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Section 1: 10-Q (10-Q)

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WALKER & DUNLOP

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

Maryland	80-0629925
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7501 Wisconsin Avenue, Suite 1200E
Bethesda, Maryland 20814
(301) 215-5500
(Address of principal executive offices and registrant's telephone number, including area code)
Not Applicable
(Former name, former address, and former fiscal year if changed since last report)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 Par Value Per Share	WD	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒	Accelerated Filer ☐	Non-accelerated Filer ☐
Smaller Reporting Company ☐	Emerging Growth Company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of July 31, 2019, there were 30,734,570 total shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except per share data)

	June 30, 2019		December 31, 2018	
Assets	(unaudited)			
Cash and cash equivalents	$	74,184	$	90,058
Restricted cash		15,454		20,821
Pledged securities, at fair value		119,289		116,331
Loans held for sale, at fair value		1,302,938		1,074,348
Loans held for investment, net		432,593		497,291
Servicing fees and other receivables, net		51,982		50,419
Derivative assets		22,420		35,536
Mortgage servicing rights		688,027		670,146
Goodwill and other intangible assets		183,286		177,093
Other assets		104,044		50,014
Total assets	$	2,994,217	$	2,782,057
Liabilities				
Accounts payable and other liabilities	$	311,950	$	312,949
Performance deposits from borrowers		14,737		20,335
Derivative liabilities		35,122		32,697
Guaranty obligation, net of accumulated amortization		51,414		46,870
Allowance for risk-sharing obligations		7,964		4,622
Warehouse notes payable		1,313,955		1,161,382
Note payable		294,840		296,010
Total liabilities	$	2,029,982	$	1,874,865
Equity				
Preferred shares, authorized 50,000; none issued.	$	—	$	—
Common stock, $0.01 par value. Authorized 200,000; issued and outstanding 29,964 shares at June 30, 2019 and 29,497 shares at December 31, 2018.		300		295
Additional paid-in capital ("APIC")		227,621		235,152
Accumulated other comprehensive income (loss) ("AOCI")		892		(75)
Retained earnings		730,562		666,752
Total stockholders' equity	$	959,375	$	902,124
Noncontrolling interests		4,860		5,068
Total equity	$	964,235	$	907,192
Commitments and contingencies (NOTES 2 and 10)		—		—
Total liabilities and equity	$	2,994,217	$	2,782,057

See accompanying notes to condensed consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries
Condensed Consolidated Statements of Income and Comprehensive Income
(In thousands, except per share data)
(Unaudited)

	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Revenues				
Gains from mortgage banking activities	$ 106,881	$ 102,237	$ 205,616	$ 183,746
Servicing fees	53,006	49,317	105,205	97,357
Net warehouse interest income	6,411	2,392	13,432	4,249
Escrow earnings and other interest income	14,616	9,276	28,684	16,624
Other	19,411	14,982	34,825	23,680
Total revenues	$ 200,325	$ 178,204	$ 387,762	$ 325,656
Expenses				
Personnel	$ 84,398	$ 71,426	$ 156,029	$ 126,699
Amortization and depreciation	37,381	35,489	75,284	69,124
Provision for credit losses	961	800	3,636	323
Interest expense on corporate debt	3,777	2,343	7,429	4,522
Other operating expenses	16,830	15,176	32,322	28,127
Total expenses	$ 143,347	$ 125,234	$ 274,700	$ 228,795
Income from operations	$ 56,978	$ 52,970	$ 113,062	$ 96,861
Income tax expense	14,832	11,937	26,856	19,121
Net income before noncontrolling interests	$ 42,146	$ 41,033	$ 86,206	$ 77,740
Less: net income (loss) from noncontrolling interests	(50)	(79)	(208)	(233)
Walker & Dunlop net income	$ 42,196	$ 41,112	$ 86,414	$ 77,973
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains and losses on pledged available-for-sale securities	666	(53)	967	(180)
Walker & Dunlop comprehensive income	$ 42,862	$ 41,059	$ 87,381	$ 77,793
Basic earnings per share (NOTE 11)	$ 1.36	$ 1.31	$ 2.80	$ 2.49
Diluted earnings per share (NOTE 11)	$ 1.33	$ 1.26	$ 2.72	$ 2.40
Basic weighted average shares outstanding	29,985	30,256	29,834	30,139
Diluted weighted average shares outstanding	30,744	31,495	30,720	31,286

See accompanying notes to condensed consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the six months ended June 30,	
	2019	2018
Cash flows from operating activities		
Net income before noncontrolling interests	$ 86,206	$ 77,740
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gains attributable to the fair value of future servicing rights, net of guaranty obligation	(82,209)	(79,737)
Change in the fair value of premiums and origination fees	938	(3,527)
Amortization and depreciation	75,284	69,124
Provision for credit losses	3,636	323
Originations of loans held for sale	(7,913,982)	(5,946,251)
Sales of loans to third parties	7,696,034	5,645,888
Other operating activities, net	(25,111)	(17,710)
Net cash provided by (used in) operating activities	$ (159,204)	$ (254,150)
Cash flows from investing activities		
Capital expenditures	$ (3,392)	$ (1,151)
Purchases of pledged available-for-sale securities	(7,562)	(38,566)
Funding of preferred equity investments	—	(1,100)
Distributions from (investments in) Interim Program JV	(18,518)	1,209
Acquisitions, net of cash received	(7,180)	(33,102)
Purchase of mortgage servicing rights	—	(1,814)
Originations of loans held for investment	(83,402)	(151,754)
Principal collected on loans held for investment upon payoff	150,761	87,688
Net cash provided by (used in) investing activities	$ 30,707	$ (138,590)
Cash flows from financing activities		
Borrowings (repayments) of warehouse notes payable, net	$ 129,412	$ 323,153
Borrowings of interim warehouse notes payable	54,757	50,455
Repayments of interim warehouse notes payable	(32,264)	(61,049)
Repayments of note payable	(1,500)	(552)
Proceeds from issuance of common stock	4,188	8,067
Repurchase of common stock	(25,915)	(21,457)
Cash dividends paid	(18,630)	(15,699)
Payment of contingent consideration	(6,450)	(5,150)
Debt issuance costs	(1,729)	(1,881)
Net cash provided by (used in) financing activities	$ 101,869	$ 275,887
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents (NOTE 2)	$ (26,628)	$ (116,853)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	120,348	286,680
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	$ 93,720	$ 169,827
Supplemental Disclosure of Cash Flow Information:		
Cash paid to third parties for interest	$ 36,003	$ 21,338
Cash paid for income taxes	24,865	31,299

See accompanying notes to condensed consolidated financial statements.

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

These financial statements represent the condensed consolidated financial position and results of operations of Walker & Dunlop, Inc. and its subsidiaries. Unless the context otherwise requires, references to “we,” “us,” “our,” “Walker & Dunlop” and the “Company” mean the Walker & Dunlop consolidated companies. The statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they may not include certain financial statement disclosures and other information required for annual financial statements. The accompanying condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 (“2018 Form 10-K”). In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or thereafter.

Walker & Dunlop, Inc. is a holding company and conducts the majority of its operations through Walker & Dunlop, LLC, the operating company. Walker & Dunlop is one of the leading commercial real estate services and finance companies in the United States. The Company originates, sells, and services a range of commercial real estate debt and equity financing products, provides property sales brokerage services with a specific focus on multifamily, and engages in commercial real estate investment management activities. Through its mortgage bankers and property sales brokers, the Company offers its customers Agency Lending, Debt Brokerage, and Principal Lending and Investing products and Multifamily Property Sales services.

Through its Agency Lending products, the Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac,” and together with Fannie Mae, the “GSEs”), the Government National Mortgage Association (“Ginnie Mae”), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, “HUD”). Through its Debt Brokerage products, the Company brokers, and in some cases services, loans for various life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases the Company does not fund the loan.

The Company also provides a variety of commercial real estate debt and equity solutions through its Principal Lending and Investing products, including interim loans, preferred equity, and joint venture (“JV”) equity on commercial real estate properties. Interim loans on multifamily properties are offered (i) through the Company and recorded on the Company’s balance sheet (the “Interim Program”) and (ii) through a joint venture with an affiliate of Blackstone Mortgage Trust, Inc., in which the Company holds a 15% ownership interest (the “Interim Program JV”). Interim loans on all commercial real estate property types are also offered through separate accounts managed by the Company’s subsidiary, JCR Capital Investment Corporation (“JCR”). Preferred equity and JV equity on commercial real estate properties are offered through funds managed by JCR.

The Company brokers the sale of multifamily properties through its 75% owned subsidiary, Walker & Dunlop Investment Sales (“WDIS”). In some cases, the Company also provides the debt financing for the property sale.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The condensed consolidated financial statements include the accounts of Walker & Dunlop, Inc., its wholly owned subsidiaries, and its majority owned subsidiaries. All intercompany transactions have been eliminated in consolidation. When the Company has significant influence over operating and financial decisions for an entity but does not have control over the entity or own a majority of the voting interests, the Company accounts for the investment using the equity method of accounting. In instances where the Company owns less than 100% of the equity interests of an entity but owns a majority of the voting interests or has control over an entity, the Company accounts for the portion of equity not attributable to Walker & Dunlop, Inc. as *Noncontrolling interests* in the balance sheet and the portion of net income not attributable to Walker & Dunlop, Inc. as *Net income from noncontrolling interests* in the income statement.

Subsequent Events—The Company has evaluated the effects of all events that have occurred subsequent to June 30, 2019. There have been no material events that would require recognition in the condensed consolidated financial statements. The Company has made certain disclosures in the notes to the condensed consolidated financial statements of events that have occurred subsequent to June 30, 2019. No other material subsequent events have occurred that would require disclosure.

Use of Estimates—The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, including allowance for risk-sharing obligations, capitalized mortgage servicing rights and derivative instruments. Actual results may vary from these estimates.

Loans Held for Investment, net—Loans held for investment are multifamily loans originated by the Company for properties that currently do not qualify for permanent GSE or HUD (collectively, the "Agencies") financing. These loans have terms of generally up to three years and are all multifamily loans with similar risk characteristics. As of June 30, 2019, *Loans held for investment, net* consisted of 14 loans with an aggregate $436.2 million of unpaid principal balance less $2.8 million of net unamortized deferred fees and costs and $0.8 million of allowance for loan losses. As of December 31, 2018, *Loans held for investment, net* consisted of 14 loans with an aggregate $503.5 million of unpaid principal balance less $6.0 million of net unamortized deferred fees and costs and $0.2 million of allowance for loan losses. Included within the *Loans held for investment, net* balance as of June 30, 2019 and December 31, 2018 is a participation in a subordinated note with a large institutional investor in multifamily loans that was fully funded with corporate cash. The note is collateralized, in part, by a portfolio of multifamily loans and is scheduled to mature at the end of the third quarter of 2019. The unpaid principal balance of the participation was $119.4 million as of June 30, 2019 and $150.0 million as of December 31, 2018.

In the third quarter of 2018, the Company transferred a portfolio of participating interests in loans held for investment to a third party. The Company accounted for the transfer as a secured borrowing. The aggregate unpaid principal balance of the loans of $77.8 million is presented as a component of *Loans held for investment, net* in the Condensed Consolidated Balance Sheet as of June 30, 2019, and the secured borrowing of $70.1 million is included within *Accounts payable and other liabilities* in the Condensed Consolidated Balance Sheet as of June 30, 2019. The Company does not have credit risk related to the $70.1 million of loans that were transferred.

One loan held for investment with an unpaid principal balance of $14.7 million was delinquent, impaired, and on non-accrual status as of June 30, 2019. None of the loans held for investment was delinquent, impaired, or on non-accrual status as of December 31, 2018. Prior to 2019, the Company had not experienced any delinquencies related to these loans. The Company has never charged off any loan held for investment. The allowances for loan losses recorded as of June 30, 2019 consisted primarily of the specific reserve on the impaired loan, while the allowance for loan losses as of December 31, 2018 was based entirely on the Company's collective assessment of the portfolio.

During July of 2019, a plan was agreed upon to recapitalize the project, bring in new property management, and extend the delinquent loan to allow the sponsor to correct weaknesses in the property. The Company expects to complete the restructuring of the loan later in the third quarter of 2019.

Provision for Credit Losses—The Company records the income statement impact of the changes in the allowance for loan losses and the allowance for risk-sharing obligations within *Provision for credit losses* in the Condensed Consolidated Statements of Income. NOTE 5 contains additional discussion related to the allowance for risk-sharing obligations. *Provision for credit losses* consisted of the following activity for the three and six months ended June 30, 2019 and 2018:

	For the three months ended June 30,		For the six months ended June 30,	
Components of Provision for Credit Losses *(in thousands)*	**2019**	**2018**	**2019**	**2018**
Provision for loan losses	$ 25	$ 79	$ 648	$ 66
Provision for risk-sharing obligations	936	721	2,988	257
Provision for credit losses	$ 961	$ 800	$ 3,636	$ 323

Net Warehouse Interest Income—The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans held for sale and loans held for investment. Substantially all loans that are held for sale are financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. A portion of loans held for investment is typically financed with matched borrowings under our warehouse facilities. The portion of loans held for sale or investment not funded with matched borrowings is financed with the Company's own cash. On occasion, the Company may fully fund a limited number of loans held for sale or loans held for investment with corporate cash. Warehouse interest expense is incurred on borrowings used to fund loans solely while they are held for sale or for investment. Warehouse interest income and expense are earned or incurred on loans held for sale after a loan is closed and before a loan is sold. Warehouse interest income and expense are earned or incurred on loans held for investment during the period of time the loan is outstanding. Included in *Net warehouse interest income* for the three and six months ended June 30, 2019 and 2018 are the following components:

Components of Net Warehouse Interest Income *(in thousands)*	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Warehouse interest income - loans held for sale	$ 12,992	$ 11,382	$ 26,976	$ 20,146
Warehouse interest expense - loans held for sale	(12,782)	(9,900)	(26,737)	(17,555)
Net warehouse interest income - loans held for sale	$ 210	$ 1,482	$ 239	$ 2,591
Warehouse interest income - loans held for investment	$ 8,268	$ 1,647	$ 17,047	$ 3,068
Warehouse interest expense - loans held for investment	(2,067)	(737)	(3,854)	(1,410)
Warehouse interest income - secured borrowings	920	—	1,808	—
Warehouse interest expense - secured borrowings	(920)	—	(1,808)	—
Net warehouse interest income - loans held for investment	$ 6,201	$ 910	$ 13,193	$ 1,658
Total net warehouse interest income	$ 6,411	$ 2,392	$ 13,432	$ 4,249

Income Taxes—The Company records the realizable excess tax benefits from stock compensation as a reduction to income tax expense. The Company recorded realizable excess tax benefits of zero and $1.7 million during the three months ended June 30, 2019 and 2018, respectively, and $3.4 million and $5.8 million during the six months ended June 30, 2019 and 2018, respectively.

Statement of Cash Flows—For presentation in the Condensed Consolidated Statements of Cash Flows, the Company considers pledged cash and cash equivalents (as detailed in NOTE 10) to be restricted cash and restricted cash equivalents. The following table, in conjunction with the detail of *Pledged securities, at fair value* presented in NOTE 10, presents a reconciliation of the total of cash, cash equivalents, restricted cash, and restricted cash equivalents as presented in the Condensed Consolidated Statements of Cash Flows to the related captions in the Condensed Consolidated Balance Sheets as of June 30, 2019 and 2018 and December 31, 2018 and 2017.

(in thousands)	June 30, 2019	June 30, 2018	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 74,184	$ 81,531	$ 90,058	$ 191,218
Restricted cash	15,454	29,986	20,821	6,677
Pledged cash and cash equivalents	4,082	58,310	9,469	88,785
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 93,720	$ 169,827	$ 120,348	$ 286,680

Contracts with Customers—The majority of the Company's revenues are derived from the following sources, all of which are excluded from the accounting provisions applicable to contracts with customers: (i) financial instruments, (ii) transfers and servicing, (iii) derivative transactions, and (iv) investments in debt securities/equity-method investments. The remaining portion of revenues is derived from contracts with customers. The Company's contracts with customers do not require significant judgment or material estimates that affect the determination of the transaction price (including the assessment of variable consideration), the allocation of the transaction price to performance obligations, and the determination of the timing of the satisfaction of performance obligations. Additionally, the earnings process for the Company's contracts with customers is not complicated and is generally completed in a short period of time. The Company had no contract assets or liabilities as of June 30, 2019 and December 31, 2018. The following table presents information about the Company's contracts with customers for the three and six months ended June 30, 2019 and 2018:

Description (*in thousands*)	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Statement of income line item
Certain loan origination fees	$ 15,381	$ 12,371	$ 26,912	$ 23,656	Gains from mortgage banking activities
Property sales broker fees, investment management fees, assumption fees, application fees, and other	11,445	8,092	20,407	12,417	Other revenues
Total revenues derived from contracts with customers	$ 26,826	$ 20,463	$ 47,319	$ 36,073	

Litigation—In the ordinary course of business, the Company may be party to various claims and litigation, none of which the Company believes is material. The Company cannot predict the outcome of any pending litigation and may be subject to consequences that could include fines, penalties, and other costs, and the Company's reputation and business may be impacted. The Company believes that any liability that could be imposed on the Company in connection with the disposition of any pending lawsuits would not have a material adverse effect on its business, results of operations, liquidity, or financial condition.

Recently Adopted and Recently Announced Accounting Pronouncements—In the second quarter of 2016, Accounting Standards Update 2016-13 ("ASU 2016-13"), *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* was issued. ASU 2016-13 ("the Standard") represents a significant change to the incurred loss model currently used to account for credit losses. The Standard requires an entity to estimate the credit losses expected over the life of the credit exposure upon initial recognition of that exposure. The expected credit losses consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Exposures with similar risk characteristics are required to be grouped together when estimating expected credit losses. The initial estimate and subsequent changes to the estimated credit losses are required to be reported in current earnings in the income statement and through an allowance in the balance sheet. ASU 2016-13 is applicable to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures. The Standard will modify the way the Company estimates its allowance for risk-sharing obligations and its allowance for loan losses and the way it assesses impairment on its pledged available-for-sale ("AFS") securities. ASU 2016-13 requires modified retrospective application to all outstanding, in-scope instruments, with a cumulative-effect adjustment recorded to opening retained earnings as of the beginning of the period of adoption.

The Company plans on adopting ASU 2016-13 when the standard is required to be adopted, January 1, 2020. The Company is in the process of determining the significance of the impact the Standard will have on its financial statements. The Company expects its allowance for risk-sharing obligations to increase when ASU 2016-13 is adopted. The Company is in the process of (i) completing the accounting policies, (ii) gathering data, (iii) updating its processes, and (iv) developing forecasts and expects to run parallel processing sometime during the second half of 2019.

There are no other accounting pronouncements previously issued by the FASB but not yet effective or not yet adopted by the Company that have the potential to materially impact the Company's condensed consolidated financial statements.

There have been no material changes to the accounting policies discussed in NOTE 2 of the Company's 2018 Form 10-K.

Immaterial Correction of an Error—In the fourth quarter of 2018, the Company identified and corrected an immaterial error in the calculation of earnings per share for quarterly and annual financial results presented in its previous filings. The Company's 2018 Form 10-K contains additional detail related to the correction of the immaterial error. This Quarterly Report on Form 10-Q presents the corrected basic and diluted earnings per share for the three and six months ended June 30, 2018.

Reclassifications—The Company has made certain immaterial reclassifications to prior-year balances to conform to current-year presentation.

NOTE 3—GAINS FROM MORTGAGE BANKING ACTIVITIES

Gains from mortgage banking activities consisted of the following activity for the three and six months ended June 30, 2019 and 2018:

Components of Gains from Mortgage Banking Activities *(in thousands)*	**For the three months ended June 30,**		**For the six months ended June 30,**	
	2019	**2018**	**2019**	**2018**
Contractual loan origination related fees, gross	$ 70,970	$ 62,074	$ 131,622	$ 116,457
Co-broker fees	(5,360)	(6,881)	(8,215)	(12,448)
Fair value of expected net cash flows from servicing recognized at commitment	45,639	51,725	90,674	86,953
Fair value of expected guaranty obligation recognized at commitment	(4,368)	(4,681)	(8,465)	(7,216)
Total gains from mortgage banking activities	$ 106,881	$ 102,237	$ 205,616	$ 183,746

NOTE 4—MORTGAGE SERVICING RIGHTS

Mortgage servicing rights ("MSRs") represent the carrying value of the commercial servicing rights retained by the Company for mortgage loans originated and sold and MSRs acquired from third parties. The initial capitalized amount is equal to the estimated fair value of the expected net cash flows associated with the servicing rights. MSRs are amortized using the interest method over the period that servicing income is expected to be received. The Company has one class of MSRs.

