy Walker: --and get better.

Henry Coffey: Thank you. I will be.

Operator: And it appears we have no further questions. I'd like to turn the floor back over to Willy Walker for additional or closing remarks.

Willy Walker: Thanks very much. I would reiterate my thanks and congratulations to the W&D team on a fantastic quarter, and also reiterate our outlook on both the overall market and our company's positioning in that market. We are running on all cylinders right now and very excited about the opportunities ahead of us and I thank everyone for joining us this morning. Have a great day.

Operator: And this will conclude today's program. Thanks for your participation. You may now disconnect and have a great day.