Q1'20 Earnings Script
KELSEY

Good morning, I'm Kelsey Duffey, Vice President of Investor Relations at Walker & Dunlop, and I would like to welcome you to Walker & Dunlop's First Quarter 2020 Earnings Conference Call and Webcast. Hosting the call today is Willy Walker, Walker & Dunlop Chairman and CEO. He is joined by Steve Theobald, Chief Financial Officer. Today's call is being recorded, and a replay will be available via webcast on the Investor Relations section of our website.

At this time all participants have been placed in a listen-only mode and the floor will be open for your questions following the presentation. If you have dialed into the call and would like to ask a question at that time, please press *9 on your touch tone phone. If are accessing the webcast on your computer, please click the "Raise Hand" icon on the bottom menu bar of the webcast screen.

This morning, we posted our earnings release and presentation to the Investor Relations section of our website, www.walkerdunlop.com. These slides will serve as a reference point for some of what Willy and Steve will touch on during the call this morning.

Please also note that we will reference the non-GAAP financial metric, adjusted EBITDA, during the course of this call. Please refer to the earnings release posted on our website for a reconciliation of this non-GAAP financial metric. Investors are urged to carefully read the forward-looking statements language in our earnings release. Statements made on this call which are not historical facts may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe our current expectations, and actual results may differ materially. Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our annual and quarterly reports filed with the SEC.

I will now turn the call over to Willy.

WILLY
Thank you, Kelsey, and good morning everyone. First and foremost, we hope you, your families, and colleagues are staying safe and healthy. The COVID-19 pandemic has dramatically changed the world we live in today and the underlying fundamentals of the US economy. This earnings call will be broken up into three segments: W&D pre-COVID, where the investments we have made over the past several years all came together to produce outstanding Q1 financial results; W&D in the crisis, where our team transitioned rapidly to continue providing

the capital and solutions our clients have needed; and W&D going forward, where our business model, access to capital, and conservative underwriting culture should position us well to endure the downturn and emerge on the other side even stronger and more relevant to our clients.

The investments we have made over the past several years in hiring new bankers and brokers, building new technology solutions, and expanding our national footprint generated record Q1 total transaction volume of $11.4 billion, up 91% over the first quarter of last year. As this slide shows, every business line had double-digit growth in the quarter. The $5.2 billion of GSE loan originations includes the largest transaction in Walker & Dunlop's history, a $2 billion credit facility on 67 properties in the Mid-Atlantic for Southern Management Corporation. Walker & Dunlop won this transaction over our three largest competitors, one of whom had this debt on their books for over decades. Winning this financing was an incredible honor, and is reflective of the team, brand and capabilities we have built at Walker & Dunlop. And while winning this transaction was a massive accomplishment, underwriting all the properties, structuring the credit facilities, pricing the loans, and closing the loans all in the midst of the COVID-19 crisis was one of the most challenging, and significant accomplishments in our company's long history. I am deeply appreciative of the trust and confidence Southern Management placed in Walker & Dunlop, and beyond proud and thankful to the team at W&D that executed this enormous deal under exceedingly difficult circumstances. We have told investors before that W&D is in a small group of Agency lenders that can effectively execute on transactions of this size, and this marquee transaction will pay benefits for many years to come.

Looking at other production volumes, our HUD team originated $355 million of loans in the first quarter, an increase of 99% from last year's Q1 and a very strong start to the year. HUD continues to play an extremely important role in the multifamily debt financing markets, and we have a healthy pipeline of HUD business carrying into the second quarter. Brokered debt financing volume grew by 178% to $4.0 billion in Q1, the largest debt brokerage quarter we have ever had. We have made significant investments in this area of our business over the past several years and are extremely excited about the future potential of this team. We originated $108 million of Principal Lending and Investing volume, with $22 million of that originated through JCR Capital and the remainder originated for our joint venture with Blackstone Mortgage Trust. Finally, our multifamily property sales volume was $1.7 billion, up 148% from Q1 2019, reflecting the level of growth we expected to see this year given the investments we have made to build a national property sales platform.