The fair values of the MSRs at June 30, 2019 and December 31, 2018 were $874.0 million and $858.7 million, respectively. The Company uses a discounted static cash flow valuation approach, and the key economic assumption is the discount rate. For example, see the following sensitivities:

The impact of a 100-basis point increase in the discount rate at June 30, 2019 is a decrease in the fair value of $27.1million.

The impact of a 200-basis point increase in the discount rate at June 30, 2019 is a decrease in the fair value of $52.4million.

These sensitivities are hypothetical and should be used with caution. These hypothetical scenarios do not include interplay among assumptions and are estimated as a portfolio rather than individual assets.

Activity related to capitalized MSRs for the three and six months ended June 30, 2019 and 2018 is shown in the table below:

Roll Forward of MSRs *(in thousands)*	**For the three months ended June 30,**		**For the six months ended June 30,**	
	2019	**2018**	**2019**	**2018**
Beginning balance	$ 677,946	$ 631,031	$ 670,146	$ 634,756
Additions, following the sale of loan	48,695	42,559	95,797	73,481
Purchases	—	1,814	—	1,814
Amortization	(34,267)	(32,801)	(68,470)	(64,962)
Pre-payments and write-offs	(4,347)	(3,689)	(9,446)	(6,175)
Ending balance	$ 688,027	$ 638,914	$ 688,027	$ 638,914

The following tables summarize the gross value, accumulated amortization, and net carrying value of the Company's MSRs as of June 30, 2019 and December 31, 2018:

Components of MSRs *(in thousands)*	**June 30, 2019**	**December 31, 2018**
Gross Value	$ 1,144,555	$ 1,100,439
Accumulated amortization	(456,528)	(430,293)
Net carrying value	$ 688,027	$ 670,146

The expected amortization of MSRs recorded as of June 30, 2019 is shown in the table below. Actual amortization may vary from these estimates.

(in thousands)	Expected Amortization
Six Months Ending December 31,	
2019	$ 66,514
Year Ending December 31,	
2020	$ 122,989
2021	109,080
2022	93,909
2023	81,837
2024	68,540
Thereafter	145,158
Total	$ 688,027

NOTE 5—GUARANTY OBLIGATION AND ALLOWANCE FOR RISK-SHARING OBLIGATIONS

When a loan is sold under the Fannie Mae Delegated Underwriting and Servicing™ ("DUS") program, the Company typically agrees to guarantee a portion of the ultimate loss incurred on the loan should the borrower fail to perform. The compensation for this risk is a component of the servicing fee on the loan. The guaranty is in force while the loan is outstanding. The Company does not provide a guaranty for any other loan product it sells or brokers. Activity related to the guaranty obligation for the three and six months ended June 30, 2019 and 2018 is presented in the following table:

	For the three months ended June 30,		For the six months ended June 30,	
Roll Forward of Guaranty Obligation *(in thousands)*	2019	2018	2019	2018
Beginning balance	$ 49,376	$ 41,424	$ 46,870	$ 41,187
Additions, following the sale of loan	4,731	3,287	9,594	5,070
Amortization	(2,347)	(1,950)	(4,696)	(3,757)
Other	(346)	(291)	(354)	(30)
Ending balance	$ 51,414	$ 42,470	$ 51,414	$ 42,470

Activity related to the allowance for risk-sharing obligations for the three and six months ended June 30, 2019 and 2018 is shown in the following table:

	For the three months ended June 30,		For the six months ended June 30,	
Roll Forward of Allowance for Risk-sharing Obligations *(in thousands)*	2019	2018	2019	2018
Beginning balance	$ 6,682	$ 3,058	$ 4,622	$ 3,783
Provision for risk-sharing obligations	936	721	2,988	257
Write-offs	—	—	—	—
Other	346	291	354	30
Ending balance	$ 7,964	$ 4,070	$ 7,964	$ 4,070

When the Company places a loan for which it has a risk-sharing obligation on its watch list, the Company transfers the remaining unamortized balance of the guaranty obligation to the allowance for risk-sharing obligations. When a loan for which the Company has a risk-sharing obligation is removed from the watch list, the loan's reserve is transferred from the allowance for risk-sharing obligations back to the guaranty obligation, and the amortization of the remaining balance over the remaining estimated life is resumed. This net transfer of the unamortized balance of the guaranty obligation from a noncontingent classification to a contingent classification (and vice versa) is presented in the guaranty obligation and allowance for risk-sharing obligations tables above as "Other."

The *Allowance for risk-sharing obligations* as of June 30, 2019 is based largely on the Company's collective assessment of the probability of loss related to the loans on the watch list as of June 30, 2019. As of June 30, 2019, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement was $7.1billion. The maximum quantifiable contingent liability is not representative of the actual loss the Company would incur. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans were determined to be without value at the time of settlement.

NOTE 6—SERVICING

The total unpaid principal balance of the Company's servicing portfolio was $89.9 billion as of June 30, 2019 compared to $85.7 billion as of December 31, 2018.

As of June 30, 2019 and December 31, 2018, custodial escrow accounts relating to loans serviced by the Company totaled $2.0 billion and $2.3 billion, respectively. These amounts are not included in the accompanying consolidated balance sheets as such amounts are not Company assets. Certain cash deposits at other financial institutions exceed the Federal Deposit Insurance Corporation insured limits. The Company places these deposits with financial institutions that meet the requirements of the Agencies and where it believes the risk of loss to be minimal.

NOTE 7—WAREHOUSE NOTES PAYABLE

At June 30, 2019, to provide financing to borrowers, the Company has arranged for warehouse lines of credit. In support of the Agencies' programs, the Company has committed and uncommitted warehouse lines of credit in the amount of $2.9billion with certain national banks and a $1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). The Company has pledged substantially all of its loans held for sale against the Agency Warehouse Facilities. The Company has arranged for warehouse lines of credit in the amount of $0.5 billion with certain national banks to assist in funding loans held for investment under the Interim Program ("Interim Warehouse Facilities"). The Company has pledged all of its loans held for investment for which funding is obtained against these Interim Warehouse Facilities. The following table provides additional detail about the warehouse lines of credit at June 30, 2019.

	June 30, 2019				
(dollars in thousands)	Committed	Uncommitted	Total Facility	Outstanding	
Facility[1]	**Amount**	**Amount**	**Capacity**	**Balance**	**Interest rate**
Agency Warehouse Facility #1	$ 425,000	$ 200,000	$ 625,000	$ 223,559	30-day LIBOR plus 1.20%
Agency Warehouse Facility #2	500,000	300,000	800,000	215,114	30-day LIBOR plus 1.15%
Agency Warehouse Facility #3	500,000	265,000	765,000	208,322	30-day LIBOR plus 1.15%
Agency Warehouse Facility #4	350,000	—	350,000	256,328	30-day LIBOR plus 1.15%
Agency Warehouse Facility #5	30,000	—	30,000	5,777	30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	100,000	350,000	130,961	30-day LIBOR plus 1.20%
Total National Bank Agency Warehouse Facilities	$ 2,055,000	$ 865,000	$ 2,920,000	$ 1,040,061	
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	1,500,000	122,603	
Total Agency Warehouse Facilities	$ 2,055,000	$ 2,365,000	$ 4,420,000	$ 1,162,664	
Interim Warehouse Facility #1	$ 135,000	$ —	$ 135,000	$ 87,700	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	100,000	41,082	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	75,000	150,000	23,250	30-day LIBOR plus 1.90% to 2.50%
Interim Warehouse Facility #4	100,000	—	100,000	—	30-day LIBOR plus 1.75%
Total National Bank Interim Warehouse Facilities	$ 410,000	$ 75,000	$ 485,000	$ 152,032	
Debt issuance costs	—	—	—	(741)	
Total warehouse facilities	$ 2,465,000	$ 2,440,000	$ 4,905,000	$ 1,313,955	

1 Agency Warehouse Facilities, including the Fannie Mae repurchase agreement are used to fund loans held for sale, while Interim Warehouse Facilities are used to fund loans held for investment.

During the third quarter of 2019, the Company executed the third amendment to the warehouse agreement related to Agency Warehouse Facility #1. The amendment decreased the borrowing rate to 30-day London Interbank Offered Rate (“LIBOR”) plus 115 basis points. No other material modifications have been made to the agreement during 2019.

During the second quarter of 2019, the Company executed the third amendment to the warehouse agreement related to Agency Warehouse Facility #2. The amendment decreased the borrowing rate to 30-day LIBOR plus 115 basis points. No other material modifications have been made to the agreement during 2019.

During the second quarter of 2019, the Company executed the tenth amendment to the warehouse agreement related to Agency Warehouse Facility #3. The amendment extended the maturity date to April 30, 2020 and decreased the borrowing rate to 30-day LIBOR plus 115 basis points. Additionally, the amendment provides for an uncommitted amount of $265.0 million until January 31, 2020. No other material modifications have been made to the agreement during 2019.

During the second quarter of 2019, the Company executed the sixth amendment to the warehouse agreement related to Agency Warehouse Facility #4. The amendment decreased the borrowing rate to 30-day LIBOR plus 115 basis points. No other material modifications have been made to the agreement during 2019.

During the third quarter of 2019, Agency Warehouse Facility #5 expired according to its terms. The Company believes that the five remaining committed and uncommitted credit facilities from national banks, the uncommitted credit facility from Fannie Mae, and the Company’s corporate cash provide the Company with sufficient borrowing capacity to conduct its Agency lending operations without this facility.

During the first quarter of 2019, the Company executed the second amendment to the warehouse agreement related to Agency Warehouse Facility #6. The amendment extended the maturity date to January 31, 2020. No other material modifications have been made to the agreement during 2019.

During the first quarter of 2019, the Company executed the ninth amendment to the credit and security agreement related to Interim Warehouse Facility #1 that increased the maximum borrowing capacity to $135.0 million. During the second quarter of 2019, the Company executed the tenth amendment to the credit and security agreement that extended the maturity date toApril 30, 2020. No other material modifications have been made to the agreement during 2019.

During the second quarter of 2019, the Company executed the fourth amendment to the credit and security agreement related to Interim Warehouse Facility #3 that extended the maturity date to May 18, 2020 and provides for an uncommitted amount of $75.0 million. No other material modifications have been made to the agreement during 2019.

During the first quarter of 2019, the Company executed a warehousing credit and security agreement to establish Interim Warehouse Facility #4. The warehouse facility has a committed $100.0 million maximum borrowing amount. The Company can fund certain interim loans to certain specified large institutional borrowers, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 175 basis points. During the second quarter of 2019, the Company executed the first amendment to the warehousing credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications have been made to the agreement during 2019.

The warehouse notes payable are subject to various financial covenants, all of which the Company was in compliance with as of the current period end.

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

Activity related to goodwill for the six months ended June 30, 2019 and 2018 follows:

Roll Forward of Goodwill *(in thousands)*	For the six months ended June 30, 2019	2018
Beginning balance	$ 173,904	$ 123,767
Additions from acquisitions	6,520	29,957
Impairment	—	—
Ending balance	$ 180,424	$ 153,724

The additions from acquisitions during the six months ended June 30, 2019 shown in the table above relates to an immaterial acquisition of a technology company, which was completed in the first quarter of 2019.

As of June 30, 2019 and December 31, 2018, the balance of intangible assets acquired from acquisitions totaled $2.9million and $3.2 million, respectively. As of June 30, 2019, the weighted-average period over which the Company expects the intangible assets to be amortized is 5.1 years.

A summary of the Company's contingent consideration, which is included in *Accounts payable and other liabilities*, as of and for the six months ended June 30, 2019 and 2018 follows:

Roll Forward of Contingent Consideration *(in thousands)*	For the six months ended June 30, 2019	2018
Beginning balance	$ 11,630	$ 14,091
Accretion	286	463
Payments	(6,450)	(5,150)
Ending balance	$ 5,466	$ 9,404

The contingent consideration above relates to an acquisition completed in 2017. The last of the three earn-out periods related to this contingent consideration ends in the first quarter of 2020.

NOTE 9—FAIR VALUE MEASUREMENTS

The Company uses valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach to measure assets and liabilities that are measured at fair value. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, accounting standards establish a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1*—Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

- *Level 2*—Financial assets and liabilities whose values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3*—Financial assets and liabilities whose values are based on inputs that are both unobservable and significant to the overall valuation.

The Company's MSRs are measured at fair value on a nonrecurring basis. That is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company's MSRs do not trade in an active, open market with readily observable prices. While sales of multifamily MSRs do occur on occasion, precise terms and conditions vary with each transaction and are not readily available. Accordingly, the estimated fair value of the Company's MSRs was developed using discounted cash flow models that calculate the present value of estimated future net servicing income. The model considers contractually specified servicing fees, prepayment assumptions, delinquency status, late charges, other ancillary revenue, costs to service, and other economic factors. The Company periodically reassesses and adjusts, when necessary, the underlying inputs and assumptions used in the model to reflect observable market conditions and assumptions that a market participant would consider in valuing an MSR asset. MSRs are carried at the lower of amortized cost or fair value.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's assets and liabilities carried at fair value:

- *Derivative Instruments*—The derivative positions consist of interest rate lock commitments with borrowers and forward sale agreements to the Agencies. These instruments are valued using a discounted cash flow model developed based on changes in the applicable U.S. Treasury rate and other observable market data. The value was determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company, and are classified within Level 3 of the valuation hierarchy.

- *Loans Held for Sale*—Loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using discounted cash flow models that incorporate quoted observable inputs from market participants. Therefore, the Company classifies these loans held for sale as Level 2.

- *Pledged Securities*—Investments in cash and money market funds are valued using quoted market prices from recent trades. Therefore, the Company classifies this portion of pledged securities as Level 1. The Company determines the fair value of its AFS investments in Agency debt securities using discounted cash flows that incorporate observable inputs from market participants and then compares the fair value to broker estimates of fair value. Consequently, the Company classifies this portion of pledged securities as Level 2.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2019, and December 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value:

(in thousands)	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
June 30, 2019				
Assets				
Loans held for sale	$ —	$1,302,938	$ —	$ 1,302,938
Pledged securities	4,082	115,207	—	119,289
Derivative assets	—	—	22,420	22,420
Total	$ 4,082	$1,418,145	$ 22,420	$ 1,444,647
Liabilities				
Derivative liabilities	$ —	$ —	$ 35,122	$ 35,122
Total	$ —	$ —	$ 35,122	$ 35,122
December 31, 2018				
Assets				
Loans held for sale	$ —	$1,074,348	$ —	$ 1,074,348
Pledged securities	9,469	106,862	—	116,331
Derivative assets	—	—	35,536	35,536
Total	$ 9,469	$1,181,210	$ 35,536	$ 1,226,215
Liabilities				
Derivative liabilities	$ —	$ —	$ 32,697	$ 32,697
Total	$ —	$ —	$ 32,697	$ 32,697

There were no transfers between any of the levels within the fair value hierarchy during the six months ended June 30, 2019.

Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 60 days). A roll forward of derivative instruments is presented below for the three and six months ended June 30, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments			
	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2019	2018	2019	2018
Derivative assets and liabilities, net				
Beginning balance	$ (2,286)	$ 12,962	$ 2,839	$ 8,507
Settlements	(117,297)	(97,236)	(221,157)	(174,290)
Realized gains recorded in earnings (1)	119,583	84,274	218,318	165,783
Unrealized gains recorded in earnings (1)	(12,702)	17,963	(12,702)	17,963
Ending balance	$ (12,702)	$ 17,963	$ (12,702)	$ 17,963

(1) Realized and unrealized gains from derivatives are recognized in *Gains from mortgage banking activities* in the Condensed Consolidated Statements of Income.

The following table presents information about significant unobservable inputs used in the recurring measurement of the fair value of the Company's Level 3 assets and liabilities as of June 30, 2019:

	Quantitative Information about Level 3 Measurements			
(in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input (1)**	**Input Value (1)**
Derivative assets	$ 22,420	Discounted cash flow	Counterparty credit risk	—
Derivative liabilities	$ 35,122	Discounted cash flow	Counterparty credit risk	—

(1) Significant increases in this input may lead to significantly lower fair value measurements.

The carrying amounts and the fair values of the Company's financial instruments as of June 30, 2019 and December 31, 2018 are presented below:

	June 30, 2019		December 31, 2018	
(in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 74,184	$ 74,184	$ 90,058	$ 90,058
Restricted cash	15,454	15,454	20,821	20,821
Pledged securities	119,289	119,289	116,331	116,331
Loans held for sale	1,302,938	1,302,938	1,074,348	1,074,348
Loans held for investment, net	432,593	435,582	497,291	503,549
Derivative assets	22,420	22,420	35,536	35,536
Total financial assets	$1,966,878	$1,969,867	$1,834,385	$1,840,643
Financial liabilities:				
Derivative liabilities	$ 35,122	$ 35,122	$ 32,697	$ 32,697
Secured borrowings	70,052	70,052	70,052	70,052
Warehouse notes payable	1,313,955	1,314,696	1,161,382	1,162,791
Note payable	294,840	298,500	296,010	300,000
Total financial liabilities	$1,713,969	$1,718,370	$1,560,141	$1,565,540

The following methods and assumptions were used for recurring fair value measurements as of June 30, 2019:

Cash and Cash Equivalents and *Restricted Cash*—The carrying amounts approximate fair value because of the short maturity of these instruments (Level 1).

Pledged Securities—Consist of cash, highly liquid investments in money market accounts invested in government securities, and investments in Agency debt securities. The investments of the money market funds typically have maturities of 90 days or less and are valued using quoted market prices from recent trades. The fair value of the Agency debt securities incorporates the contractual cash flows of the security discounted at market-rate, risk-adjusted yields.

Loans Held for Sale—Consist of originated loans that are generally transferred or sold within 60 days from the date that the mortgage loan is funded and are valued using discounted cash flow models that incorporate observable inputs from market participants.

Derivative Instruments—Consist of interest rate lock commitments and forward sale agreements. These instruments are valued using discounted cash flow models developed based on changes in the U.S. Treasury rate and other observable market data. The value is determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company.

Fair Value of Derivative Instruments and *Loans Held for Sale*—In the normal course of business, the Company enters into contractual commitments to originate and sell multifamily mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by the Company. All mortgagors are evaluated for creditworthiness prior to the extension of the commitment. Market risk arises if interest rates move between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor.

To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company's policy is to enter into a sale commitment with the investor simultaneous with the rate lock commitment with the borrower. The sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the forward sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through *Gains on mortgage banking activities* in the Condensed Consolidated Statements of Income. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input levels includes, as applicable:

- the estimated gain from the expected loan sale to the investor (Level 2);
- the expected net cash flows associated with servicing the loan, net of any guaranty obligations retained (Level 2);
- the effects of interest rate movements between the date of the rate lock and the balance sheet date (Level 2); and
- the nonperformance risk of both the counterparty and the Company (Level 3; derivative instruments only).

The estimated gain considers the origination fees the Company expects to collect upon loan closing (derivative instruments only) and premiums the Company expects to receive upon loan sale (Level 2). The fair value of the expected net cash flows associated with servicing the loan is calculated pursuant to the valuation techniques applicable to MSRs (Level 2).

The fair value of the Company's derivative instruments and loans held for sale considers the effects of the market price movement of the same type of security due to interest rate movements between the trade date and the balance sheet date. To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date or loan origination date and the balance sheet date by the notional amount of the derivative instruments or loans held for sale (Level 2).

The fair value of the Company’s interest rate lock commitments and forward sales contracts is adjusted to reflect the risk that the agreement will not be fulfilled. The Company’s exposure to nonperformance in interest rate lock commitments and forward sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties and the short duration of interest rate lock commitments and forward sale contracts, the risk of nonperformance by the Company’s counterparties has historically been minimal (Level 3).

The following table presents the components of fair value and other relevant information associated with the Company's derivative instruments and loans held for sale as of June 30, 2019 and December 31, 2018.