The robust growth in originations across the W&D platform produced extremely strong Q1 earnings. We generated revenue growth of 25%, to $234 million, and 7% growth in diluted earnings per share to $1.49. That 7% growth in EPS is after taking a significant, $23.6 million provision for potential future credit losses due to the COVID-19 pandemic. Steve will discuss that charge, and our overall credit risk position, in more detail during his remarks. And finally, our adjusted EBITDA was down slightly on the quarter, but still very strong, reflecting the strength of our business model.

As the COVID-19 crisis set in, the team at Walker & Dunlop seamlessly transitioned to a dispersed work model and didn't skip a beat, as reflected in our Q1 origination volumes and financial performance. The Fed stepped into the Agency CMBS market in late March and provided much-needed liquidity that reduced spreads on Agency bonds and allowed Fannie, Freddie, and HUD to remain very active in the lending market. Our Q1 volumes reflect the terrific financing environment created by falling interest rates and tight spreads, and those conditions continued throughout April – Steve will provide data on our April origination volumes and outlook for the rest of Q2 in a moment. While the Agencies have remained very active in the multifamily market, capital for retail, hospitality and office assets began to dry up as the first quarter ended. We continue to work with all active capital providers, which are mostly banks and large insurance companies, to provide financing on non-multifamily assets, but deal flow has dropped dramatically. And while transaction volumes on non-multifamily assets are certain to remain low for at least Q2 and likely Q3, 61% of our debt brokerage team's 2019 transaction volume was on multifamily assets, so we expect that team to contribute to the strong origination volumes we are looking for from our GSE and HUD financing teams over the next several quarters. The acquisitions market is essentially shut-down for now as investors consider the short and long-term impacts of this pandemic on market fundamentals, but given the underlying strength of the multifamily industry, and the liquidity being provided by Fannie, Freddie and HUD, we expect multifamily property sales activity to come back as soon as this crisis begins to abate.

Our bankers and brokers have been extremely active with their clients since the crisis set-in, hosting Zoom meetings and working on transactions. We also launched the Walker Webcast in mid-March, bringing market insights and thought leadership on the COVID-19 pandemic to our clients and partners. These webcasts have taken-on a life of their own and are being watched live and on YouTube by over 10,000 people per week. Similar to the Walker & Dunlop Summer Conference that we hold in Sun Valley, Idaho every year (which, unfortunately, we had to just cancel for 2020), we are providing our clients with unique insights into the markets and their businesses. But powerfully, rather than hosting 250 clients for three days in the Idaho mountains, we are reaching thousands of clients every week and extending the Walker & Dunlop brand each time.

I will now turn the call over to Steve to talk through our first quarter results and financial outlook in more detail, and I will then come back to focus on W&D going forward. Steve.

STEVE
Thank you, Willy, and good morning everyone. It's great to be with you today.

We started 2020 with a strong quarter of top and bottom-line results. Record total transaction volume of $11 billion drove total revenues of $234 million, up 25% over Q1'19, and diluted earnings per share of $1.49 was up 7% from the same quarter last year, even with a provision build of $23.6 million. Our first quarter results demonstrate the incredible financial performance our business is capable of delivering and validates the investments we have made to build the platform. I will provide a few more brief comments about the first quarter, and additional color on our provision build, liquidity position, and expectations for future performance.

Turning to slide 6, Q1 operating margin was 26%, compared to 30% in Q1 of 2019 and would have been 10 percentage points higher and well above our target range without the provision expense. Return on equity was 19% for the quarter, within our target range, while personnel as a percentage of revenues was 38% in the quarter, in line with Q1'19. Variable compensation expense, which is comprised of commissions and company bonus, totaled $47.6 million, or 53% of our total personnel expense in the quarter.

As Willy mentioned, during the quarter we rate locked a portfolio of over $2 billion with Fannie Mae. Large transactions like this one carry significantly lower gain on sale margins as origination and servicing fees as a percentage of the transaction are less than our typical flow business. Even with this mega-transaction, our overall quarterly gain on sale margin came in at 151 basis points, within our forecast range of 150 to 170 basis points. This reflects stronger margins on the balance of our Fannie Mae lending and the increase in HUD origination volumes during the quarter.