		Fair Value Adjustment Components			Balance Sheet Location		
(in thousands)	Notional or Principal Amount	Estimated Gain on Sale	Interest Rate Movement	Total Fair Value Adjustment	Derivative Assets	Derivative Liabilities	Fair Value Adjustment To Loans Held for Sale
June 30, 2019							
Rate lock commitments	$ 859,558	$ 18,149	$ 4,226	$ 22,375	$ 22,411	$ (36)	$ —
Forward sale contracts	2,113,009	—	(35,077)	(35,077)	9	(35,086)	—
Loans held for sale	1,253,451	18,636	30,851	49,487	—	—	49,487
Total		$ 36,785	$ —	$ 36,785	$ 22,420	$(35,122)	$ 49,487
December 31, 2018							
Rate lock commitments	$ 891,514	$ 20,285	$ 10,627	$ 30,912	$ 30,976	$ (64)	$ —
Forward sale contracts	1,927,017	—	(28,073)	(28,073)	4,560	(32,633)	—
Loans held for sale	1,035,503	21,399	17,446	38,845	—	—	38,845
Total		$ 41,684	$ —	$ 41,684	$ 35,536	$(32,697)	$ 38,845

NOTE 10—FANNIE MAE COMMITMENTS AND PLEDGED SECURITIES

Fannie Mae DUS Related Commitments—Commitments for the origination and subsequent sale and delivery of loans to Fannie Mae represent those mortgage loan transactions where the borrower has locked an interest rate and scheduled closing and the Company has entered into a mandatory delivery commitment to sell the loan to Fannie Mae. As discussed in NOTE 9, the Company accounts for these commitments as derivatives recorded at fair value.

The Company is generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. The Company is required to secure these obligations by assigning restricted cash balances and securities to Fannie Mae, which are classified as *Pledged securities, at fair value* on the Condensed Consolidated Balance Sheets. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Pledged securities held in the form of money market funds holding U.S. Treasuries are discounted 5%, and multifamily Agency mortgage-backed securities ("Agency Multifamily MBS") are discounted 4% for purposes of calculating compliance with the restricted liquidity requirements. As seen below, the Company held substantially all of its pledged securities in Agency Multifamily MBS as of June 30, 2019. The majority of the loans for which the Company has risk sharing are Tier 2 loans.

The Company is in compliance with the June 30, 2019 collateral requirements as outlined above. As of June 30, 2019, reserve requirements for the DUS loan portfolio will require the Company to fund $65.5 million in additional pledged securities over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within the at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. The Company generates sufficient cash flow from its operations to meet these capital standards and does not expect any future changes to have a material impact on its future operations; however, any future changes to collateral requirements may adversely impact the Company's available cash.

Fannie Mae has established standards for capital adequacy and reserves the right to terminate the Company's servicing authority for all or some of the portfolio if at any time it determines that the Company's financial condition is not adequate to support its obligations under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of June 30, 2019. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk sharing. At June 30, 2019, the net worth requirement was $186.0 million, and the Company's net worth, as defined in the requirements, was $651.5 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of June 30, 2019, the Company was required to maintain at least $36.7 million of liquid assets to meet operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, and Ginnie Mae. As of June 30, 2019, the Company had operational liquidity, as defined in the requirements, of $209.8 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

Pledged Securities, at Fair Value—Pledged securities, at fair value consisted of the following balances as of June 30, 2019 and 2018 and December 31, 2018 and 2017:

	June 30,		December 31,	
(in thousands)	2019	2018	2018	2017
Pledged cash and cash equivalents:				
Restricted cash	$ 3,242	$ 3,238	$ 3,029	$ 2,201
Money market funds	840	55,072	6,440	86,584
Total pledged cash and cash equivalents	$ 4,082	$ 58,310	$ 9,469	$88,785
Agency debt securities	115,207	47,493	106,862	9,074
Total pledged securities, at fair value	$119,289	$105,803	$116,331	$97,859

The information in the preceding table is presented to reconcile beginning and ending cash, cash equivalents, restricted cash, and restricted cash equivalents in the Condensed Consolidated Statements of Cash Flows as more fully discussed in NOTE 2.

The investments in Agency debt securities consist of Agency Multifamily MBS and are all accounted for as AFS securities. The following table provides additional information related to the AFS Agency Multifamily MBS as of June 30, 2019 and December 31, 2018:

Fair Value and Amortized Cost of Agency Multifamily MBS *(in thousands)*	June 30, 2019	December 31, 2018
Fair value	$ 115,207	$ 106,862
Amortized cost	114,016	106,963
Total gains for securities with net gains in AOCI	1,302	77
Total losses for securities with net losses in AOCI	(111)	(178)

As of June 30, 2019, the Company does not intend to sell any of the Agency debt securities, nor does the Company believe that it is more likely than not that it would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity.

The following table provides contractual maturity information related to the Agency Multifamily MBS. The money market funds invest in short-term Federal Government and Agency debt securities and have no stated maturity date.

	June 30, 2019	
Detail of Agency Multifamily MBS Maturities *(in thousands)*	Fair Value	Amortized Cost
Within one year	$ —	$ —
After one year through five years	1,431	1,408
After five years through ten years	93,177	93,255
After ten years	20,599	19,353
Total	$ 115,207	$ 114,016

NOTE 11—EARNINGS PER SHARE

EPS is calculated under the two-class method. The two-class method allocates all earnings (distributed and undistributed) to each class of common stock and participating securities based on their respective rights to receive dividends. The Company grants share-based awards to various employees and nonemployee directors under the 2015 Equity Incentive Plan that entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. These unvested awards meet the definition of participating securities.

The following table presents the calculation of basic and diluted EPS for the three and six months ended June 30, 2019 and 2018 under the two-class method. Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the treasury-stock method.

EPS Calculations *(in thousands, except per share amounts)*	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Calculation of basic EPS				
Walker & Dunlop net income	$ 42,196	$ 41,112	$ 86,414	$ 77,973
Less: dividends and undistributed earnings allocated to participating securities	1,328	1,471	2,835	2,861
Net income applicable to common stockholders	$ 40,868	$ 39,641	$ 83,579	$ 75,112
Weighted-average basic shares outstanding	29,985	30,256	29,834	30,139
Basic EPS	$ 1.36	$ 1.31	$ 2.80	$ 2.49
Calculation of diluted EPS				
Net income applicable to common stockholders	$ 40,868	$ 39,641	$ 83,579	$ 75,112
Add: reallocation of dividends and undistributed earnings based on assumed conversion	25	45	62	81
Net income allocated to common stockholders	$ 40,893	$ 39,686	$ 83,641	$ 75,193
Weighted-average basic shares outstanding	29,985	30,256	29,834	30,139
Add: weighted-average diluted non-participating securities	759	1,239	886	1,147
Weighted-average diluted shares outstanding	30,744	31,495	30,720	31,286
Diluted EPS	$ 1.33	$ 1.26	$ 2.72	$ 2.40

The assumed proceeds used for calculating the dilutive impact of restricted stock awards under the treasury method includes the unrecognized compensation costs associated with the awards. The following table presents any average outstanding options to purchase shares of common stock and average restricted shares that were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2019 and 2018 because the effect would have been anti-dilutive (the exercise price of the options or the grant date market price of the restricted shares was greater than the average market price of the Company's shares during the periods presented).

Schedule of Anti-dilutive Securities *(in thousands)*	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Average options	—	—	—	—
Average restricted shares	32	—	35	5

NOTE 12—LEASES

In the normal course of business, the Company enters into lease arrangements for all of its office space. All such lease arrangements are accounted for as operating leases. The associated right-of-use ("ROU") assets and liabilities are recorded under *Other assets* and *Accounts payable and other liabilities*, respectively, in the Condensed Consolidated Balance Sheet as of June 30, 2019. These operating leases do not provide an implicit discount rate; therefore, the Company uses the incremental borrowing rate of its note payable at lease commencement to calculate lease liabilities. The Company's lease agreements often include options to extend or terminate the lease. Single lease cost related to these lease agreements is recognized on the straight-line basis over the term of the lease, which includes options to extend when it is reasonably certain that such options will be exercised and the Company knows what the lease payments will be during the optional periods. Single lease cost for the three and six months ended June 30, 2019 was $1.7 million and $3.6 million, respectively, while rent expense for the three and six months ended June 30, 2018 was $1.6 million and $3.2 million, respectively. As of June 30, 2019, ROU assets and leaseliabilities were $23.8 million and $30.2 million, respectively. As of June 30, 2019, the weighted-average remaining lease term and the weighted-average discount rate of the Company's leases were 4.1 years and 4.75%, respectively.

Maturities of lease liabilities as of June 30, 2019 follow (in thousands):

Six Months Ending December 31,	
2019	$ 4,102
Year Ending December 31,	
2020	8,183
2021	7,937
2022	7,232
2023	5,594
Thereafter	147
Total lease payments	$ 33,195
Less imputed interest	(3,030)
Total	$ 30,165

Minimum cash basis operating lease commitments as of December 31, 2018 follow (in thousands):

Year Ending December 31,	
2019	$ 7,700
2020	7,789
2021	7,450
2022	6,738
2023	5,200
Thereafter	90
Total	$ 34,967

NOTE 13—TOTAL EQUITY

A summary of changes in total equity for the three and six months ended June 30, 2019 and 2018 is presented below:

	For the three and six months ended June 30, 2019						
	Stockholders' Equity						
	Common Stock				Retained	Noncontrolling	Total
(in thousands)	Shares	Amount	APIC	AOCI	Earnings	Interests	Equity
Balance at December 31, 2018	29,497	$ 295	$235,152	$ (75)	$666,752	$ 5,068	$907,192
Cumulative-effect adjustment for adoption of ASU 2016-02	—	—	—	—	(1,002)	—	(1,002)
Walker & Dunlop net income	—	—	—	—	44,218	—	44,218
Net income (loss) from noncontrolling interests	—	—	—	—	—	(158)	(158)
Other comprehensive income (loss), net of tax	—	—	—	301	—	—	301
Stock-based compensation - equity classified	—	—	6,812	—	—	—	6,812
Issuance of common stock in connection with equity compensation plans	935	9	4,178	—	—	—	4,187
Repurchase and retirement of common stock	(459)	(4)	(22,400)	—	(1,755)	—	(24,159)
Cash dividends paid ($0.30 per common share)	—	—	—	—	(9,319)	—	(9,319)
Balance at March 31, 2019	29,973	$ 300	$223,742	$ 226	$698,894	$ 4,910	$928,072
Walker & Dunlop net income	—	—	—	—	42,196	—	42,196
Net income (loss) from noncontrolling interests	—	—	—	—	—	(50)	(50)
Other comprehensive income (loss), net of tax	—	—	—	666	—	—	666
Stock-based compensation - equity classified	—	—	4,417	—	—	—	4,417
Issuance of common stock in connection with equity compensation plans	24	1	—	—	—	—	1
Repurchase and retirement of common stock	(33)	(1)	(538)	—	(1,217)	—	(1,756)
Cash dividends paid ($0.30 per common share)	—	—	—	—	(9,311)	—	(9,311)
Balance at June 30, 2019	29,964	$ 300	$227,621	$ 892	$730,562	$ 4,860	$964,235

	For the three and six months ended June 30, 2018						
	Stockholders' Equity						
	Common Stock				Retained	Noncontrolling	Total
(in thousands)	Shares	Amount	APIC	AOCI	Earnings	Interests	Equity
Balance at December 31, 2017	30,016	$ 300	$229,080	$ 93	$579,943	$ 5,565	$814,981
Walker & Dunlop net income	—	—	—	—	36,861	—	36,861
Net income (loss) from noncontrolling interests	—	—	—	—	—	(154)	(154)
Other comprehensive income (loss), net of tax	—	—	—	(127)	—	—	(127)
Stock-based compensation - equity classified	—	—	5,093	—	—	—	5,093
Issuance of common stock in connection with equity compensation plans	567	5	4,846	—	—	—	4,851
Repurchase and retirement of common stock	(435)	(4)	(12,687)	—	(8,709)	—	(21,400)
Cash dividends paid ($0.25 per common share)	—	—	—	—	(7,838)	—	(7,838)
Balance at March 31, 2018	30,148	$ 301	$226,332	$ (34)	$600,257	$ 5,411	$832,267
Walker & Dunlop net income	—	—	—	—	41,112	—	41,112
Net income (loss) from noncontrolling interests	—	—	—	—	—	(79)	(79)
Other comprehensive income (loss), net of tax	—	—	—	(53)	—	—	(53)
Stock-based compensation - equity classified	—	—	5,076	—	—	—	5,076
Issuance of common stock in connection with equity compensation plans	242	3	3,213	—	—	—	3,216
Repurchase and retirement of common stock	—	—	(57)	—	—	—	(57)
Cash dividends paid ($0.25 per common share)	—	—	—	—	(7,861)	—	(7,861)
Balance at June 30, 2018	30,390	$ 304	$234,564	$ (87)	$633,508	$ 5,332	$873,621

During the first quarter of 2019, the Company repurchased under a 2018 share repurchase program 55 thousand shares of its common stock at a weighted average price of $42.79 per share and immediately retired the shares, reducing stockholders' equity by $2.4 million. During the first quarter of 2019, the Company's Board of Directors authorized the Company to repurchase up to $50.0 million of its common stock over a 12-month period. During the second quarter of 2019, the Company repurchased 30 thousand shares of its common stock under the 2019 share repurchase program at a weighted average price of $51.88 per share and immediately retired the shares, reducing stockholders' equity by $1.5 million. The Company had $48.5million of authorized share repurchase capacity remaining as of June 30, 2019.

In February 2019, the Company's Board of Directors declared a cash dividend of $0.30 per share for the first quarter of 2019. The dividend was paid during the first quarter of 2019 to all holders of record of our restricted and unrestricted common stock and restricted stock units. In April 2019, the Company's Board of Directors declared a dividend of $0.30 per share for the second quarter of 2019. The dividend was paid during the second quarter of 2019 to all holders of record of our restricted and unrestricted common stock and restricted stock units. On August 6, 2019, the Company's Board of Directors declared a cash dividend of $0.30 per share for the third quarter of 2019. The dividend will be paid September 9, 2019 to all holders of record of our restricted and unrestricted common stock and restricted stock units as of August 23, 2019. The Company expects the dividends paid during 2019 to be an insignificant portion of the Company's net income, retained earnings, and cash and cash equivalents.

The Company's note payable contains direct restrictions to the amount of dividends the Company may pay, and the warehouse credit facilities and agreements with the Agencies contain minimum equity, liquidity, and other capital requirements that indirectly restrict the amount of dividends the Company may pay. The Company does not believe that these restrictions currently limit the amount of dividends the Company intends to pay for the foreseeable future.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the historical financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q (“Form 10-Q”). The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those expressed or contemplated in those forward-looking statements as a result of certain factors, including those set forth under the headings “Forward-Looking Statements” and “Risk Factors” elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2018 2018 Form 10-K”).

Forward-Looking Statements

Some of the statements in this Form 10-Q of Walker & Dunlop, Inc. and subsidiaries (the “Company,” “Walker & Dunlop,” “we,” or “us”), may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, projections, plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

The forward-looking statements contained in this Form 10-Q reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions, and changes in circumstances that may cause actual results to differ significantly from those expressed or contemplated in any forward-looking statement. Statements regarding the following subjects, among others, may be forward-looking:

- the future of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac,” and together with Fannie Mae, the “GSEs”), including their origination capacities, and their impact on our business;
- changes to and trends in the interest rate environment and its impact on our business;
- our growth strategy;
- our projected financial condition, liquidity, and results of operations;
- our ability to obtain and maintain warehouse and other loan funding arrangements;
- our ability to make future dividend payments or repurchase shares of our common stock;
- availability of and our ability to attract and retain qualified personnel and our ability to develop and retain relationships with borrowers, key principals, and lenders;
- degree and nature of our competition;
- changes in governmental regulations and policies, tax laws and rates, and similar matters and the impact of such regulations, policies, and actions;
- our ability to comply with the laws, rules, and regulations applicable to us;
- trends in the commercial real estate finance market, commercial real estate values, the credit and capital markets, or the general economy, including demand for multifamily housing and rent growth;
- general volatility of the capital markets and the market price of our common stock; and
- other risks and uncertainties associated with our business described in our 2018 Form 10-K and our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

While forward-looking statements reflect our good-faith projections, assumptions, and expectations, they are not guarantees of future results. Furthermore, we disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes, except as required by applicable law. For a further discussion of these and other factors that could cause future results to differ materially from those expressed or contemplated in any forward-looking statements, see “Risk Factors.”

Business

We are one of the leading commercial real estate services and finance companies in the United States. We originate, sell, and service a range of commercial real estate debt and equity financing products, provide property sales brokerage services with a specific focus on multifamily properties, and engage in commercial real estate investment management activities. Our clients are owners and developers of commercial real estate across the country. We offer the following products to our clients:

Agency Lending

We originate and sell loans through the programs of the GSEs, the Government National Mortgage Association ("Ginnie Mae"), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, "HUD;" and HUD collectively with the GSEs, "Agency Lending"), with which we have long-established relationships. We are approved as a Fannie Mae Delegated Underwriting and Servicing™ ("DUS") lender nationally, an approved lender (Seller/Servicer) in Freddie Mac Multifamily's Optigo℠ network ("Optigo Seller/Servicer") nationally, an Optigo Seller/Servicer for Seniors Housing and Targeted Affordable Housing, a HUD Multifamily Accelerated Processing lender nationally, a HUD LEAN lender nationally, and a Ginnie Mae issuer.

We recognize gains from mortgage banking activities from our Agency Lending products when we commit to both originate a loan with a borrower and sell that loan to an investor. The gains from mortgage banking activities for these transactions reflect the fair value attributable to loan origination fees, premiums on the sale of loans, net of any co-broker fees, and the fair value of the expected net cash flows associated with servicing the loans, net of any guaranty obligations retained.

We fund our Agency Lending products generally through warehouse facility financing and sell them to investors in accordance with the related loan sale commitment, which we obtain concurrent with rate lock. Proceeds from the sale of the loan are used to pay off the warehouse borrowing. The sale of the loan is typically completed within 60 days after the loan is closed. We earn net warehouse interest income from loans held for sale while they are outstanding equal to the difference between the note rate on the Agency loan and the cost of borrowing of the warehouse facility.

We retain servicing rights and asset management responsibilities on substantially all of the Agency loans we originate and sell and generate revenues from the fees we receive for servicing the loans, from the interest income on escrow deposits held on behalf of borrowers, and from other ancillary fees relating to servicing the loans. Servicing fees, which are based on servicing fee rates set at the time an investor agrees to purchase the loan and on the unpaid principal balance of the loan, are generally paid monthly for the duration of the loan. Our Fannie Mae and Freddie Mac servicing arrangements generally provide for prepayment fees to us in the event of a voluntary prepayment. For loans serviced outside of Fannie Mae and Freddie Mac, we typically do not share in any such payments.

We are currently not exposed to unhedged interest rate risk during the loan commitment, closing, and delivery process for our Agency Lending activities. The sale or placement of each loan to an investor is negotiated prior to establishing the coupon rate for the loan. We also seek to mitigate the risk of a loan not closing. We have agreements in place with the Agencies that specify the cost of a failed loan delivery, also known as a "pair off fee", in the event we fail to deliver the loan to the investor. To protect us against such pair off fees, we require a deposit from the borrower at rate lock that is typically more than the potential pair off fee. The deposit is returned to the borrower only once the loan is closed. Any potential loss from a catastrophic change in the property condition while the loan is held for sale using warehouse facility financing is mitigated through property insurance equal to replacement cost. We are also protected contractually from an investor's failure to purchase the loan. We have experienced an immaterial number of failed deliveries in our history and have incurred immaterial losses on such failed deliveries.

We have risk-sharing obligations on substantially all loans we originate under the Fannie Mae DUS program. When a Fannie Mae DUS loan is subject to full risk-sharing, we absorb losses on the first 5% of the unpaid principal balance of a loan at the time of loss settlement, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the original unpaid principal balance of the loan (subject to doubling or tripling if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). Our full risk-sharing is limited to loans up to $200 million, which equates to a maximum loss per loan of $40 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). For loans in excess of $200 million, we receive modified risk-sharing. We also may request modified risk-sharing at the time of origination on loans below $200 million, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fully compensated for the risks of the transactions.

Our servicing fees for risk-sharing loans include compensation for the risk-sharing obligations and are larger than the servicing fees we would receive from Fannie Mae for loans with no risk-sharing obligations. We receive a lower servicing fee for modified risk-sharing than for full risk-sharing.