As you can see on slide 7, our servicing portfolio ended the quarter at $95 billion and continues to fuel strong cash revenues, with servicing fees totaling $55 million in Q1. These high margin revenue streams are the backbone of our business model and were a large contributor to the $64 million of adjusted EBITDA we reported in Q1. We were very pleased with this strong start to the year.

As I discussed at our last earnings call, we booked our adjustment for the adoption of CECL at the beginning of the quarter with an addition to the allowance for risk-sharing obligations of $31.6 million, with the offset of that adjustment to equity and deferred tax assets. The increase to our allowance for the implementation of CECL was based upon our forecast of expected future losses at that time, which predated the impacts of the COVID-19 crisis. During the quarter, we recorded a provision expense of $22.5 million for the allowance for risk sharing and $1.1 million for the allowance for loan losses related to our interim loan portfolio. The provisions taken in the quarter were driven entirely by the impacts of the COVID-19 pandemic on our forecast of expected future losses. The provision estimate for the allowance for risk-sharing assumes the rate of losses increase over the next 12 months to slightly higher than the peak of losses resulting from the great financial crisis. As you can see on slide 8, we experienced peak losses of 6 basis points in 2012, four years after the onset of the crisis and two years after delinquencies peaked. Those losses occurred after an extended period of rising unemployment and a slow build of delinquencies. The crisis we are facing today is a much different scenario, with a dramatic spike in unemployment in the short run, but significantly more government support being provided to consumers and small businesses than what occurred during the great financial crisis. Our forecast assumes the unprecedented government support being pumped into the economy will help mitigate some of the impacts of the increase in unemployment. In addition, our portfolio enters this crisis with a much higher average debt service coverage ratio, with cash flow coverage of nearly two times required debt service today vs. 1.5 times in 2008 due to the extended period of positive multifamily performance since 2010. We will continue to assess the assumptions we are making with respect to our forecast of future losses and will adjust our reserve accordingly. At a minimum, based upon the CECL methodology, we would expect to make incremental increases to the reserve in future quarters as our portfolio continues to grow.

Let me now address our liquidity position and the potential impacts of forbearance on our business. We ended the quarter with $205 million of cash on our balance sheet. By the end of April, that balance had grown by $20 million to $225 million. Under the terms of our Fannie Mae and HUD servicing, we are obligated to advance the principal, interest and guarantee fees for the loans we service on their behalf when the borrower does not pay. We have no such obligations for our Freddie Mac or life insurance company portfolios. The Agencies have announced forbearance programs that permit their borrowers to forego payments for up to a 90-day period between April and the end of the year if they are experiencing cash flow problems related to COVID-19. Under the terms of our DUS license, we may request reimbursement for our advances from Fannie after four months. For HUD, we are obligated to advance until the loan is assigned back to the FHA or the borrower begins making payments again.

This obligation to advance payments is not new, but has been an immaterial issue due to the low level of historical delinquencies in our multifamily portfolio. For context, we had $1.0 million of advances receivable on our balance sheet at March 31st, mostly related to our HUD portfolio. As shown on slide 9, we had relatively few forbearance requests or new delinquencies for the month of April, resulting in an increase of the advances receivable balance to $1.6 million at April 30, an increase of only $600,000. The April balance is comprised of five Fannie Mae loans totaling $91.9 million and 16 HUD loans totaling $152.4 million that were either delinquent or in forbearance. While it is likely that the number of forbearance requests will increase in May and again in June given the high levels of unemployment, the limited requests in April were certainly encouraging.

With our sizable cash position, we have sufficient liquidity to meet our expected advancing obligations in anything but the most draconian of forbearance situations. In addition, we recently received a commitment from one of our banks to put in place a $100 million credit line to advance principal and interest payments for our Fannie Mae portfolio, and we expect to have this in place by the end of the month, subject to consent from Fannie and our term loan holders. Ginnie Mae also recently announced that they would provide a facility for advancing on HUD multifamily loans in forbearance, which we will be able use if necessary. Finally, out of an abundance of caution, we have stopped making new interim loans on our balance sheet and are not currently in the market to repurchase our stock. These moves, coupled with our current strong liquidity and the advancing facilities we now have access to, make us feel very good about our current financial position and gave our Board of Directors the confidence to approve the $0.36 per share quarterly dividend, payable to shareholders of record as of May 20th.

Turning to the remainder of the year, I want to give you some insight into how we are thinking about financial results for the next three quarters. Despite the challenges caused by the pandemic, there are reasons for optimism. The strong start to the year has carried over into the second quarter, with robust pipelines for our Fannie, Freddie and HUD businesses. We have already rate locked $1.9 billion of Agency business in April, which would be a great month in a normal environment and expect to rate lock another $2 to $2.5 billion in the quarter. As countercyclical sources of capital and with interest rates once again at historic lows, we expect Fannie, Freddie and HUD to remain active in the market for the remainder of the year. On the debt brokerage and property sales front, we expect that overall volumes will be muted by the crisis as various capital sources stop lending, certain asset classes like retail and hospitality become more difficult to lend on, and property sales activity slows while buyers and sellers wait to see what comes next. While these are important parts of our overall business, they have lower margins than our Agency originations and a smaller impact on our overall financial results. To be clear, we are still brokering loans and selling properties, but the volumes will be less than the highs we reached in Q1 and will likely not start to recover until sometime in the fourth quarter. With the strong margins achieved in Q1 and the expectation for lower debt brokerage volume in future quarters, we anticipate gain on sale margin will move higher so we are increasing the range to 170 on the low end and 200 basis points on the high end for the remainder of the year.

To date we have not taken any actions to cut salaries or reduce our headcount and with many parts of our Company busier than they ever have been, we don't plan to. With 53% of our personnel costs being variable, we believe we can maintain our employee base in a lower volume environment while still delivering strong financial metrics. Our expectation is that we will be able to maintain operating margins in the mid 20% for the year, while personnel costs tick up into the low to mid 40% of revenue for the year, only slightly higher than our historical rate. Finally, on our Q4 2019 earnings call in February, we set out our goal of double-digit growth in both earnings per share and adjusted EBITDA in 2020. While we feel optimistic about our ability to continue generating solid origination volume and cash flow for the remainder of the year, as we sit here today, we do not have the visibility to achieving these financial targets for the year given the number of factors that could potentially impact our business during the remainder of 2020.

Despite the current uncertainty surrounding the impacts of the COVID-19 pandemic, we are confident that our business will continue to succeed during this time due to our access to counter-cyclical capital, cash generating capabilities, and our strong liquidity position. I'll now turn the call back over to Willy.

WILLY

Thank you, Steve. We feel very good about the fact that 84% of our total lending last year was on multifamily properties and that we are one of the very largest lending partners to Fannie, Freddie, and HUD -- the three major sources of counter-cyclical capital during market dislocations. The GSEs are continuing to meet their mandate of providing a steady stream of capital to the market as our Q1 earnings and Steve's commentary on our Q2 pipeline reflect. And as this slide shows, both GSEs have plenty of lending capacity within their 2020 FHFA Scorecard to continue providing capital and liquidity to the multifamily market for the remainder of the year. The loans we are currently underwriting and originating have very strong fundamentals, and in most cases, include principal, interest, tax and escrow reserves for six to twelve months. In addition, the April forbearance numbers that we saw in our own portfolio and across the market were very reassuring, and while it's still early in May, we are receiving similar, positive data surrounding May rents. As of the first five days of the month, May collections for many of our largest borrowers are at similar or higher levels than the same time last month, which is a very promising sign. We won't have a full picture of May rent performance for another couple of weeks and June is still very much at risk of seeing increased rental forbearance requests; however, we are pleased with what we are hearing at this point in the month and how that should translate into forbearance requests in our own portfolio over the next 30 to 60 days.