Debt Brokerage

We broker, and in some cases service, loans for several life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases we do not fund the loan. Our mortgage bankers who focus on debt brokerage are engaged by borrowers to work with a variety of institutional lenders to find the most appropriate loan instrument for the borrowers' needs. These loans are then funded directly by the institutional lender, and we receive an origination fee for placing the loan. For those brokered loans we also service, we collect ongoing servicing fees while those loans remain in our servicing portfolio. The servicing fees we typically earn on brokered loan transactions are substantially lower than the servicing fees we earn for servicing Agency loans.

Principal Lending and Investing

Through a joint venture with an affiliate of Blackstone Mortgage Trust, Inc., we offer short-term senior secured debt financing products that provide floating-rate, interest-only loans for terms of generally up to three years to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing (the “Interim Program JV” or the “joint venture”). The joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities. We hold a 15% ownership interest in the Interim Program JV and are responsible for sourcing, underwriting, servicing, and asset-managing the loans originated by the joint venture. The Interim Program JV assumes full risk of loss while the loans it originates are outstanding, while we assume risk commensurate with our 15% ownership interest.

Using a combination of our own capital and warehouse debt financing, we offer interim loans that do not meet the criteria of the Interim Program JV (the “Interim Program”). We underwrite, service, and asset-manage all loans executed through the Interim Program. We originate and hold these Interim Program loans for investment, which are included on our balance sheet, and during the time that these loans are outstanding, we assume the full risk of loss. The ultimate goal of the Interim Program is to provide permanent Agency financing on these transitional properties. Since we began originating interim loans in 2012, we have not charged off any Interim Program loans.

Under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers to acquire and reposition properties. The terms of such investments are negotiated with each investment. We fund these preferred equity investments with our own capital and hold the investments until maturity, during which time we assume the full risk of loss. There were no preferred equity investments outstanding as of June 30, 2019.

During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation and subsidiaries (“JCR”), the operator of a private commercial real estate investment adviser focused on the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds. The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify our operations by growing our investment management platform. JCR’s current assets under management (“AUM”) of $1.0 billion primarily consist of three sources: Fund III, Fund IV, and separate accounts managed for life insurance companies. AUM for Fund III and Fund IV consist of both unfunded commitments and funded investments. AUM for the separate account consists entirely of funded investments. Unfunded commitments are highest during the fund raising and investment phases. JCR receives management fees based on both unfunded commitments and funded investments. Additionally, with respect to Fund III and Fund IV, JCR receives a percentage of the return above the fund return hurdle rate specified in the fund agreements.

Property Sales

Through a majority ownership interest in Walker & Dunlop Investment Sales, LLC (“WDIS”), we offer property sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties. Through these property sales brokerage services, we seek to maximize proceeds and certainty of closure for our clients using our knowledge of the commercial real estate and capital markets and relying on our experienced transaction professionals. We receive a sales commission for brokering the sale of these multifamily assets on behalf of our clients. Our property sales services are offered in various regions throughout the United States. We have added several property sales brokerage teams over the past few years and continue to seek to add other property sales brokers, with the goal of expanding these brokerage services to cover all major regions throughout the United States.

Basis of Presentation

The accompanying condensed consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries, and all intercompany transactions have been eliminated. Additionally, we consolidate the activities of WDIS and present the portion of WDIS that we do not control as *Noncontrolling interests* in the Condensed Consolidated Balance Sheets and *Net income (loss) from noncontrolling interests* in the Condensed Consolidated Statements of Income.

Critical Accounting Policies

Our condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and other factors management believes to be reasonable. Actual results may differ from those estimates and assumptions. We believe the following critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed consolidated financial statements.

Mortgage Servicing Rights ("MSRs"). MSRs are recorded at fair value at loan sale or upon purchase. The fair value of MSRs acquired through a stand-alone servicing portfolio purchase is equal to the purchase price paid. The fair value at loan sale is based on estimates of expected net cash flows associated with the servicing rights and takes into consideration an estimate of loan prepayment. The estimated net cash flows are discounted at a rate that reflects the credit and liquidity risk of the MSR over the estimated life of the underlying loan. The discount rates used throughout the periods presented for all MSRs recognized at loan sale were between 10-15% and varied based on the loan type. The life of the underlying loan is estimated giving consideration to the prepayment provisions in the loan. Our model for originated MSRs assumes no prepayment while the prepayment provisions have not expired and full prepayment of the loan at or near the point where the prepayment provisions have expired. We record an individual MSR asset (or liability) for each loan at loan sale. For purchased stand-alone servicing portfolios, we record and amortize a portfolio-level MSR asset based on the estimated remaining life of the portfolio using the prepayment characteristics of the portfolio. We have had three stand-alone servicing portfolio purchases, one of which occurred in 2016, one in 2017, and one in the second quarter of 2018.

The assumptions used to estimate the fair value of MSRs at loan sale are based on internal models and are periodically compared to assumptions used by other market participants. Due to the relatively few transactions in the multifamily MSR market, we have experienced little volatility in the assumptions we use during the periods presented, including the most-significant assumption – the discount rate. Additionally, we do not expect to see much volatility in the assumptions for the foreseeable future. Management actively monitors the assumptions used and makes adjustments to those assumptions when market conditions change or other factors indicate such adjustments are warranted. We carry originated and purchased MSRs at the lower of amortized cost or fair value and evaluate the carrying value for impairment quarterly. We test for impairment on the purchased stand-alone servicing portfolios individually and separately from our other MSRs. The MSRs from both stand-alone portfolio purchases and from loans sales are tested for impairment at the portfolio level. We have never recorded an impairment of MSRs in our history. We engage a third party to assist in determining an estimated fair value of our existing and outstanding MSRs on at least a semi-annual basis.

Gains from mortgage banking activities income is recognized when we record a derivative asset upon the simultaneous commitments to originate a loan with a borrower and sell the loan to an investor. The commitment asset related to the loan origination is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of any co-broker fees, and the estimated fair value of the expected net cash flows associated with the servicing of the loan, net of the estimated net future cash flows associated with any risk-sharing obligations (the "servicing component of the commitment asset"). Upon loan sale, we derecognize the servicing component of the commitment asset and recognize an MSR. All MSRs are amortized into expense using the interest method over the estimated life of the loan and presented as a component of *Amortization and depreciation* in the Condensed Consolidated Statements of Income.

For MSRs recognized at loan sale, the individual loan-level MSR is written off through a charge to *Amortization and depreciation* when a loan prepays, defaults, or is probable of default. For MSRs related to purchased stand-alone servicing portfolios, a constant rate of prepayments and defaults is included in the determination of the portfolio's estimated life at purchase (and thus included as a component of the portfolio's amortization). Accordingly, prepayments and defaults of individual MSRs do not change the level of amortization expense recorded for the portfolio unless the pattern of actual prepayments and defaults varies significantly from the estimated pattern. When such a significant difference in the pattern of estimated and actual prepayments and defaults occurs, we prospectively adjust the estimated life of the portfolio (and thus future amortization) to approximate the actual pattern observed. We have not adjusted the estimated life of our purchased stand-alone servicing portfolios as the actual prepayment experience has not differed materially from the expected prepayment experience. We do not anticipate an adjustment to the estimated life of the portfolios will be necessary in the near term due to the characteristics of the portfolios, especially the relatively low weighted-average interest rates and the relatively long remaining periods of prepayment protection.

Allowance for Risk-sharing Obligations. The allowance for risk-sharing obligations relates to our at risk servicing portfolio and is presented as a separate liability within the Condensed Consolidated Balance Sheets. The amount of this allowance considers our assessment of the likelihood of repayment by the borrower or key principal(s), the risk characteristics of the loan, the loan's risk rating, historical loss experience, adverse situations affecting individual loans, the estimated disposition value of the underlying collateral, and the level of risk sharing. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. We regularly monitor the allowance on all applicable loans and update loss estimates as current information is received. *Provision for credit losses* in the Condensed Consolidated Statements of Income reflects the income statement impact of changes to both the allowance for risk-sharing obligations and allowance for loan losses.

We perform a quarterly evaluation of all of our risk-sharing loans to determine whether a loss is probable. Our process for identifying which risk-sharing loans may be probable of loss consists of an assessment of several qualitative and quantitative factors including payment status, property financial performance, local real estate market conditions, loan-to-value ratio, debt-service-coverage ratio, and property condition. When we believe a loan is probable of foreclosure or when a loan is in foreclosure, we record an allowance for that loan (a "specific reserve"). The specific reserve is based on the estimate of the property fair value less selling and property preservation costs and considers the loss-sharing requirements detailed below in the "Credit Quality and Allowance for Risk-Sharing Obligations" section. The estimate of property fair value at initial recognition of the allowance for risk-sharing obligations is based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value. The allowance for risk-sharing obligations for such loans is updated as any additional information is received until the loss is settled with Fannie Mae. The settlement with Fannie Mae is based on the actual sales price of the property less selling and property preservation costs and considers the Fannie Mae loss-sharing requirements. Loss settlement with Fannie Mae has historically concluded within 18 to 36 months after foreclosure. Historically, the initial specific reserves have not varied materially from the final settlement. We are uncertain whether such a trend will continue in the future.

In addition to the specific reserves discussed above, we also record an allowance for risk-sharing obligations related to all risk-sharing loans on our watch list ("general reserves"). Such loans are not probable of foreclosure but are probable of loss as the characteristics of these loans indicate that it is probable that these loans include some losses even though the loss cannot be attributed to a specific loan. For all other risk-sharing loans not on our watch list, we continue to carry a guaranty obligation. We calculate the general reserves based on a migration analysis of the loans on our historical watch lists, adjusted for qualitative factors. We have not experienced significant volatility in the general reserves loss percentage, including the adjustment for qualitative factors, and do not expect to experience significant volatility in the near term.

When we place a risk-sharing loan on our watch list, we transfer the remaining unamortized balance of the guaranty obligation to the general reserves. If a risk-sharing loan is subsequently removed from our watch list due to improved financial performance, we transfer the unamortized balance of the guaranty obligation back to the guaranty obligation classification on the balance sheet and amortize the remaining unamortized balance evenly over the remaining estimated life. For each loan for which we have a risk-sharing obligation, we record one of the following liabilities associated with that loan as discussed above: guaranty obligation, general reserve, or specific reserve. Although the liability type may change over the life of the loan, at any particular point in time, only one such liability is associated with a loan for which we have a risk-sharing obligation. The *Allowance for risk-sharing obligations* as of June 30, 2019 is based largely on general reserves related to the loans on the watch list as of June 30, 2019.

Overview of Current Business Environment

The fundamentals of the commercial real estate market remain strong. For the last two years, multifamily debt financing activity has represented at least 80% of our total mortgage banking volumes and has been a meaningful driver of our operating performance. Multifamily occupancy rates and effective rents remain strong based upon robust rental market demand while delinquency rates remain at historic lows, all of which aid loan performance and mortgage banking volumes due to their importance to the cash flows of the underlying properties. Additionally, the headwinds facing single-family home ownership, including high valuations, lack of supply, and low credit availability, have led to home ownership levels at or near historic lows. At the same time, new household formation continues to grow, unemployment levels remain at historic lows, and macroeconomic indicators are strong, all resulting in high demand for multifamily housing.

The Mortgage Bankers' Association ("MBA") recently reported that the amount of commercial and multifamily mortgage debt outstanding continued to grow in the first quarter of 2019, reaching $3.5 trillion, an increase of 1.3% from the end of the fourth quarter of 2018. Multifamily mortgage debt outstanding rose by $17.9 billion to $1.4 trillion as of the end of the first three months of 2019, an increase of 1.3% from the end of 2018.

Steady household formation and a dearth of supply of entry level single family homes have led to strong demand for rental housing and continued steadily rising rents in multifamily properties in most markets. The positive performance has boosted the value of many multifamily properties towards the high end of historical ranges. According to RealPage, a provider of commercial real estate data and analytics, rent growth increased 3.0% on an annual basis during the second quarter of 2019 as demand for multifamily properties reached a five-year high during the second quarter of 2019. RealPage also reported that the vacancy rate at the end of the second quarter of 2019 was 4.2%, below the five-year average of 4.8% as the demand in the multifamily market during the second quarter was twice the rate of new construction during the quarter. We believe that the market demand for multifamily housing in the upcoming quarters will continue to absorb most of the capacity created by new construction and that vacancy rates will remain near historic lows, continuing to make multifamily properties an attractive investment option.

In addition to the improved property fundamentals, for the last several years, the U.S. commercial real estate and multifamily mortgage market has experienced historically low cost of borrowing, which has further encouraged capital investment into commercial real estate. As borrowers have sought to take advantage of the interest rate environment and improved property fundamentals, the number of investors and amount of capital available to lend have increased. All of these factors have benefited our total transaction volumes over the past several years, especially in 2018, which was a record. Competition for lending on commercial and multifamily real estate among commercial real estate services firms, banks, life insurance companies, and the GSEs remains fierce.

The Federal Reserve did not raise its targeted Fed Funds Rate during the second quarter of 2019 but had raised it by 150 basis points during the past two years. We have not experienced a pronounced or sustained decline in loan origination volume as a result of the increases in the Fed Funds Rate as (i) long-term mortgage interest rates have remained at relatively low levels due to a flattened yield curve throughout most of the past two years, (ii) there remains a significant number of capital market participants that are investing in commercial real estate and multifamily properties, and (iii) investor spreads have tightened. However, towards the end of the second quarter of 2018 and continuing through the second quarter of 2019, we have experienced compression in the servicing fees we receive on our loan originations with Fannie Mae due to the tightening of investor spreads. The decrease in servicing fees on new Fannie Mae loan originations during this period has contributed to compression in the gain on sale margin for our Fannie Mae production compared to the year ago quarter but in line with the margin experienced in the second half of 2018. The Federal Reserve lowered the Fed Funds Rate at its July 2019 meeting. We believe this will have a near-term positive impact on the commercial real estate debt and property sales markets. The number, timing, and magnitude of any future interest rate changes by the Federal Reserve, combined with other macroeconomic and market factors, including increased competition for loan originations, may have a different future effect on the commercial real estate market and on us.

We expect to see continued strength in the multifamily financing market for the foreseeable future due to the underlying fundamentals of the multifamily market as labor markets are strong, single-family home ownership remains challenging to obtain for many households, and new household formation will fuel rental demand. This expectation is consistent with recently released data from MBA's 2019 survey of commercial real estate firms which shows that 55% of the firms expect loan originations to increase in 2019.

We are a market-leading originator with Fannie Mae and Freddie Mac, and the GSEs remain the most significant providers of capital to the multifamily market. The Federal Housing Finance Agency ("FHFA") 2019 GSE Scorecard ("2019 Scorecard") established Fannie Mae's and Freddie Mac's 2019 loan origination caps at $35.0 billion each for market-rate apartments ("2019 Caps"), the same as 2018. Affordable housing loans and manufactured housing rental community loans continue to be excluded from the 2019 Caps. Additionally, the definition of the affordable housing loan exclusion continues to encompass affordable housing in high- and very-high cost markets and to allow for an exclusion for the pro-rata portion of any loan on a multifamily property that includes affordable housing units. The 2019 Scorecard provides the FHFA with the flexibility to review the estimated size of the multifamily loan origination market on a quarterly basis and proactively adjust the 2019 Caps upward should the market be larger than expected in 2019. The 2019 Scorecard also provides exclusions for loans to properties located in underserved markets including rural, small multifamily, and senior assisted living and for loans to finance multifamily properties that invest in energy or water efficiency improvements ("green loans"). The 2019 Scorecard did change the definition for green loans, increasing the energy and water savings needed to qualify. This change in the definition for green loans may result in fewer loans being excluded from the 2019 Caps than in previous years and may thus constrain the GSEs' lending volumes in 2019.

The GSEs reported combined loan origination volume of approximately $65.0 billion during the first half of 2019 compared to $54.6 billion during the first half of 2018, an increase of 19%, with Fannie Mae volumes growing 32% during the first half of 2019 compared to the first half of 2018. This increase in overall GSE mortgage banking volume benefitted our GSE mortgage banking volume period over period. We expect the GSEs to maintain their historical market share in a multifamily origination market that is projected by the MBA on average to be $315 billion in 2019. We believe our market leadership positions us to be a significant lender with the GSEs for the foreseeable future. Our originations with the GSEs are some of our most profitable executions as they provide significant non-cash gains from MSRs that turn into significant cash revenue streams in the future. A decline in our GSE originations would negatively impact our financial results as our non-cash revenues would decrease disproportionately with loan origination volume and future servicing fee revenue would be constrained or decline. A new director of the FHFA was sworn in on April 15, 2019 following confirmation by the Senate. We do not know whether the FHFA will impose stricter limitations on GSE multifamily production volume beyond 2019.

We continue to significantly grow our debt brokerage platform through hiring and acquisitions to gain greater access to capital, deal flow, and borrower relationships. The apparent appetite for debt funding within the broader commercial real estate market, along with additions of mortgage bankers over the past several years, has resulted in significant growth in our brokered mortgage banking volume with a 17% increase in brokered mortgage banking volume from the second quarter of 2018 to the second quarter of 2019. Our outlook for our debt brokerage platform is positive as we expect continued growth in the commercial and multifamily financing markets in the near future.

During the first quarter of 2019, the U.S. government was shut down for approximately one month, during which time HUD processed no loan commitments. The shutdown negatively impacted the amount of loan originations at HUD, which contributed to a decrease in first quarter originations and also impacted our second quarter with a decrease of 17% in our HUD mortgage banking volume from the second quarter of 2018 to the second quarter of 2019. HUD remains a strong source of capital for new construction loans and healthcare facilities. We expect that HUD will continue to be a meaningful supplier of capital to our borrowers. We continue to seek to add resources and scale to our HUD lending platform, particularly in the area of construction lending, seniors housing, and skilled nursing, where HUD remains an important provider of capital.

Many of our borrowers continue to seek higher returns by identifying and acquiring the transitional properties that the Interim Program is designed to address. We entered into the Interim Program JV to both increase the overall capital available to transitional properties and dramatically expand our capacity to originate Interim Program loans. The demand for transitional lending has brought increased competition from lenders, specifically banks, mortgage real estate investment trusts, and life insurance companies. All are actively pursuing transitional properties by leveraging their low cost of capital and desire for short-term, floating-rate, high-yield commercial real estate investments. We originated $179.6 million of interim loans during the six months ended June 30, 2019 compared to $216.9 million during the six months ended June 30, 2018. Of the overall interim loan origination volume for the six months ended June 30, 2019 and 2018, $143.8 million and $60.0 million, respectively, were originated for the Interim Program JV.

We saw increased activity in our multifamily-focused property sales platform for the first half of 2019 compared to the same period in 2018 as the macroeconomic conditions, combined with the decrease in interest rates during the latter part of the first six months of 2019, made multifamily properties an attractive investment. We have made additions to our property sales team over the past year and continue our efforts to expand the platform more broadly across the United States and to increase the size of our property sales team to capture what we believe will be strong multifamily property sales activity over the coming years.

Results of Operations

Following is a discussion of our results of operations for the three and six months ended June 30, 2019 and 2018. The financial results are not necessarily indicative of future results. Our quarterly results have fluctuated in the past and are expected to fluctuate in the future, reflecting the interest-rate environment, the volume of transactions, business acquisitions, regulatory actions, industry trends, and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

SUPPLEMENTAL OPERATING DATA

(dollars in thousands)	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Transaction Volume:				
Components of Mortgage Banking Volume				
Fannie Mae	$2,357,560	$2,269,544	$ 4,340,370	$ 3,510,046
Freddie Mac	1,532,939	1,316,491	3,106,573	2,636,468
Ginnie Mae - HUD	191,502	230,710	369,760	583,126
Brokered (1)	1,945,006	1,656,348	3,379,135	3,230,257
Principal Lending and Investing (2)	177,844	236,355	253,706	261,068
Total Mortgage Banking Volume	$6,204,851	$5,709,448	$11,449,544	$10,220,965
Property Sales Volume	1,101,518	483,575	1,798,129	821,320
Total Transaction Volume	$7,306,369	$6,193,023	$13,247,673	$11,042,285
Key Performance Metrics:				
Operating margin	28 %	30 %	29 %	30 %
Return on equity	18	20	19	19
Walker & Dunlop net income	$ 42,196	$ 41,112	$ 86,414	$ 77,973
Adjusted EBITDA (3)	62,609	49,969	129,293	102,119
Diluted EPS (4)	1.33	1.26	2.72	2.40
Key Expense Metrics (as a percentage of total revenues):				
Personnel expenses	42 %	40 %	40 %	39 %
Other operating expenses	8	9	8	9
Key Revenue Metrics (as a percentage of loan origination volume):				
Origination related fees (5)	1.08 %	1.00 %	1.09 %	1.04 %
Gains attributable to MSRs (5)	0.68	0.86	0.73	0.80
Gains attributable to MSRs, as a percentage of Agency loan origination volume (6)	1.01	1.23	1.05	1.18

(dollars in thousands)	As of June 30, 2019	As of June 30, 2018
Managed Portfolio:		
Components of Servicing Portfolio		
Fannie Mae	$38,236,807	$33,606,531
Freddie Mac	31,811,145	28,197,494
Ginnie Mae - HUD	10,066,874	9,653,432
Brokered (7)	9,535,470	6,232,255
Principal Lending and Investing (8)	246,729	131,029
Total Servicing Portfolio	$89,897,025	$77,820,741
Assets under management (9)	1,595,446	932,318
Total Managed Portfolio	$91,492,471	$78,753,059
Key Servicing Portfolio Metrics (end of period):		
Weighted-average servicing fee rate (basis points)	23.4	25.4
Weighted-average remaining servicing portfolio term (years)	9.8	9.8

SUPPLEMENTAL OPERATING DATA – continued

The following table summarizes JCR's AUM as of June 30, 2019:

Components of JCR assets under management *(in thousands)*	**Unfunded Commitments**	**Funded Investments**	**Total**
Fund III	$ 95,172	$ 126,525	$ 221,697
Fund IV	208,789	96,909	305,698
Separate accounts	—	493,621	493,621
Total assets under management	$ 303,961	$ 717,055	$ 1,021,016

(1) Brokered transactions for life insurance companies, commercial mortgage backed securities, commercial banks, and other capital sources.

(2) For the three months ended June 30, 2019, includes $128.5 million from the Interim Program JV, $2.5 million from the Interim Program, and $46.8 million from JCR separate accounts. For the six months ended June 30, 2019, includes $143.7 million from the Interim Program JV, $35.9 million from the Interim Program, and $74.1 million from JCR separate accounts. For the three months ended June 30, 2018, includes $42.3 million from the Interim Program JV, $149.9 million from the Interim Program, and $44.2 million from JCR separate accounts. For the six months ended June 30, 2018, includes $60.0 million from the Interim Program JV, $156.9 million from the Interim Program, and $44.2 million from JCR separate accounts.

(3) This is a non-GAAP financial measure. For more information on adjusted EBITDA, refer to the section below titled "Non-GAAP Financial Measures."

(4) Diluted EPS has been corrected from the amount reported on our Quarterly Report on form 10-Q for the three and six months ended June 30, 2018. See the 2018 Form 10-K for additional detail related to the correction.

(5) Excludes the income and mortgage banking volume from Principal Lending and Investing.

(6) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained, as a percentage of Agency volume.

(7) Brokered loans serviced primarily for life insurance companies.

(8) Consists of interim loans not managed for the Interim Program JV.

(9) As of June 30, 2019, includes $504.3 million of Interim Program JV managed loans, $70.1 million of loans serviced directly for the Interim Program JV partner, and JCR assets under management of $1.0 billion. As of June 30, 2018, includes $119.1 million of Interim JV managed loans, and JCR assets under management of $813.2 million.

The following tables present a period-to-period comparison of our financial results for the three and six months ended June 30, 2019 and 2018.

FINANCIAL RESULTS – THREE MONTHS

Revenues *(dollars in thousands)*	**For the three months ended June 30, 2019**	**2018**	**Dollar Change**	**Percentage Change**
Gains from mortgage banking activities	$ 106,881	$ 102,237	$ 4,644	5 %
Servicing fees	53,006	49,317	3,689	7
Net warehouse interest income	6,411	2,392	4,019	168
Escrow earnings and other interest income	14,616	9,276	5,340	58
Property sales broker fees	5,752	3,758	1,994	53
Other	13,659	11,224	2,435	22
Total revenues	$ 200,325	$ 178,204	$22,121	12
Expenses				
Personnel	$ 84,398	$ 71,426	$12,972	18 %
Amortization and depreciation	37,381	35,489	1,892	5
Provision for credit losses	961	800	161	20
Interest expense on corporate debt	3,777	2,343	1,434	61
Other operating expenses	16,830	15,176	1,654	11
Total expenses	$ 143,347	$ 125,234	$18,113	14
Income from operations	$ 56,978	$ 52,970	$ 4,008	8
Income tax expense	14,832	11,937	2,895	24
Net income before noncontrolling interests	$ 42,146	$ 41,033	$ 1,113	3
Less: net income (loss) from noncontrolling interests	(50)	(79)	29	(37)
Walker & Dunlop net income	$ 42,196	$ 41,112	$ 1,084	3

FINANCIAL RESULTS – SIX MONTHS

Revenues *(dollars in thousands)*	**For the six months ended June 30, 2019**	**2018**	**Dollar Change**	**Percentage Change**
Gains from mortgage banking activities	$ 205,616	$ 183,746	$21,870	12 %
Servicing fees	105,205	97,357	7,848	8
Net warehouse interest income	13,432	4,249	9,183	216
Escrow earnings and other interest income	28,684	16,624	12,060	73
Property sales broker fees	10,293	5,889	4,404	75
Other	24,532	17,791	6,741	38
Total revenues	$ 387,762	$ 325,656	$62,106	19
Expenses				
Personnel	$ 156,029	$ 126,699	$29,330	23 %
Amortization and depreciation	75,284	69,124	6,160	9
Provision for credit losses	3,636	323	3,313	1,026
Interest expense on corporate debt	7,429	4,522	2,907	64
Other operating expenses	32,322	28,127	4,195	15
Total expenses	$ 274,700	$ 228,795	$45,905	20
Income from operations	$ 113,062	$ 96,861	$16,201	17
Income tax expense	26,856	19,121	7,735	40
Net income before noncontrolling interests	$ 86,206	$ 77,740	$ 8,466	11
Less: net income (loss) from noncontrolling interests	(208)	(233)	25	(11)
Walker & Dunlop net income	$ 86,414	$ 77,973	$ 8,441	11

Overview

For both the three and six months ended June 30, 2019, all revenue streams increased year over year. The increases in gains from mortgage banking activities were primarily related to increases in mortgage banking volumes. Servicing fees increased largely from increases in the average servicing portfolio outstanding. The increases in net warehouse interest income were related to increases in net warehouse interest income from loans held for investment due to increases in the average balance outstanding, partially offset by decreases in net warehouse interest income from loans held for sale. Escrow earnings and other interest income increased due to increases in both the average escrow balance and earnings rate. The increases in property sales broker fees were principally due to increases in property sales volume. Other revenues increased largely as a result of increases in prepayment fees.

The increase in total expenses for the three months ended June 30, 2019 was primarily the result of increases in (i) salaries and benefits expenses and other operating expenses due primarily to an increase in the average headcount, (ii) commissions due to an increase in origination fees and property sales broker fees, (iii) amortization and depreciation expense as the average MSR balance increased period over period, and (iv) interest expense on corporate debt due to an increase in the balance of long-term debt.

The increase in total expenses for the six months ended June 30, 2019 was primarily the result of increases in (i) salaries and benefits expenses and other operating expenses due primarily to an increase in the average headcount, (ii) commissions due to an increase in origination fees and property sales broker fees, (iii) amortization and depreciation expense as the average MSR balance increased period over period, (iv) provision for credit losses as two loans defaulted during the first quarter of 2019, and (v) interest expense on corporate debt due to an increase in the balance of long-term debt.

Revenues

Gains from Mortgage Banking Activities. The following tables provide additional information that helps explain changes in gains from mortgage banking activities period over period:

Mortgage Banking Volume by Product Type

	For the three months ended June 30,		For the six months ended June 30,	
	2019	**2018**	**2019**	**2018**
Fannie Mae	38 %	40 %	38 %	34 %
Freddie Mac	25	23	27	26
Ginnie Mae - HUD	3	4	3	6
Brokered	31	29	30	31
Principal Lending and Investing	3	4	2	3

Gains from Mortgage Banking Activities Detail

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Origination Fees	$ 65,610	$ 55,193	$ 123,407	$ 104,009
Dollar Change	$ 10,417		$ 19,398	
Percentage Change	19 %		19 %	
MSR Income (1)	$ 41,271	$ 47,044	$ 82,209	$ 79,737
Dollar Change	$ (5,773)		$ 2,472	
Percentage Change	(12)%		3 %	
Origination Fee Rate (2) (basis points)	108	100	109	104
Basis Point Change	8		5	
Percentage Change	8 %		5 %	
MSR Rate (3) (basis points)	68	86	73	80
Basis Point Change	(18)		(7)	
Percentage Change	(21)%		(9)%	
Agency MSR Rate (4) (basis points)	101	123	105	118
Basis Point Change	(22)		(13)	
Percentage Change	(18)%		(11)%	

(1) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained.
(2) Origination fees as a percentage of total mortgage banking volume.

(3) MSR income as a percentage of total mortgage banking volume.
(4) MSR income as a percentage of Agency mortgage banking volume.

Gains from mortgage banking activities reflect the fair value of loan origination fees, the fair value of loan premiums, net of any co-broker fees, and the fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained ("MSR income"). The increase in origination fees for the three months ended June 30, 2019 was the result of a 9% increase in overall mortgage banking volume and the 8% increase in the origination fee rate. A 24% year-over-year decline in the weighted-average servicing fee rate on Fannie Mae mortgage banking volume was the primary driver in the decrease in MSR income, partially offset by the increase in mortgage banking volume. The decrease in the weighted-average servicing fee rate was due principally to continued intense competition for new loans, which has resulted in tighter credit spreads. Tighter credit spreads impact our Fannie Mae servicing fees because we take a first loss position on substantially all of our Fannie Mae loan originations and we are compensated for that risk of loss through servicing fees that are higher than for our Freddie Mac or HUD originations.

The increases in origination fees and MSR income for the six months ended June 30, 2019 were related primarily to a 12% increase in total mortgage banking volume year over year. Origination fees also benefitted slightly from a favorable change in the mix of mortgage banking volume. Partially offsetting the increase in MSR income due to the increase in total mortgage banking volume was a 24% period-over-period decline in the weighted-average servicing fee rate on new Fannie Mae mortgage banking volume. The decrease in the weighted-average servicing fee rate for the six months ended June 30, 2019 was due to the same reasons as for the three months ended June 30, 2019 discussed previously.

See the "Overview of Current Business Environment" section above for a detailed discussion of the factors driving the changes in mortgage banking volumes and servicing fee rates.

Servicing Fees. The increases for both the three and six months ended June 30, 2019 were primarily attributable to increases in the average servicing portfolio period over period as shown below due to new mortgage banking volume and relatively few payoffs, partially offset by a decrease in the servicing portfolio's weighted-average servicing fee rate as shown below. The decreases in the weighted-average servicing fee were largely the result of period-over-period decreases in the weighted-average servicing rate on new Fannie Mae volume, as discussed previously, and increases in the unpaid principal balance of brokered loans serviced. For the remainder of the year, we expect the weighted-average servicing fee to continue to decrease from the averages in 2018 as we continue to diversify our servicing portfolio and see continued low servicing fee rates on new mortgage banking volume.

Servicing Fees Details

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Average Servicing Portfolio	$ 88,827,191	$ 76,932,286	$ 87,771,921	$ 76,161,093
Dollar Change	$ 11,894,905		$ 11,610,828	
Percentage Change	15 %		15 %	
Average Servicing Fee (basis points)	23.7	25.5	23.9	25.6
Basis Point Change	(1.8)		(1.7)	
Percentage Change	(7)%		(7)%	

Net Warehouse Interest Income. The increases for both the three and six months ended June 30, 2019 were principally related to increases in net warehouse interest income from loans held for investment ("LHFI"), partially offset by decreases in net warehouse interest income from loans held for sale ("LHFS"). The increases in net warehouse interest income from LHFI were the result of substantial increases in the average outstanding balance and increases in the net spread, as shown below, as we fully funded more loans with corporate cash during 2019 than during 2018. The decreases in net warehouse interest income from loans held for sale were primarily the result of significant decreases in the net spread as shown below, partially offset by increases in the average balance. The decreases in the net spread were the result of greater increases in the short-term interest rates on which our borrowings are based than in the long-term interest rates on which the majority of our loans held for sale are based.

If the yield curve remains flattened or experiences additional periods of, the tightening of the net spread will continue. If we originate the majority of our interim loans through the Interim Program JV, net warehouse interest income from LHFI will be lower. Such a decrease in net warehouse interest income from LHFI would be partially offset by our portion of the net income generated by the Interim Program JV. Additionally, a large loan that is fully funded with corporate cash is scheduled to mature at the end of the third quarter of 2019. If we are not able to replace that maturing loan with a comparable loan, net warehouse interest income from LHFI will be lower.

Net Warehouse Interest Income Details

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	**2019**	**2018**	**2019**	**2018**
Average LHFS Outstanding Balance	$ 1,236,616	$ 1,063,581	$ 1,112,247	$ 1,015,793
Dollar Change	$ 173,035		$ 96,454	
Percentage Change	16 %		9 %	
LHFS Net Spread (basis points)	7	56	4	51
Basis Point Change	(49)		(47)	
Percentage Change	(88)%		(92)%	
Average LHFI Outstanding Balance	$ 386,379	$ 88,519	$ 396,270	$ 79,332
Dollar Change	$ 297,860		$ 316,938	
Percentage Change	336 %		400 %	
LHFI Net Spread (basis points)	642	411	666	418
Basis Point Change	231		248	
Percentage Change	56 %		59 %	

Escrow Earnings and Other Interest Income. The increases for both the three and six months ended June 30, 2019 weredue to increases in both the average balances of escrow accounts and the average earnings rates period over period. The increases in the average balances were due to increases in the average servicing portfolio. The increases in the average earnings rate were due to increases in short-term interest rates, upon which our earnings rates are based, over the past 12 months as discussed above in the “Overview of Current Business Environment” section.

Property Sales Broker Fees. The increases for both the three and six months ended June 30, 2019 were the result of increased property sales volume as discussed above in the “Overview of Current Business Environment” section.

Other Revenues. The increase for the three months ended June 30, 2019 was primarily related to an increase in prepayment fees as more of the loans in our servicing portfolio paid off during the three months ended June 30, 2019 than for the same period in 2018.

The increase for the six months ended June 30, 2019 was primarily related to increases in investment management fees due to the acquisition of JCR during the second quarter of 2018 and in prepayment fees as more of the loans in our servicing portfolio paid off during the six months ended June 30, 2019 than for the same period in 2018.

Expenses

Personnel. For the three months ended June 30, 2019, the increase was primarily the result of a $4.8 million increase in salaries and benefits due to acquisitions and hiring to support our growth, resulting in a 12% increase in the average headcount from 659 in 2018 to 735 in 2019. Commission costs increased $8.3 million due to the increase in origination fees and property sales broker fees noted previously.

For the six months ended June 30, 2019, the increase was primarily the result of an $8.6 million increase in salaries and benefits due to acquisitions and hiring to support our growth, resulting in a 14% increase in the average headcount from 644 in 2018 to 734 in 2019. Commission costs increased $15.2 million due to the increase in origination fees and property sales broker fees noted previously. Lastly, subjective bonus expense increased $2.5 million due to the aforementioned increase in average headcount and due to the Company’s improved financial performance year over year.

Amortization and Depreciation. The increases were primarily attributable to loan origination activity and the resulting growth in the average MSR balances. Over the past 12 months, we have added $49.1 million of MSRs, net of amortization and write offs due to prepayment.

Provision for Credit Losses. The increase for the six months ended June 30, 2019 was largely related to two defaults that occurred during the first quarter of 2019. A large loan in our at risk servicing portfolio defaulted during the first quarter of 2019, resulting in a $2.4 million provision for risk-sharing obligations. Additionally, one loan held for investment defaulted during the first quarter of 2019, resulting in a $0.6 million provision for loan losses. The credit quality in the remainder of our at risk servicing portfolio remains strong, as seen in the credit quality statistics shown in the "Credit Quality and Allowance for Risk-Sharing Obligations" section below. Additionally, no other loans held for investment were delinquent or impaired as of June 30, 2019.

Interest Expense on Corporate Debt. Increase in the outstanding balances of our long-term debt for both the three and six months ended June 30, 2019 were the primary driver of the increases in interest expense on corporate debt, partially offset by lower interest rates. We refinanced our long-term debt in the fourth quarter of 2018.

Other Operating Expenses. The increases in other operating expenses for both the three and six months ended June 30, 2019 primarily stemmed from increased office and travel costs due to the increase in average headcount period over period and additional costs associated with technology-related investments to support our strategic initiatives.

Income Tax Expense. For the three months ended June 30, 2019, the increase in income tax expense related primarily to the 8% increase in income from operations and a $1.7 million decrease in realizable excess tax benefits due to significantly fewer exercises of stock options during the three months ended June 30, 2019 compared to the same period in 2018, resulting in a 26.0% effective tax rate for the three months ended June 30, 2019 compared to 22.5% for the three months ended June 30, 2018.

For the six months ended June 30, 2019, the increase in income tax expense related primarily to the 17% increase in income from operations and a $2.4 million decrease in realizable excess tax benefits due to significantly fewer exercises of stock options during the six months ended June 30, 2019 compared to the same period in 2018 and due to lower executive compensation deductions in the first half of 2019 relative to the same period in 2018, resulting in a 23.8% effective tax rate for the six months ended June 30, 2019 compared to 19.7% for the six months ended June 30, 2018.

We do not expect our annual estimated effective tax rate to differ significantly from the 26.0% rate estimated for the three months ended June 30, 2019 as the vast majority of our equity compensation plans vest in the first quarter. Accordingly, we expect our estimated effective tax rate for the remainder of the year to be somewhere between 26% and 27%.

Non-GAAP Financial Measures

To supplement our financial statements presented in accordance with GAAP, we use adjusted EBITDA, a non-GAAP financial measure. The presentation of adjusted EBITDA is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. When analyzing our operating performance, readers should use adjusted EBITDA in addition to, and not as an alternative for, net income. Adjusted EBITDA represents net income before income taxes, interest expense on our term loan facility, and amortization and depreciation, adjusted for provision for credit losses net of write-offs, stock-based incentive compensation charges, and non-cash revenues such as gains attributable to MSRs. Because not all companies use identical calculations, our presentation of adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, adjusted EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not reflect certain cash requirements such as tax and debt service payments. The amounts shown for adjusted EBITDA may also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges that are used to determine compliance with financial covenants.

We use adjusted EBITDA to evaluate the operating performance of our business, for comparison with forecasts and strategic plans, and for benchmarking performance externally against competitors. We believe that adjusted EBITDA, when read in conjunction with our GAAP financials, provides useful information to investors by offering:

- the ability to make more meaningful period-to-period comparisons of our on-going operating results;
- the ability to better identify trends in our underlying business and perform related trend analyses; and
- a better understanding of how management plans and measures our underlying business.

We believe that adjusted EBITDA has limitations in that it does not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP and that adjusted EBITDA should only be used to evaluate our results of operations in conjunction with net income. Adjusted EBITDA is calculated as follows.

ADJUSTED FINANCIAL METRIC RECONCILIATION TO GAAP

(in thousands)	For the three months ended June 30, 2019	For the three months ended June 30, 2018	For the six months ended June 30, 2019	For the six months ended June 30, 2018
Reconciliation of Walker & Dunlop Net Income to Adjusted EBITDA				
Walker & Dunlop Net Income	$ 42,196	$ 41,112	$ 86,414	$ 77,973
Income tax expense	14,832	11,937	26,856	19,121
Interest expense on corporate debt	3,777	2,343	7,429	4,522
Amortization and depreciation	37,381	35,489	75,284	69,124
Provision for credit losses	961	800	3,636	323
Net write-offs	—	—	—	—
Stock compensation expense	4,733	5,332	11,883	10,793
Gains attributable to mortgage servicing rights (1)	(41,271)	(47,044)	(82,209)	(79,737)
Adjusted EBITDA	$ 62,609	$ 49,969	$129,293	$ 102,119

(1) Represents the fair value of the expected net cash flows from servicing recognized at commitment, net of any expected guaranty obligation.

The following tables present a period-to-period comparison of the components of adjusted EBITDA for the three and six months ended June 30, 2019 and 2018.