With the opportunity to continue originating new loans, and having credit exposure solely on multifamily properties, we feel quite well positioned to absorb the impact of this financial crisis and come out on the other side with an even stronger market position. Along these lines, we remain focused on our Vision 2020 and establishing a new five-year growth plan by the end of this year. Similar to our first five-year growth plan that was launched in 2007 with no idea that we were headed into the Great Financial Crisis, we didn't build Vision 2020 thinking our growth and investment would be impacted by a global pandemic. But just as we did in 2008, we will remain focused on the long-term growth of Walker & Dunlop and continue to invest and build. In 2009, when the market was frozen, we acquired Column Guaranteed from Credit Suisse which was a transformative acquisition for our company that led to our IPO in 2010. Just last week, in the midst of this crisis, we not only closed the largest financing in Walker & Dunlop's history, but we hired an exceptional multifamily financing team in our Dallas office away from one of our very largest competitors. W&D has a long history of zigging when others zag, and over the coming months and years, we will look for opportunities to invest in, and grow our business to generate differentiated long-term, shareholder returns.

Along these lines, I think it's important to reflect upon what we have and haven't done at Walker & Dunlop over many, many years to understand why our financial position is so sound today, and why that provides us with opportunities going forward. We could not have underwritten, structured, and closed the large Southern Management transaction last week if it were not for the investments we have made over many years to recruit the very best talent to Walker & Dunlop, maintain underwriting discipline in every transaction we have done, and to nurture and grow the relationships we have built with Fannie Mae and PNC, our two partners in funding that transaction. That deal doesn't happen without all of those component parts. Similarly, over the past several years, we have not made balance sheet loans nor taken credit risk on non-multifamily assets, even while the market was asking us for that capital. We are very thankful today to have no credit exposure on hotel, retail, or office loans, whatsoever, thanks to maintaining discipline throughout the last market cycle. We also have built-out our investment sales business solely in the multifamily industry, and while it will likely be several quarters before that business gets back to previous sales volumes, we are very fortunate not to have sales teams focused on the hospitality, retail, and office markets which we believe will take significantly longer to recover. And finally, I'd note that we maintained tight discipline around hiring new talent and the prices we would pay over the past several years, and we did not over-extend ourselves as an enterprise to bring on the fantastic teams we have today. All of the investments we have made, and discipline we have maintained, make us feel very good about our ability to weather this crisis and continue growing Walker & Dunlop over the coming months and quarters.

We had an incredible Q1, underscored by record origination volumes, the largest transaction in our company's history, and the seamless transition to a dispersed working model. The W&D team has been performing at an exceptional level since the outbreak of COVID-19 – and that is backed up not only by our financial performance, but by countless accolades from our clients. We will have to wait and see what May and June bring in terms of forbearance requests, but we have the balance sheet and a commitment for a credit facility in place to meet those obligations. And we will continue originating new loans, and step back into the property sales business when the market begins to transact again.

I'd like to close by congratulating all my colleagues at Walker & Dunlop on a truly exceptional Q1, and also thank them for all the teamwork, communication, and flexibility they have demonstrated during the transition to remote work during these challenging times. As I said in a video I sent to all employees last Friday, I've never been prouder to be leading this company and wearing the W&D colors. We have built an incredible company, with incredible people, and a brand that is reflective of our culture and capabilities and that is being demonstrated each and every day. I'd also like to thank everyone who has joined us on this call today, as well as our shareholders for their trust and confidence in the W&D team. Finally, I'd like to wish everyone, and their families, health and safety over the coming months as we continue to deal with the health and economic impact of the COVID-19 crisis.

I'll now turn the call back over to Kelsey to open the line for questions.

KELSEY
The floor is now open for questions. At this time, if you have a question on the phone please press *9 or if you are on your computer please click the "Raise Hand" icon at the bottom of your webcast screen. Our first question is coming from Jade Rahmani at KBW.

JADE RAHMANI
Thank you very much. Nice to hear from you and hope you're all safe and well. I also want to commend the management team, including Willy, for demonstrating strong leadership during this period. I've been listening to the webinars you've posted and think you've done an outstanding job bringing key issues to light.

Just starting with liquidity, I want to ask what drove the sequential increase in cash and if there are any metrics you suggest investors look at to measure the adequacy of the current liquidity position relative to servicing advances, the ongoing costs of operations, and potential future credit costs.