ADJUSTED EBITDA – THREE MONTHS

(dollars in thousands)	For the three months ended June 30, 2019	For the three months ended June 30, 2018	Dollar Change	Percentage Change
Origination fees	$ 65,610	$ 55,193	$ 10,417	19 %
Servicing fees	53,006	49,317	3,689	7
Net warehouse interest income	6,411	2,392	4,019	168
Escrow earnings and other interest income	14,616	9,276	5,340	58
Other revenues	19,461	15,061	4,400	29
Personnel	(79,665)	(66,094)	(13,571)	21
Net write-offs	—	—	—	N/A
Other operating expenses	(16,830)	(15,176)	(1,654)	11
Adjusted EBITDA	$ 62,609	$ 49,969	$ 12,640	25

ADJUSTED EBITDA – SIX MONTHS

(dollars in thousands)	For the six months ended June 30, 2019	For the six months ended June 30, 2018	Dollar Change	Percentage Change
Origination fees	$ 123,407	$ 104,009	$ 19,398	19 %
Servicing fees	105,205	97,357	7,848	8
Net warehouse interest income	13,432	4,249	9,183	216
Escrow earnings and other interest income	28,684	16,624	12,060	73
Other revenues	35,033	23,913	11,120	47
Personnel	(144,146)	(115,906)	(28,240)	24
Net write-offs	—	—	—	N/A
Other operating expenses	(32,322)	(28,127)	(4,195)	15
Adjusted EBITDA	$ 129,293	$ 102,119	$ 27,174	27

See the tables above for the components of the change in adjusted EBITDA for the three and six months ended June 30, 2019. For the three and six months ended June 30, 2019, the increases in origination fees were primarily related to increases in mortgage banking volumes. Servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new mortgage banking volume and relatively few payoffs. The increases in net warehouse interest income were related to increases in net warehouse interest income from

LHFI due to an increase in the average balance outstanding, partially offset by decreases in net warehouse interest income from LHFS. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate following increases in short-term interest rates over the past year. Other revenues increased primarily due to increases in prepayment fees and property sales broker fees.

For the three months ended June 30, 2019, the increase in personnel expense was primarily the result of increased salaries and benefits expense due to a rise in headcount and increased commissions due to the increase in origination fees. Other operating expenses increased largely due to increased occupancy and travel costs due to the larger average headcount period over period.

For the six months ended June 30, 2019, the increase in personnel expense was primarily due to increased salaries and benefits expense due to a rise in headcount, commissions expense resulting from the increase in origination fees, and subjective bonus related to the rise in headcount and the improvement in the Company's financial performance year over year. Other operating expenses increased primarily as a result of increased occupancy and travel costs due to the larger average headcount period over period.

Financial Condition

Cash Flows from Operating Activities

Our cash flows from operating activities are generated from loan sales, servicing fees, escrow earnings, net warehouse interest income, property sales broker fees, and other income, net of loan originations and operating costs. Our cash flows from operations are impacted by the fees generated by our loan originations, the timing of loan closings, and the period of time loans are held for sale in the warehouse loan facility prior to delivery to the investor.

Cash Flows from Investing Activities

We usually lease facilities and equipment for our operations. Our cash flows from investing activities also include the funding and repayment of loans held for investment and preferred equity investments, the contribution to and distribution from the Interim Program JV, and the purchase of available-for-sale ("AFS") securities pledged to Fannie Mae. We opportunistically invest cash for acquisitions and MSR portfolio purchases.

Cash Flows from Financing Activities

We use our warehouse loan facilities and, when necessary, our corporate cash to fund loan closings. We believe that our current warehouse loan facilities are adequate to meet our increasing loan origination needs. Historically, we have used a combination of long-term debt and cash flows from operations to fund acquisitions, repurchase shares, pay cash dividends, and fund a portion of loans held for investment.

Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

The following table presents a period-to-period comparison of the significant components of cash flows for the six months ended June 30, 2019 and 2018.

SIGNIFICANT COMPONENTS OF CASH FLOWS

(dollars in thousands)	**For the six months ended June 30, 2019**	**For the six months ended June 30, 2018**	**Dollar Change**	**Percentage Change**
Net cash provided by (used in) operating activities	$ (159,204)	$ (254,150)	$ 94,946	(37)%
Net cash provided by (used in) investing activities	30,707	(138,590)	169,297	(122)
Net cash provided by (used in) financing activities	101,869	275,887	(174,018)	(63)
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period ("Total cash")	93,720	169,827	(76,107)	(45)
Cash flows from operating activities				
Net receipt (use) of cash for loan origination activity	$ (217,948)	$ (300,363)	$ 82,415	(27)%
Net cash provided by (used in) operating activities, excluding loan origination activity	58,744	46,213	12,531	27
Cash flows from investing activities				
Purchases of pledged available-for-sale securities	$ (7,562)	$ (38,566)	$ 31,004	(80)%
Distributions from (investments in) Interim Program JV	(18,518)	1,209	(19,727)	(1,632)
Acquisitions, net of cash received	(7,180)	(33,102)	25,922	(78)
Originations of loans held for investment	(83,402)	(151,754)	68,352	(45)
Total principal collected on loans held for investment	150,761	87,688	63,073	72
Net payoff of (investment in) loans held for investment	$ 67,359	$ (64,066)	$ 131,425	(205)%
Cash flows from financing activities				
Borrowings (repayments) of warehouse notes payable, net	$ 129,412	$ 323,153	$ (193,741)	(60)%
Borrowings of interim warehouse notes payable	54,757	50,455	4,302	9
Repayments of interim warehouse notes payable	(32,264)	(61,049)	28,785	(47)
Repurchase of common stock	(25,915)	(21,457)	(4,458)	21
Cash dividends paid	(18,630)	(15,699)	(2,931)	19
Proceeds from issuance of common stock	4,188	8,067	(3,879)	(48)

Changes in cash flows from operations were driven primarily by loans originated and sold. Such loans are held for short periods of time, generally less than 60 days, and impact cash flows presented as of a point in time. The increase in cash flows from operations is primarily attributable to the use of $0.2 billion for the funding of loan originations, net of sales of loans to third parties during the first half of 2019 compared to the use of $0.3 billion for the funding of loan originations, net of sales to third parties during the first half of 2018. Excluding cash used for the origination and sale of loans, net cash provided by operations was $58.7 million during the first six months of 2019 compared to net cash provided by operations of $46.2 million during the first six months of 2018. The significant components of the change included an $8.5 million increase in net income before noncontrolling interests and a $4.5 million increase to net income related to the change in the fair value of premiums and origination fees.

The change in cash provided by (used in) investing activities is primarily attributable to an increase in the net payoff of loans held for investment and reductions in the purchases of pledged AFS securities and cash paid for acquisitions, partially offset by an increase in investments in the Interim Program JV. The net payoff of loans held for investment during the first half of 2019 was $67.4 million compared to a net investment of $64.1 million during the first half of 2018. Of the $67.4 million of the net payoff of LHFI during 2019, $22.5 million was funded using interim warehouse borrowings (included in cash flows from financing activities), with the remaining $89.9 million funded using corporate cash. Of the $64.1 million of the net investment in LHFI during 2018, $74.7 million was funded using corporate cash, with an additional $10.6 million of interim warehouse borrowings (included in cash flows from financing activities) repaid during 2018. The reduction in purchases of pledged AFS securities is due to most of our pledged cash and money market having been invested in previous periods. We began an initiative in the fourth quarter of 2017 to invest pledged collateral in AFS securities. As of the beginning of the first quarter of 2018, a larger balance of collateral was available to invest than at the beginning of the first quarter of 2019 as we made multiple purchases of these securities throughout 2018 and have not sold any securities. The decrease in cash used for acquisitions is due to a year-over-year decrease in the size of the companies acquired. The increase in the cash invested in the Interim Program JV was the result of net origination activity at the Interim Program JV. During the six months ended June 30, 2018, the Interim Program JV had net payoffs of loans, resulting in net distributions. During the six months ended June 30, 2019, the Interim Program JV had net loan originations, resulting in additional capital invested by us in the Interim Program JV.

The change in cash provided by (used in) financing activities was primarily attributable to the change in net warehouse borrowings period to period and increases in repurchases of common stock, cash dividends paid, and proceeds from issuance of common stock, partially offset by an increase in net borrowings of interim warehouse notes payable. The change in net borrowings (repayments) of warehouse borrowings during the first six months of 2019 was due to a smaller increase in the unpaid principal balance of LHFS funded by Agency Warehouse Facilities (as defined below) from December 31, 2018 to June 30, 2019 than from December 31, 2017 to June 30, 2018. During 2019, the unpaid principal balance of LHFS funded by Agency Warehouse Facilities increased $0.1 billion from their December 31, 2018 balance compared to an increase of $0.3 billion during the same period in 2018.

The change in net borrowings of interim warehouse notes payable was principally due to interim loan origination and repayment activity period over period. During 2019, interim loans originated were funded principally from interim warehouse notes payable, and the interim loans that paid off were fully funded with corporate cash, resulting in net borrowings of interim warehouse borrowings. During 2018, the net repayments of interim warehouse notes payable was principally due to the Company's fully funding a large portfolio of loans held for investment at the end of the second quarter of 2018.

The increase in share repurchase activity was principally related to an increase in the repurchase of shares to settle employee tax obligations for performance-based share awards. No performance-based awards vested during 2018 compared to 489 thousand shares during 2019. The increase in cash dividends paid is primarily related to a 20% increase in the dividends paid per share. The decrease in proceeds from the issuance of common stock is primarily related to a decrease in employee stock options exercised year over year. No options were exercised in 2019 compared to 295 thousand in 2018.

Liquidity and Capital Resources

Uses of Liquidity, Cash and Cash Equivalents

Our significant recurring cash flow requirements consist of (i) short-term liquidity necessary to fund loans held for sale; (ii) liquidity necessary to fund loans held for investment under the Interim Program; (iii) liquidity necessary to pay cash dividends; (iv) liquidity necessary to fund our portion of the equity necessary for the operations of the Interim Program JV; (v) working capital to support our day-to-day operations, including debt service payments and payments for salaries, commissions, and income taxes; and (vi) working capital to satisfy collateral requirements for our Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae, and our warehouse facility lenders.

Fannie Mae has established standards for capital adequacy and reserves the right to terminate our servicing authority for all or some of the portfolio if at any time it determines that our financial condition is not adequate to support our obligations under the DUS agreement. We are required to maintain acceptable net worth as defined in the standards, and we satisfied the June 30, 2019 requirements. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At June 30, 2019, the net worth requirement was $186.0 million and our net worth, as defined in the requirements, was $651.5 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of June 30, 2019, we were required to maintain at least $36.7 million of liquid assets to meet our operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, Ginnie Mae and our warehouse facility lenders. As of June 30, 2019, we had operational liquidity, as defined in the requirements, of $209.8 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

We paid a cash dividend of $0.30 per share for the first and second quarters of 2019, a 20% increase from the $0.25 per share quarterly dividends paid in 2018. In August 2019, our Board of Directors declared a cash dividend of $0.30 per share for the third quarter of 2019. We expect to continue to make regular quarterly dividend payments for the foreseeable future. Over the past three years, we have returned $136.1 million to investors in the form of the repurchase of 2.1 million shares of our common stock under share repurchase programs for a cost of $86.1 million and cash dividend payments of $50.0 million. Additionally, we have invested $149.8 million in acquisitions and the purchase of MSRs. On occasion, we may use cash to fully fund loans held for investment or loans held for sale instead of using our warehouse lines. As of June 30, 2019, we used corporate cash to fully fund loans held for investment with an unpaid principal balance of $146.0 million and $89.9 million to fully fund loans held for sale. We continually seek opportunities to execute additional acquisitions and purchases of MSRs and complete such acquisitions if the economics of these acquisitions are favorable. In February 2019, our Board of Directors approved a new stock repurchase program that permits the repurchase of up to $50.0 million of shares of our common stock over a 12-month period beginning on February 11, 2019. As of June 30, 2019, we repurchased 30 thousand shares under the 2019 repurchase program for an aggregate cost of $1.5 million and had $48.5 million of remaining capacity under that program.

Historically, our cash flows from operations and warehouse facilities have been sufficient to enable us to meet our short-term liquidity needs and other funding requirements. We believe that cash flows from operations will continue to be sufficient for us to meet our current obligations for the foreseeable future.

Restricted Cash and Pledged Securities

Restricted cash consists primarily of good faith deposits held on behalf of borrowers between the time we enter into a loan commitment with the borrower and the investor purchases the loan. We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. We are required to secure this obligation by assigning collateral to Fannie Mae. We meet this obligation by assigning pledged securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires collateral for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Collateral held in the form of money market funds holding U.S. Treasuries is discounted 5%, and multifamily Agency mortgage-backed securities ("Agency Multifamily MBS") are discounted 4% for purposes of calculating compliance with the collateral requirements. As of June 30, 2019, we held money market funds holding U.S. Treasuries in the aggregate amount of $0.8 million and Agency Multifamily MBS with an aggregate fair value of $115.2 million. Additionally, the majority of the loans for which we have risk sharing are Tier 2 loans. We fund any growth in our Fannie Mae required operational liquidity and collateral requirements from our working capital.

We are in compliance with the June 30, 2019 collateral requirements as outlined above. As of June 30, 2019, reserve requirements for the DUS loan portfolio will require us to fund $65.5 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any future changes to have a material impact on our future operations; however, any future changes to collateral requirements may adversely impact our available cash.

Under the provisions of the DUS agreement, we must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. We satisfied these requirements as of June 30, 2019.

Sources of Liquidity: Warehouse Facilities

The following table provides information related to our warehouse facilities as of June 30, 2019.

(dollars in thousands)	June 30, 2019				
Facility	**Committed Amount**	**Uncommitted Amount**	**Total Facility Capacity**	**Outstanding Balance**	**Interest rate**
Agency Warehouse Facility #1	$ 425,000	$ 200,000	$ 625,000	$ 223,559	30-day LIBOR plus 1.20%
Agency Warehouse Facility #2	500,000	300,000	800,000	215,114	30-day LIBOR plus 1.15%
Agency Warehouse Facility #3	500,000	265,000	765,000	208,322	30-day LIBOR plus 1.15%
Agency Warehouse Facility #4	350,000	—	350,000	256,328	30-day LIBOR plus 1.15%
Agency Warehouse Facility #5	30,000	—	30,000	5,777	30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	100,000	350,000	130,961	30-day LIBOR plus 1.20%
Total National Bank Agency Warehouse Facilities	$ 2,055,000	$ 865,000	$ 2,920,000	$ 1,040,061	
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	1,500,000	122,603	
Total Agency Warehouse Facilities	$ 2,055,000	$ 2,365,000	$ 4,420,000	$ 1,162,664	
Interim Warehouse Facility #1	135,000	—	135,000	87,700	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	100,000	41,082	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	75,000	150,000	23,250	30-day LIBOR plus 1.90% to 2.50%
Interim Warehouse Facility #4	100,000	—	100,000	—	30-day LIBOR plus 1.75%
Total National Bank Interim Warehouse Facilities	$ 410,000	$ 75,000	$ 485,000	$ 152,032	
Total warehouse facilities	$ 2,465,000	$ 2,440,000	$ 4,905,000	$ 1,314,696	

Agency Warehouse Facilities

At June 30, 2019, to provide financing to borrowers under the Agencies' programs, we have six committed and uncommitted warehouse lines of credit in the amount of $2.9 billion with certain national banks and a $1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). Five of these facilities are revolving commitments we expect to renew annually (consistent with industry practice), and the Fannie Mae facility is provided on an uncommitted basis without a specific maturity date. Our ability to originate mortgage loans intended to be sold under an Agency execution depends upon our ability to secure and maintain these types of short-term financing agreements on acceptable terms.

Agency Warehouse Facility #1

We have a warehousing credit and security agreement with a national bank for a $425.0 million committed warehouse line that is scheduled to mature on October 28, 2019. The agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance and borrowings under this line bear interest at the 30-day London Interbank Offered Rate ("LIBOR") plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides $200.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the third quarter of 2019, we executed the third amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points as of June 30, 2019. No other material modifications have been made to the agreement in 2019.

Agency Warehouse Facility #2

We have a warehousing credit and security agreement with a national bank for a $500.0 million committed warehouse line that is scheduled to mature on September 9, 2019. The warehousing credit and security agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at the 30-day LIBOR plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides $300.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2019, we executed the third amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points. No other material modifications have been made to the agreement in 2019.

Agency Warehouse Facility #3

We have a warehousing credit and security agreement with a national bank for a $500.0 million committed warehouse line that is scheduled to mature on April 30, 2020. The committed warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides $265.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2019, the Company executed the tenth amendment to the warehouse agreement that extended the maturity date to April 30, 2020 and decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 125 basis points. Additionally, the amendment provides for an uncommitted amount of $265.0 million until January 31, 2020. No other material modifications have been made to the agreement during 2019.

Agency Warehouse Facility #4

We have a warehousing credit and security agreement with a national bank for a $350.0 million committed warehouse line that is scheduled to mature on October 5, 2019. The warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 115 basis points. During the second quarter of 2019, we executed the sixth amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 130 basis points. No other material modifications have been made to the agreement during 2019.

Agency Warehouse Facility #5

We have a $30.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on July 12, 2019. The committed warehouse facility provides us with the ability to fund defaulted HUD and FHA loans. The borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 180 basis points. No material modifications have been made to the agreement during 2019. During the third quarter of 2019, the warehouse line expired according to its terms.

Agency Warehouse Facility #6

We have a $250.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on January 31, 2020. The warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of LIBOR plus 120 basis points. The agreement provides $100.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the first quarter of 2019, we executed the second amendment to the warehouse and security agreement that extended the maturity date to January 31, 2020. No other material modifications have been made to the agreement during 2019.

Interim Warehouse Facilities

To assist in funding loans held for investment under the Interim Program, we have four warehouse facilities with certain national banks in the aggregate amount of $485.0 million as of June 30, 2019 (“Interim Warehouse Facilities”). Consistent with industry practice, three of these facilities are revolving commitments we expect to renew annually, and one is a revolving commitment we expect to renew every two years. Our ability to originate loans held for investment depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

Interim Warehouse Facility #1

We have a $135.0 million committed warehouse line agreement that is scheduled to mature on April 30, 2020. The facility provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company and bear interest at 30-day LIBOR plus 190 basis points. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the first quarter of 2019, we executed the ninth amendment to the credit and security agreement that increased the maximum borrowing capacity to $135.0 million. During the second quarter of 2019, the Company executed the tenth amendment to the credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications have been made to the agreement during 2019.

Interim Warehouse Facility #2

We have a $100.0 million committed warehouse line agreement that is scheduled to mature on December 13, 2019. The agreement provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. All borrowings bear interest at 30-day LIBOR plus 200 basis points. The lender retains a first priority security interest in all mortgages funded by such advances on a cross-collateralized basis. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. No material modifications have been made to the agreement during 2019.

Interim Warehouse Facility #3

We have a $75.0 million committed repurchase agreement that is scheduled to mature on May 18, 2020. The agreement provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. The borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 190 basis points. The spread varies according to the type of asset the borrowing finances. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2019, we executed the fourth amendment to the credit and security agreement that extended the maturity date May 18, 2020 and provides for an uncommitted amount of $75.0 million. No other material modifications have been made to the agreement during 2019.

Interim Warehouse Facility #4

During the first quarter of 2019, we executed a warehousing credit and security agreement to establish an additional interim warehouse facility. The warehouse facility has a committed $100.0 million maximum borrowing amount and is scheduled to mature on April 30, 2020.

We can fund certain interim loans to certain large institutional borrowers, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 175 basis points. During the second quarter of 2019, we executed the first amendment to the warehousing credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications have been made to the agreement in 2019.

The Agency and Interim Warehouse Facility agreements above contain cross-default provisions, such that if a default occurs under any of those debt agreements, generally the lenders under our other Agency and Interim debt agreements could also declare a default. We were in compliance with all covenants as of June 30, 2019.

We believe that the combination of our capital and warehouse facilities is adequate to meet our loan origination needs.

Note Payable

We have a senior secured term loan credit agreement (the “Credit Agreement”). The Credit Agreement provides for a $300.0 million term loan that was issued at a discount of 0.5% (the “Term Loan”). The Term Loan has a stated maturity date of November 7, 2025, and bears interest at 30-day LIBOR plus 225 basis points. At any time, we may also elect to request one or more incremental term loan commitments not to exceed $150.0 million, provided that the total indebtedness would not cause the leverage ratio (as defined in the Credit Agreement) to exceed 2.00 to 1.00.