STEVE
Jade, I'll start and if Willy wants to jump in, he can follow in. As far as the growth in cash, there's a couple things. We have been using our cash to self-fund agency loans that are held for sale for a while rather than borrowing on the warehouse lines, just as a short-term cash management tool. We stopped doing that just to maintain the cash on the balance sheet. In addition, as I mentioned we stopped originating new loans on our balance sheet. Those use a fair amount of capital so just stopping that. And that portfolio itself has actually declined as we've been collecting loans as they mature or as they're paying down so that's helped us amass the cash as well. And then finally, and most importantly, we have a cash flow positive business so as we're collecting our servicing fees and the interest income that we're making off of the warehouse and the escrows, that's all adding to the cash balance on a monthly basis.

JADE RAHMANI
And in terms of servicing advances what magnitude would you say is reasonable to expect in terms of W&D's own cash utilization to fund such advances over say the next four to six months?

STEVE
It's really hard to pin down a specific number, Jade. I think it's fair to say we've run the Board through a variety of scenarios – some relatively benign and some, as you would imagine, would be pretty dramatic increases in terms of forbearance requests, and we feel comfortable that the cash is there to support the need if it arises. But based on the April results and the encouraging signs that we're getting from some our borrowers we're not overly concerned. And I think having the advance line in place for the P&I on Fannie will also act as a very positive insurance policy for us.

WILLY
I'd jump in Jade and just say, first of all, Steve and his team have run the Board through extensive scenarios that beat the heck out of it and I would say we feel very comfortable given where we sit today and the cash on the balance sheet as well as the commitment for the line that we'll be able to withstand a significantly – a very dramatic up-tick along those lines. I would also say that, as I mentioned in my comments, April collections across our portfolio were extremely strong. And through the first five days of May, I've been out talking to, I've talked to seven major clients yesterday that all have well over twenty thousand units and every one of them was at or ahead of their April collections from the first five days of May. One up by ten percentage points. So we're, right now, feeling quite good as it relates to most of our large clients and the majority of our portfolio not asking for forbearance and not having to use either cash on the balance sheet or the facility that we have a commitment for.

JADE RAHMANI
Thanks very much. In terms of the outlook for multifamily credit, historically it's been a defensive asset class but in the last cycle we had excess home ownership that spilled back into the apartment and rental sectors to curtail some potential credit headwinds. What would be your expectation from your vantage point and then perhaps the insight you've garnered from clients on multifamily credit outlook?

WILLY
That's an interesting one, Jade, because I know that you ask the question as it relates to sort of will multifamily tenants want to move into single family homes because of the virus. I would say very clearly if they couldn't move into a single-family home pre-crisis, they're certainly not going to be moving into single family homes immediately post-crisis. And as you know very well there is a severe lack of entry-level single-family housing today and many of the housing starts that were under way have been halted as the economy has shut down. So as it relates to overall occupancy levels I would put forth that they will remain very healthy post-crisis and I would actually think that in some instances you will get people moving from doubles into singles and that might drive actually increased demand for single unit multifamily, clearly on the student housing side. Many universities are looking at taking doubles and turning them

into singles and that is going to drive the need for more off campus student housing going forward.

The other thing that I would say as it relates to the overall credit worthiness of the asset class, last time around, as you well know, there was a huge over-supply of single family, this time there isn't. I did speak to a client yesterday who has a very large single-family rental portfolio and they were at, through four days of the month, 91 percent paid on their SFR portfolio. And they've actually received two percent rent bumps on renewals in the month of May, those contracts that were terming. And they're actually taking their SFR management team and working with their multifamily management team to take some of the best practices from the management on their SFR portfolio and moving it over to their multifamily portfolio.

So I would say, just generally speaking, while we obviously don't know how deep the crisis goes or how deep economic impact will be, to your point, multifamily has been and will remain a defensive asset class – people need to live somewhere – and we feel very good right now as it relates to only having credit exposure on multifamily assets.

JADE RAHMANI
Thank you very much for taking the questions.

KELSEY
Thank you. Our next question comes from Henry Coffey at Wedbush Securities.

HENRY COFFEY
Good morning everyone and thank you for organizing this call. You brought up, you made a comment on student housing and that's an interesting observation, but as you look through your portfolio where are the at-risk sectors? I would assume they're in nursing homes and extended care homes and obviously the student housing portion of the portfolio. But what are your thoughts about how those two assets perform?