We are obligated to repay the aggregate outstanding principal amount of the Term Loan in consecutive quarterly installments equal to $0.8 million on the last business day of each of March, June, September, and December commencing on March 31, 2019. The Term Loan also requires certain other prepayments in certain circumstances pursuant to the terms of the Credit Agreement. The final principal installment of the Term Loan is required to be paid in full on November 7, 2025 (or, if earlier, the date of acceleration of the Term Loan pursuant to the terms of the Credit Agreement) and will be in an amount equal to the aggregate outstanding principal of the Term Loan on such date (together with all accrued interest thereon).

Our obligations under the Credit Agreement are guaranteed by Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC, Walker & Dunlop Capital, LLC, and W&D BE, Inc., each of which is a direct or indirect wholly owned subsidiary of the Company (together with the Company, the “Loan Parties”), pursuant to the Amended and Restated Guarantee and Collateral Agreement entered into on November 7, 2018 among the Loan Parties and Wells Fargo Bank, National Association, as administrative agent (the “Guarantee and Collateral Agreement”). Subject to certain exceptions and qualifications contained in the Credit Agreement, the Company is required to cause any newly created or acquired subsidiary, unless such subsidiary has been designated as an Excluded Subsidiary (as defined in the Credit Agreement) by the Company in accordance with the terms of the Credit Agreement, to guarantee the obligations of the Company under the Credit Agreement and become a party to the Guarantee and Collateral Agreement. The Company may designate a newly created or acquired subsidiary as an Excluded Subsidiary so long as certain conditions and requirements provided for in the Term Loan Agreement are met. As of June 30, 2019, the outstanding unpaid principal balance of the term loan was $298.5 million.

The note payable and the warehouse facilities are senior obligations of the Company. The Credit Agreement contains affirmative and negative covenants, including financial covenants. As of June 30, 2019, we were in compliance with all such covenants.

Credit Quality and Allowance for Risk-Sharing Obligations

The following table sets forth certain information useful in evaluating our credit performance.

(dollars in thousands)	June 30, 2019	June 30, 2018
Key Credit Metrics		
Risk-sharing servicing portfolio:		
Fannie Mae Full Risk	$ 30,996,641	$ 26,133,613
Fannie Mae Modified Risk	7,180,234	7,352,372
Freddie Mac Modified Risk	52,938	53,083
Total risk-sharing servicing portfolio	$ 38,229,813	$ 33,539,068
Non-risk-sharing servicing portfolio:		
Fannie Mae No Risk	$ 59,932	$ 120,546
Freddie Mac No Risk	31,758,207	28,144,411
GNMA - HUD No Risk	10,066,874	9,653,432
Brokered	9,535,470	6,232,255
Total non-risk-sharing servicing portfolio	$ 51,420,483	$ 44,150,644
Total loans serviced for others	$ 89,650,296	$ 77,689,712
Interim loans (full risk) servicing portfolio	246,729	131,029
Total servicing portfolio unpaid principal balance	$ 89,897,025	$ 77,820,741
Interim Program JV Managed Loans (1)	574,430	119,124
At risk servicing portfolio (2)	$ 34,795,771	$ 29,951,211
Maximum exposure to at risk portfolio (3)	7,118,314	6,165,096
Defaulted loans	20,981	5,962
Specifically identified at risk loan balances associated with allowance for risk-sharing obligations	20,981	5,962
Defaulted loans as a percentage of the at risk portfolio	0.06 %	0.02 %
Allowance for risk-sharing as a percentage of the at risk portfolio	0.02	0.01
Allowance for risk-sharing as a percentage of the specifically identified at risk loan balances	37.96	68.27
Allowance for risk-sharing as a percentage of maximum exposure	0.11	0.07
Allowance for risk-sharing and guaranty obligation as a percentage of maximum exposure	0.83	0.75

(1) As of June 30, 2019, this balance consists of $70.1 million of loans serviced directly for the Interim Program JV partner and $504.3 million of Interim Program JV managed loans. As of June 30, 2018, the entire balance consists of Interim Program JV managed loans. We indirectly share in a portion of the risk of loss associated with Interim Program JV managed loans through our 15% equity ownership in the Interim Program JV. We have no exposure to risk of loss for the loans serviced directly for the Interim Program JV partner. The balance of this line is included as a component of assets under management in the Supplemental Operating Data table above.

(2) At risk servicing portfolio is defined as the balance of Fannie Mae DUS loans subject to the risk-sharing formula described below, as well as a small number of Freddie Mac loans on which we share in the risk of loss. Use of the at risk portfolio provides for comparability of the full risk-sharing and modified risk-sharing loans because the provision and allowance for risk-sharing obligations are based on the at risk balances of the associated loans. Accordingly, we have presented the key statistics as a percentage of the at risk portfolio.

For example, a $15.0 million loan with 50% risk-sharing has the same potential risk exposure as a $7.5 million loan with full DUS risk sharing. Accordingly, if the $15.0 million loan with 50% risk-sharing were to default, we would view the overall loss as a percentage of the at risk balance, or $7.5 million, to ensure comparability between all risk-sharing obligations. To date, substantially all of the risk-sharing obligations that we have settled have been from full risk-sharing loans.

(3) Represents the maximum loss we would incur under our risk-sharing obligations if all of the loans we service, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement. The maximum exposure is not representative of the actual loss we would incur.

Fannie Mae DUS risk-sharing obligations are based on a tiered formula and represent substantially all of our risk-sharing activities. The risk-sharing tiers and amount of the risk-sharing obligations we absorb under full risk-sharing are provided below. Except as described in the following paragraph, the maximum amount of risk-sharing obligations we absorb at the time of default is 20% of the origination unpaid principal balance ("UPB") of the loan.

Risk-Sharing Losses	Percentage Absorbed by Us
First 5% of UPB at the time of loss settlement	100%
Next 20% of UPB at the time of loss settlement	25%
Losses above 25% of UPB at the time of loss settlement	10%
Maximum loss	20% of origination UPB

Fannie Mae can double or triple our risk-sharing obligation if the loan does not meet specific underwriting criteria or if a loan defaults within 12 months of its sale to Fannie Mae. We may request modified risk-sharing at the time of origination, which reduces our potential risk-sharing obligation from the levels described above.

We use several techniques to manage our risk exposure under the Fannie Mae DUS risk-sharing program. These techniques include maintaining a strong underwriting and approval process, evaluating and modifying our underwriting criteria given the underlying multifamily housing market fundamentals, limiting our geographic market and borrower exposures, and electing the modified risk-sharing option under the Fannie Mae DUS program.

Our full risk-sharing cap is currently set at $200.0 million. Accordingly, our maximum loss exposure on any one loan is $40.0 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). We may request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fully compensated for the risks of the transactions.

We regularly monitor the credit quality of all loans for which we have a risk-sharing obligation. Loans with indicators of underperforming credit are placed on watch lists, assigned a numerical risk rating based on our assessment of the relative credit weakness, and subjected to additional evaluation or loss mitigation. Indicators of underperforming credit include poor financial performance, poor physical condition, and delinquency. A specific reserve is recorded when it is probable that a risk-sharing loan will foreclose or has foreclosed, a general reserve is recorded for other risk-sharing loans on the watch list, and a guaranty obligation is recorded for risk-sharing loans that are not on the watch list.

The allowance for risk-sharing obligations has been primarily for Fannie Mae loans with full risk-sharing. The amount of the provision considers our assessment of the likelihood of payment by the borrower, the value of the underlying collateral and the level of risk-sharing. Historically, the loss recognition occurs at or before the loan becoming 60 days delinquent. Our estimates of value are determined considering broker opinions, appraisals, and other sources of market value information relevant to the underlying property and collateral. Risk-sharing obligations are written off against the allowance at final settlement with Fannie Mae.

For the six months ended June 30, 2019 and 2018, the provision for risk-sharing obligations were $3.0 million and $0.3 million, respectively. As there was only one defaulted loan in the at risk servicing portfolio as of June 30, 2019, the *Allowance for risk-sharing obligations* as of June 30, 2019 was based primarily on our collective assessment of the probability of loss related to the loans on the watch list as of June 30, 2019. The *Allowance for risk-sharing obligations* as of June 30, 2018 was based primarily on our collective assessment of the probability of loss related to the loans on the watch list as of June 30, 2018.

For the six months ended June 30, 2019, the provision for loan losses was $648 thousand compared to $66 thousand for the six months ended June 30, 2018. The provision for loan losses for the six months ended June 30, 2019 was almost entirely related to the default of one loan held for investment during the first quarter of 2019. The allowance for loan losses as of June 30, 2019 consists primarily of the specific reserves associated with this defaulted loan. The remainder of the portfolio of loans held for investment continues to perform well as of June 30, 2019, with no other delinquent or impaired loans. The allowance for loan losses as of June 30, 2018 was based entirely on our collective assessment of the probability of loss related to loans held for investment as there were no delinquent or impaired loans as of June 30, 2018.

During July of 2019, a plan was agreed upon to recapitalize the project, bring in new property management, and extend the delinquent loan to allow the sponsor to correct weaknesses in the property. We expect to complete the restructuring of the loan later in the third quarter of 2019.

We have never been required to repurchase a loan.

Off-Balance Sheet Arrangements

Other than the risk-sharing obligations under the Fannie Mae DUS Program disclosed previously in this Quarterly Report on Form 10-Q, we do not have any off-balance-sheet arrangements.

New/Recent Accounting Pronouncements

See NOTE 2 to the financial statements in Item 1 of Part I of this Quarterly Report on Form 10-Q for a description of the accounting pronouncements that the Financial Accounting Standards Board has issued and that have the potential to impact us but have not yet been adopted by us. Although we do not believe any of the accounting pronouncements listed there will have a significant impact on our business activities or compliance with our debt covenants, we are still in the process of determining the impact some of the new pronouncements may have on our future financial results and operating activities.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

For loans held for sale to the Agencies, we are not currently exposed to unhedged interest rate risk during the loan commitment, closing, and delivery processes. The sale or placement of each loan to an investor is negotiated prior to closing on the loan with the borrower, and the sale or placement is typically effectuated within 60 days of closing. The coupon rate for the loan is set at the time we establish the interest rate with the investor.

Some of our assets and liabilities are subject to changes in interest rates. Earnings from escrows are generally based on LIBOR. 30-day LIBOR as of June 30, 2019 and 2018 was 240 basis points and 209 basis points, respectively. The following table shows the impact on our annual escrow earnings due to a 100-basis point increase and decrease in 30-day LIBOR based on our escrow balances outstanding at each period end. A portion of these changes in earnings as a result of a 100-basis point increase in the 30-day LIBOR would be delayed several months due to the negotiated nature of some of our escrow arrangements.

	As of June 30,	
Change in annual escrow earnings due to (in thousands):	**2019**	**2018**
100 basis point *increase* in 30-day LIBOR	$ 19,891	$ 21,517
100 basis point decrease in 30-day LIBOR	(19,891)	(21,517)

The borrowing cost of our warehouse facilities used to fund loans held for sale and loans held for investment is based on LIBOR. The interest income on our loans held for investment is based on LIBOR. The LIBOR reset date for loans held for investment is the same date as the LIBOR reset date for the corresponding warehouse facility. The following table shows the impact on our annual net warehouse interest income due to a 100-basis point increase and decrease in 30-day LIBOR based on our warehouse borrowings outstanding at each period end. The changes shown below do not reflect an increase or decrease in the interest rate earned on our loans held for sale.

	As of June 30,	
Change in annual net warehouse interest income due to (in thousands):	**2019**	**2018**
100 basis point *increase* in 30-day LIBOR	$ (6,595)	$ (5,946)
100 basis point decrease in 30-day LIBOR	6,595	5,946

All of our corporate debt is based on 30-day LIBOR, with a 30-day LIBOR floor of 100 basis points. The following table shows the impact on our annual income from operations due to a 100-basis point increase and decrease in 30-day LIBOR based on our note payable balance outstanding at each period end.

	As of June 30,	
Change in annual earnings due to (in thousands):	**2019**	**2018**
100 basis point *increase* in 30-day LIBOR	$ (2,985)	$ (1,657)
100 basis point decrease in 30-day LIBOR	2,985	1,657

Market Value Risk

The fair value of our MSRs is subject to market risk. A 100-basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of our MSRs by approximately $27.1 million as of June 30, 2019, compared to $28.4 million as of June 30, 2018. Our Fannie Mae and Freddie Mac servicing arrangements provide for make-whole payments in the event of a voluntary prepayment prior to the expiration of the prepayment protection period. Our servicing contracts with institutional investors and HUD do not require payment of a make-whole amount. As of June 30, 2019, 86% of the servicing fees are protected from the risk of prepayment through make-whole requirements compared to 87% as of June 30, 2018; given this significant level of prepayment protection, we do not hedge our servicing portfolio for prepayment risk.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934.

Based on that evaluation, the principal executive officer and principal financial officer concluded that the design and operation of these disclosure controls and procedures as of the end of the period covered by this report were effective to provide reasonable assurance that information required to be disclosed in our reports under the Securities and Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, we may be party to various claims and litigation, none of which we believe is material. We cannot predict the outcome of any pending litigation and may be subject to consequences that could include fines, penalties and other costs, and our reputation and business may be impacted. Our management believes that any liability that could be imposed on us in connection with the disposition of any pending lawsuits would not have a material adverse effect on our business, results of operations, liquidity, or financial condition.

Item 1A. Risk Factors

We have included in Part I, Item 1A of our 2018 Form 10-K descriptions of certain risks and uncertainties that could affect our business, future performance, or financial condition (the "Risk Factors"). There have been no material changes from the disclosures provided in the 2018 Form 10-K with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company's stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Under the 2015 Equity Incentive Plan, subject to the Company's approval, grantees have the option of electing to satisfy tax withholding obligations at the time of vesting or exercise by allowing us to withhold and purchase at the prevailing market price the shares of stock otherwise issuable to the grantee. During the quarter ended June 30, 2019, we purchased 4 thousand shares to satisfy grantee tax withholding obligations on share-vesting events. Additionally, we announced a share repurchase program in the first quarter of 2019. The repurchase program authorized by our Board of Directors permits us to repurchase up to $50.0 million of shares of our common stock over a 12-month period ending February 10, 2020. During the quarter ended June 30, 2019, we repurchased 30 thousand shares under the 2019 share repurchase program. The Company had $48.5 million of authorized share repurchase capacity remaining as of June 30, 2019. The following table provides information regarding common stock repurchases for the quarter ended June 30, 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30, 2018	2,604	$ 51.48	—	$ 50,000,000
May 1-31, 2018	495	56.92	—	50,000,000
June 1-30, 2018	30,727	51.83	29,803	48,453,857
2nd Quarter	**33,826**	$ **51.88**	**29,803**	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

2.1 Contribution Agreement, dated as of October 29, 2010, by and among Mallory Walker, Howard W. Smith, William M. Walker, Taylor Walker, Richard C. Warner, Donna Mighty, Michael Yavinsky, Edward B. Hermes, Deborah A. Wilson and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)

2.2 Contribution Agreement, dated as of October 29, 2010, between Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.2 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)

2.3 Amendment No. 1 to Contribution Agreement, dated as of December 13, 2010, by and between Walker & Dunlop, Inc. and Column Guaranteed LLC (incorporated by reference to Exhibit 2.3 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 13, 2010)

2.4 Purchase Agreement, dated June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, CW Financial Services LLC and CWCapital LLC (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A filed on June 15, 2012)

3.1 Articles of Amendment and Restatement of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)

3.2 Amended and Restated Bylaws of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 21, 2017)

4.1		Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)
4.2		Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 27, 2010)
4.3		Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 27, 2010)
4.4		Piggy-Back Registration Rights Agreement, dated June 7, 2012, by and among Column Guaranteed, LLC, William M. Walker, Mallory Walker, Howard W. Smith, III, Deborah A. Wilson, Richard C. Warner, CW Financial Services LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 filed on August 9, 2012)
4.5		Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, Mallory Walker, William M. Walker, Richard Warner, Deborah Wilson, Richard M. Lucas, and Howard W. Smith, III, and CW Financial Services LLC (incorporated by reference to Annex C of the Company's proxy statement filed on July 26, 2012)
4.6		Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, Column Guaranteed, LLC and CW Financial Services LLC (incorporated by reference to Annex D of the Company's proxy statement filed on July 26, 2012)
10.1		Third Amendment to Second Amended and Restated Warehousing Credit and Security Agreement, dated as of May 20, 2019, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2019)
10.2	†*	Form of Non-Qualified Stock Option Agreement
10.3	†*	Amendment to Non-Qualified Stock Option Agreement Under the 2010 Equity Incentive Plan
10.4	†*	Amendment to Non-Qualified Stock Option Agreement Under the 2015 Equity Incentive Plan
10.5	†*	Form of Non-Qualified Stock Option Transfer Agreement
31.1	*	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of Walker & Dunlop, Inc.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	**	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	*	Inline XBRL Instance Document
101.2	*	Inline XBRL Taxonomy Extension Schema Document
101.3	*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.4	*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.5	*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.6	*	Inline XBRL Taxonomy Extension Presentation Linkbase Document

†: Denotes a management contract or compensation plan, contract, or arrangement.
*: Filed herewith.
**: Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 7, 2019	By: /s/ William M. Walker William M. Walker *Chairman and Chief Executive Officer*
Date: August 7, 2019	By: /s/ Stephen P. Theobald Stephen P. Theobald *Executive Vice President and Chief Financial Officer*

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Section 2: EX-10.2 (EX-10.2)

Exhibit 10.2

WALKER & DUNLOP, INC.
2015 EQUITY INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT
COVER SHEET

Walker & Dunlop, Inc., a Maryland corporation (the "**Company**"), hereby grants an option (the "**Option**") to purchase shares of the Company's common stock, par value $0.01 per share (the "**Stock**"), to the Grantee named below, subject to the vesting conditions set forth below. Additional terms and conditions of the Option are set forth on this cover sheet and in the attached Non-Qualified Stock Option Agreement (collectively, the "**Agreement**"), in the Company's 2015 Equity Incentive Plan (as amended from time to time, the "**Plan**"), and in any written employment or other written compensatory arrangement between you and the Company or any Affiliate (if any, the "**Employment Agreement**").

Grant Date:	____________________
Name of Grantee:	____________________
Grantee's Social Security Number:	____________________
Number of Shares of Stock Covered by the Option:	____________________
Option Price per Share:	____________________
Vesting Schedule:	If you continue in Service on each applicable vesting date, the Option shall vest in equal installments on each vesting date set forth below; provided, however, that any fractional shares shall be rounded up to the nearest whole share on the first and, if applicable, the last vesting date:

You agree to all of the terms and conditions described in this Agreement, in the Plan (a copy of which is also posted), and in the Employment Agreement unless you deliver a notice in writing within thirty (30) days of receipt of this Agreement to the Company stating that you do not accept the terms and conditions described in this Agreement and in the Plan. You acknowledge that you have carefully reviewed the Plan and agree that the Plan will control in the event any provision of this Agreement should appear to be inconsistent.

Attachment
This is not a stock certificate or a negotiable instrument.

WALKER & DUNLOP, INC.
2015 EQUITY INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

Non-qualified Option	This Agreement evidences an award of an Option exercisable for that number of shares of Stock set forth on the cover sheet and subject to the terms and conditions set forth in the Agreement, in the Plan, and on the cover sheet. This Option is not intended to be an incentive stock option under Section 422 of the Code and will be interpreted accordingly.
Transfer of Option	Except as provided in the following paragraph, during your lifetime, only you (or, in the event of your legal incapacity or incompetency, your guardian or legal representative) may exercise the Option. Other than by will or the laws of descent and distribution, the Option may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered, whether by operation of law or otherwise, nor may the Option be made subject to execution, attachment, or similar process. If you attempt to do any of these things, you will immediately and automatically forfeit your Option. Notwithstanding these restrictions on transfer but subject to such limitations as the Chief Executive Officer of the Company or the General Counsel of the Company may impose, you may transfer all or part of the vested portion of the Option to a Family Member, subject to the terms and conditions set forth in the Plan and a Non-Qualified Stock Option Transfer Agreement in the form approved by the Committee, to be entered into between you, the Company and such trust.
Vesting	Your Option shall vest in accordance with the vesting schedule set forth on the cover sheet of this Agreement, so long as you continue in Service on each applicable vesting date set forth on the cover sheet, and is exercisable only as to its vested portion. No additional portion of your Option shall vest after your Service has terminated for any reason.
Change in Control	Notwithstanding the vesting schedule set forth above, upon the consummation of a Change in Control, this Option will become 100% vested (i) if it is not assumed, or equivalent options are not substituted for the options, by the Company or its successor, or (ii) if assumed or substituted for, upon your Involuntary Termination within the twelve (12)-month period (or for the period of time or lack of a period of time otherwise set forth in the Employment Agreement), following

the consummation of the Change in Control.

"**Involuntary Termination**" means termination of your Service by reason of (i) your involuntary dismissal by the Company or its successor for reasons other than Cause; or (ii) your voluntary resignation for Good Reason (and without Cause) as defined in the Employment Agreement, or if none, then following (x) the assignment of substantial duties or responsibilities inconsistent with your position at the Company, or any other action by the Company which results in a substantial diminution of your duties or responsibilities other than any such reduction which is remedied by the Company within thirty (30) days of receipt of written notice from you; (y) a requirement that you work principally from a location that is twenty (20) miles further from your residence than the Company's principal place of business on the date of this Agreement; or (z) a substantial reduction in your aggregate base salary and other compensation taken as a whole, excluding any reductions caused by the failure to achieve performance targets. To qualify as an "Involuntary Termination," you must provide notice to the Company or its successor of any of the foregoing occurrences within ninety (90) days of the initial occurrence, and the Company shall have thirty (30) days thereafter to remedy such occurrence. In addition, you must terminate your Service at a time agreed reasonably with the Company, but in any event within one hundred twenty (120) days from the initial occurrence of any of the foregoing events.

Forfeiture of Unvested Options / Term

Unless the termination of your Service triggers accelerated vesting or other treatment of your Option pursuant to the terms of this Agreement, the Plan, or any Employment Agreement, you will automatically and immediately forfeit to the Company the unvested portion of the Option in the event your Service terminates for any reason.

Your Option will expire in any event at the close of business at Company headquarters on the tenth (10th) anniversary of the Grant Date, as shown on the cover sheet. Your Option will expire earlier if your Service terminates, as described below.

Expiration of Vested Options After Service Terminates

If your Service terminates for any reason, other than death, Disability, or Cause, then the vested portion of your Option will expire at the close of business at Company headquarters on the ninetieth (90th) day after your termination date.

If your Service terminates because of your death or Disability, or if you die during the ninety (90)-day period after your termination for any reason (other than Cause), then the vested portion of your Option will expire at the close of business at Company headquarters on the date twelve (12) months after the date of your death or termination for Disability. During that twelve (12)-month period, your estate or heirs may exercise the vested portion of your Option.

If your Service is terminated for Cause, then you shall immediately forfeit all rights to your entire Option (both vested and unvested portions), and the Option shall immediately and automatically expire.

Forfeiture of Rights

If you should take actions in violation or breach of, or in conflict with, any non-competition agreement, any agreement prohibiting solicitation of employees or clients of the Company or any Affiliate, any confidentiality obligation with respect to the Company or any Affiliate, otherwise in competition with the Company or any Affiliate, any Company or Affiliate policy or procedure, any other agreement, or any other obligation to the Company or any Affiliate, the Company has the right to cause an immediate forfeiture of your rights to this Option, and the Option shall immediately and automatically expire.

In addition, if you have exercised any portion of the Option during the two (2)-year period prior to your actions, you will owe the Company a cash payment (or forfeiture of shares of Stock) in an amount determined as follows: (i) for any shares of Stock that you have sold prior to receiving notice from the Company, the amount will be the proceeds received from the sale(s), less the Option Price, and (ii) for any shares of Stock that you still own, the amount will be the number of shares of Stock owned times the Fair Market Value of the shares of Stock on the date you receive notice from the Company, less the Option Price (provided, that the Company may require you to satisfy your payment obligations hereunder either by forfeiting and returning to the Company the shares or any other shares of Stock or making a cash payment or a combination of these methods as determined by the Company in its sole discretion).

Leaves of Absence

For purposes of this Agreement, your Service does not terminate when you go on a *bona fide* leave of absence that was approved by your employer (Walker & Dunlop, LLC or any Affiliate of the Company that directly employs you) in writing if the terms of the leave provide for continued Service crediting, or when continued Service crediting is required by Applicable Laws. Your Service terminates in any event when the approved leave ends unless you immediately return to active employee work.

Your employer may determine, in its discretion, which leaves count for this purpose and when your Service terminates for all purposes under the Plan in accordance with the provisions of the Plan.

Notwithstanding the foregoing, the Company may determine, in its discretion, that a leave counts for this purpose even if your employer does not agree.

Notice of Exercise	The Option may be exercised, in whole or in part, to purchase a whole number of vested shares of Stock of not less than one hundred (100) shares, unless the number of vested shares purchased is the total number available for purchase under the Option, by following the procedures set forth in the Plan and in this Agreement. When you wish to exercise this Option, you must exercise in a manner required or permitted by the Company. If someone else wants to exercise this Option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.
Form of Payment	When you exercise your Option, you must include payment of the aggregate Option Price for the shares you are purchasing. Payment may be made in one (or a combination) of the following forms: • Cash, your personal check, a cashier's check, a money order, or another cash equivalent acceptable to the Company. • Shares of Stock which are owned by you and which are surrendered to the Company, including through the withholding of shares otherwise issuable upon exercise. The Fair Market Value of the shares as of the effective date of the Option exercise will be applied to the Option Price. • By delivery (on a form prescribed by the Company) of an irrevocable direction to a licensed securities broker acceptable to the Company to sell shares of Stock and to deliver all or part of the sale proceeds to the Company in payment of the aggregate Option Price and any withholding taxes.
Evidence of Issuance	The issuance of the shares upon exercise of this Option shall be evidenced in such a manner as the Company, in its discretion, deems appropriate, including, without limitation, book-entry, registration, or issuance of one or more share certificates.
Withholding	You agree as a condition of this Option that you will make acceptable arrangements to pay any withholding or other taxes that may be due as a result of the Option exercise or the sale of Stock acquired under this Option. In the event that the Company or any Affiliate, as applicable, determines that any federal, state, local, or foreign tax or withholding payment is required relating to the exercise of this Option or the sale of Stock arising from this Option, the Company or any

Affiliate, as applicable, shall have the right to require such payments from you or withhold such amounts from other payments due to you from the Company or any Affiliate, as applicable or withhold the delivery of vested shares of Stock otherwise deliverable under this Agreement.

Notice and Non-Solicitation

The following notice and non-solicitation provisions will apply to you unless you have entered into an Employment Agreement that has more restrictive notice and non-solicitation provisions (in which case, the more restrictive provisions in such Employment Agreement will apply).

You agree as a condition of this Option that in the event you decide to leave the Company or any Affiliate for any reason, you will provide the Company or the Affiliate with thirty (30) days' prior notice of your departure (during which period, in the Company's or an Affiliate's sole discretion, you may be placed on paid leave), and you will not commence employment with anyone else during that period. For a period of ninety (90) days following the termination of your Service for any reason, you will not directly or indirectly solicit any employees of the Company or any Affiliate for employment or encourage any employee to leave the Company or any Affiliate.

Retention Rights

This Agreement and this Option do not give you the right to be retained by the Company or any Affiliate in any capacity. Unless otherwise specified in an Employment Agreement, the Company or any Affiliate, as applicable, reserves the right to terminate your Service at the Company or an Affiliate at any time and for any reason.

Stockholder Rights

You (and your estate or heirs) have no rights as a stockholder with respect to the shares of Stock underlying the Option unless and until the shares of Stock underlying the Option have been issued upon exercise of your Option and either a certificate evidencing your Stock has been issued or an appropriate entry has been made on the Company's books. No adjustments are made for dividends, distributions, or other rights if the applicable record date occurs before your certificate is issued (or an appropriate book entry is made), except as described in the Plan.

Corporate Activity

Your Option shall be subject to the terms of any applicable agreement of merger, liquidation, or reorganization in the event the Company is subject to such corporate activity, consistent with Section 17 of the Plan.

Clawback

This Option is subject to mandatory repayment by you to the Company to the extent you are or in the future become subject to any Company "clawback" or recoupment policy or Applicable Laws that require the repayment by you to the Company of compensation paid by the Company to you in the event that you fail to comply with, or violate, the terms or requirements of such policy or Applicable Laws.

If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under Applicable Laws, and you are subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 or you knowingly engaged in the misconduct, were grossly negligent in engaging in the misconduct, knowingly failed to prevent the misconduct, or were grossly negligent in failing to prevent the misconduct, you shall reimburse the Company the amount of any payment in settlement of this Option earned or accrued during the twelve (12)-month period following the first public issuance or filing with the Securities and Exchange Commission (whichever first occurred) of the financial document that contained such material noncompliance.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive law of another jurisdiction.

The Plan

The text of the Plan is incorporated into this Agreement by reference.

Certain capitalized terms used in this Agreement are defined in the Plan and have the meaning set forth in the Plan.

This Agreement, the Plan, and any Employment Agreement constitute the entire understanding between you and the Company regarding this Option. Any prior agreements, commitments, or negotiations concerning this Option are superseded; except that any written consulting, confidentiality, non-competition, non-solicitation, and/or severance agreement between you and the Company or an Affiliate, as applicable, shall supersede this Agreement with respect to its subject matter.

Data Privacy

To administer the Plan, the Company may process personal data about you. Such data includes, but is not limited to, information provided in this Agreement and any changes thereto, other appropriate personal and financial data about you, such as your contact information, payroll information, and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan. By accepting the Option, you give explicit consent to the Company to process any such personal data.

Electronic Delivery	By accepting the Option, you consent to receive documents related to the Option by electronic delivery and, if requested, agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company, and your consent shall remain in effect throughout your term of Service and thereafter until you withdraw such consent in writing to the Company.
Code Section 409A	The grant of the Option under this Agreement is intended to comply with Code Section 409A ("**Section 409A**") to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement will be interpreted and administered to be in compliance with Section 409A. Notwithstanding anything to the contrary in the Plan or this Agreement, neither the Company, its Affiliates, the Board, nor the Committee will have any obligation to take any action to prevent the assessment of any excise tax or penalty on you under Section 409A, and neither the Company, its Affiliates, the Board, nor the Committee will have any liability to you for such tax or penalty.

By accepting this Agreement, you agree to all of the terms and conditions described above and in the Plan. In the event that any term of this Agreement conflicts with the terms of an Employment Agreement, the terms of such Employment Agreement shall supersede the conflicting terms herein.

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Section 3: EX-10.3 (EX-10.3)

Exhibit 10.3

WALKER & DUNLOP, INC.
2010 EQUITY INCENTIVE PLAN

AMENDMENT TO NON-QUALIFIED OPTION AGREEMENT

This Amendment (the "**Amendment**") to each Non-Qualified Option Agreement (the "**Agreement**"), by and between Walker & Dunlop, Inc., a Maryland corporation (the "**Company**") and you (the "**Grantee**"), was adopted and approved by the Compensation Committee (the "**Committee**") of the Board of Directors of the Company, effective as of April 29, 2019. Capitalized terms used in this Amendment and not defined below shall have the meaning given to such terms in the Company's 2010 Equity Incentive Plan (as amended from time to time, the "**Plan**") or the Agreement, as applicable.

WHEREAS, the Committee desires to amend the Agreement as set forth in this Amendment.

NOW, THEREFORE, the Agreement be and hereby is amended as follows:

1. The "Transfer of Option" section of the Agreement is amended by deleting such section in its entirety and replacing it with the following:

   "Except as provided in the following paragraph, during your lifetime, only you (or, in the event of your legal incapacity or incompetency, your guardian or legal representative) may exercise the Option. Other than by will or the laws of descent and distribution, the Option may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered, whether by operation of law or otherwise, nor may the Option be made subject to execution, attachment, or similar process. If you attempt to do any of these things, you will immediately and automatically forfeit your Option.

   Notwithstanding these restrictions on transfer but subject to such limitations as the Chief Executive Officer of the Company or the General Counsel of the Company may impose, you may transfer all or part of the vested portion of the Option to a Family Member, subject to the terms and conditions set forth in the Plan and a Non-Qualified Stock Option Transfer Agreement in the form approved by the Committee, to be entered into between you, the Company and such trust."

2. The Agreement remains in full force and effect, except as modified by this Amendment.

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Section 4: EX-10.4 (EX-10.4)

Exhibit 10.4

WALKER & DUNLOP, INC.
2015 EQUITY INCENTIVE PLAN

AMENDMENT TO NON-QUALIFIED STOCK OPTION AGREEMENT

This Amendment (the "**Amendment**") to each Non-Qualified Stock Option Agreement (the "**Agreement**"), by and between Walker & Dunlop, Inc., a Maryland corporation (the "**Company**") and you (the "**Grantee**"), was adopted and approved by the Compensation Committee (the "**Committee**") of the Board of Directors of the Company, effective as of April 29, 2019. Capitalized terms used in this Amendment and not defined below shall have the meaning given to such terms in the Company's 2015 Equity Incentive Plan (as amended from time to time, the "**Plan**") or the Agreement, as applicable.

WHEREAS, the Committee desires to amend the Agreement as set forth in this Amendment.

NOW, THEREFORE, the Agreement be and hereby is amended as follows:

1. The "Transfer of Option" section of the Agreement is amended by deleting such section in its entirety and replacing it with the following:

   "Except as provided in the following paragraph, during your lifetime, only you (or, in the event of your legal incapacity or incompetency, your guardian or legal representative) may exercise the Option. Other than by will or the laws of descent and distribution, the Option may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered, whether by operation of law or otherwise, nor may the Option be made subject to execution, attachment, or similar process. If you attempt to do any of these things, you will immediately and automatically forfeit your Option.

   Notwithstanding these restrictions on transfer but subject to such limitations as the Chief Executive Officer of the Company or the General Counsel of the Company may impose, you may transfer all or part of the vested portion of the Option to a Family Member, subject to the terms and conditions set forth in the Plan and a Non-Qualified Stock Option Transfer Agreement in the form approved by the Committee, to be entered into between you, the Company and such trust."

2. The Agreement remains in full force and effect, except as modified by this Amendment.

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Section 5: EX-10.5 (EX-10.5)

Exhibit 10.5

WALKER & DUNLOP, INC.

NON-QUALIFIED STOCK OPTION TRANSFER AGREEMENT

This Non-Qualified Stock Option Transfer Agreement (this "Agreement") is entered into as of _________ __, 2019 (the "Effective Date"), by and among Walker & Dunlop, Inc., a Maryland corporation (the "Company"), [NAME OF GRANTEE] (the "Transferor") and [_______________], dated [____] (the "Transferee"). The Company, the Transferor and the Transferee are each sometimes referred to herein as a "Party," and collectively sometimes referred to herein as the "Parties."

RECITALS

WHEREAS, on [OPTION GRANT DATE], the Company granted to the Transferor an option (the "Granted Option") to purchase [___] shares of common stock of the Company, par value $0.01 per share, subject to the terms and conditions of the Walker & Dunlop, Inc. [2015/2010] Equity Incentive Plan (as amended, the "Plan") and a Non-Qualified Stock Option Agreement thereunder by and between the Company and the Transferor (as amended, the "Stock Option Agreement");

WHEREAS, the Plan is attached hereto as Exhibit A and the Stock Option Agreement is attached hereto as Exhibit B; and

WHEREAS, the Transferor desires to transfer the Granted Option with respect to [___] vested shares (the "Option") to the Transferee and the Company desires to consent to such transfer, all in accordance with the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the Company, the Transferor and the Transferee agree as follows:

AGREEMENT

1. Transfer of the Option.

(a) As of the Effective Date, the Transferor hereby transfers to the Transferee the Option (the "Transfer") and the Transferee hereby accepts the transfer of the Option by the Transferor.

(b) The Transferee and the Transferor acknowledge and agree that the Transferee shall be bound by all of the terms and conditions of the Plan and the Stock Option Agreement as if the Transferee were the Grantee[(as defined in the Plan)/Optionee][1] (as named in the Stock Option Agreement) and as if the Transferee had accepted the Stock Option Agreement; provided, however, that references in the Plan and the Stock Option Agreement to (A) the service of the Grantee[/Optionee][2] or (B) the termination of service of the Grantee[/Optionee][3] shall be deemed to continue to be references to (X) the service of the Transferor or (Y) the termination of service of the Transferor, as applicable, and the Transferor shall remain responsible for any withholding taxes that may be due in connection with the exercise or other disposition of the Option.

[1] NTD: Include for transfers under 2010 Plan only.

[2] NTD: Include for transfers under 2010 Plan only.

[3] NTD: Include for transfers under 2010 Plan only.

(c) The Company consents to the Transfer in accordance with Section 8.10 of the Plan and the section of the Stock Option Agreement entitled "Transfer of Option". Except as expressly set forth in this Section 1(c), nothing in this Agreement shall be deemed a waiver of any of the Company's rights under the Plan or the Stock Option Agreement, including with respect to the Company's rights to withhold consent, in its discretion, to future transfers.

2. Representations and Warranties by the Transferor and Transferee.

(a) The Transferor has delivered to the Company a true and complete copy of the instrument creating the Transferee (including all amendments thereto). The Transferee qualifies as a "Family Member" within the meaning of the Plan.

(b) The Transferor hereby represents and acknowledges that the Transferor may be subject to certain federal and state tax liability in connection with the Transfer of the Option and/or the exercise of the Option. The Transferor represents that Transferor has consulted Transferor's individual tax advisor regarding the specific tax consequences of the Transfer and is not relying on any statements or representations by the Company or its advisors with respect thereto. The Transferor hereby covenants and agrees that the Transferor will be responsible for paying to the Company or its designated subsidiary any amount of any applicable withholding taxes required to be withheld with respect to the exercise or other disposition of the Option.

(c) The Transferee represents and warrants that this Agreement has been duly authorized, executed and delivered by its duly authorized representative.

3. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed as follows:

(a) if to the Company, to the attention of the General Counsel of the Company at the Company's principal executive offices;

(b) if to the Transferor, to the address on file with the Company;

(c) if to the Transferee, to the address shown below beneath the Transferee's signature; or

(d) to a Party at such other address as such Party may designate in writing from time to time to the other Parties.

4. Further Instruments. The Parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

5. Entire Agreement. The terms of the Plan and the Stock Option Agreement are incorporated herein by reference. This Agreement, together with the Plan and the Stock Option Agreement, constitutes the entire agreement of the Parties and supersedes in its entirety all prior undertakings and agreements of the Parties with respect to the subject matter hereof.

6. Governing Law. The validity and construction of this Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Maryland, other than any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Agreement to the substantive laws of any other jurisdiction.

7. Severability. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

8. Binding Effect. The provisions of this Agreement shall be binding upon and accrue to the benefit of the Parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

9. Amendment. This Agreement may be amended only by a written instrument signed by the Parties hereto.

10. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which together shall constitute one document.

[*signature page follows*]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

WALKER & DUNLOP, INC.

By: ____________________________________
Name: ____________________________________
Title: ____________________________________

TRANSFEROR

____
[__________]

TRANSFEREE

By: ____________________________________
Name: ____________________________________
Title: ____________________________________

Address: ____________________________________
____
____
____

EXHIBIT A

Walker & Dunlop, Inc. [2015/2010] Equity Incentive Plan

[attached]

<u>EXHIBIT B</u>

Non-Qualified Stock Option Agreement

[attached]

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Section 6: EX-31.1 (EX-31.1)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William M. Walker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Walker & Dunlop, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

By: /s/ William M. Walker
William M. Walker
Chairman and Chief Executive Officer

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Section 7: EX-31.2 (EX-31.2)

EXHIBIT 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen P. Theobald, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Walker & Dunlop, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2019

By: /s/ Stephen P. Theobald
Stephen P. Theobald
Executive Vice President and Chief Financial Officer

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Section 8: EX-32 (EX-32)

EXHIBIT 32

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Walker & Dunlop, Inc. for the quarterly period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of Walker & Dunlop, Inc., hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Walker & Dunlop, Inc.

Date: August 7, 2019	By: /s/ William M. Walker William M. Walker *Chairman and Chief Executive Officer*
Date: August 7, 2019	By: /s/ Stephen P. Theobald Stephen P. Theobald *Executive Vice President and Chief Financial Officer*

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