WILLY
So, I'll let Steve jump in if he'd like after I make a quick first comment. On the student housing side, our total exposure to student housing is about $2.7 billion in our at-risk portfolio. Those assets, Henry, have been performing exceedingly well over the last two months as people finish up their 2019-2020 academic year. Many students, actually, are still living in their off-campus student housing and taking their online courses from those units and the pay rate on those has been exceptional, as has deposits on fall. But there is very clearly, we are heading into a period of time here, where what universities start to communicate as far as going back to school in the fall or not is going to have a big impact on that asset class and it's too early to tell. As you probably know, some universities like Perdue have been very, if you will, on the front foot in saying they very much intend to get back to school in the fall. One footnote to that is that the

President of Purdue said that they are going to take one on-campus dorm, put it to the side and have it as a quarantine area when and if they get an outbreak of the virus on campus in the fall. That takes that inventory of on-campus housing out of circulation obviously and then drives additional demand for off-campus student housing. But student is obviously something that is somewhat of a binary event, kids are either going back to universities in the Fall or they're not and we will see how that plays out.

As it relates to seniors, we don't have, our senior's portfolio is predominantly HUD loans, and so while many of those loans will invariably ask for forbearance, we do not take credit risk on those loans. So as much as we are an active lender in that space, we have some assisted living in our Fannie Mae portfolio but we haven't seen, if you will, the degradation to fundamentals in the assisted living that we've seen in the skilled nursing portfolios.

And then the other side of that, Henry, is that I do think that many, many people heading into the crisis said well I'm not sending mom or dad to a seniors housing project or development or care facility at this time given the virus outbreak. What I think we are seeing now as we move into the virus and into the crisis is that many people are deeming that it's actually a safer place for seniors to be, than out in the general population, because senior housing facilities now have the equipment, they have the training and they have the people there to take care of people and particularly the elderly and the most at-risk. And so, we're actually starting to see, not across the board, but we are starting to see actually inflows coming in and that's also bolstered a little bit by the fact that hospitals don't want seniors staying in their beds for extended periods of time. So, when someone goes to the hospital with a condition and then they has to move out of the hospital, they're not going home, they're moving into a seniors housing facility.

So, I think that, if you will, maturation of the first reaction of pulling away and then realizing how to deal with the virus, and then making more fortified environments for seniors, might actually turn around and help enrollment, if you will, or inflows into seniors housing space.

STEVE

And just to add to that, Henry, we've got between our Fannie Mae and our on balance sheet portfolio about $550 million of exposure to Seniors, so relatively modest in terms of the scale.

HENRY COFFEY

Two more questions. One is, with your HUD loans, do they function like normal Ginnie Mae loans when they stop paying you, you buy the loan, or when they stop paying, you advance.

STEVE

The answer is yes, Henry, when they stop paying, we advance. We do have the ability to purchase a defaulted loan out of its Ginnie Mae pool. And actually, one of our agency warehouse lines gives us advancing to be able to do that while minimizing the cash. So, we do have that option available to us on the multifamily side.

HENRY COFFEY
My last question is a pretty general one. There's a lot of craziness going on in the housing market with Calabria not really stepping up to the plate the way the other parties in the government have. Lots of penalties around residential loans. Lots of questions, particularly for Fannie, about servicer advances. What is the tone of the GSE's when it comes to multifamily? Are they showing flexibility, are they taking a fairly rigid stance, what's their taste for risk? Just kind of an open-ended question.

WILLY
So, first of all, as you've seen, Henry, the forbearance numbers on the single-family side are dramatically higher than they are on the multifamily side. If you think about it somebody on the single-family side who is unemployed is going to file for unemployment insurance and that is a singular event where they likely will also file for forbearance. In the multifamily side you have the benefit of, if you will, numbers in the sense that a number of people in a given multifamily property might be unemployed but that's not going to cause the overall economic performance of the property to force their forbearance. The second piece to that is, as you know, the CARES Act has the $600 per week boost to unemployment insurance payments which, in many instances, obviously unemployment benefits are on a state-by-state basis as it relates to total payout, but in many instances people on unemployment today are making $950-$1000 a week, which actually brings many of them above what they were making pre-crisis. So, there is money there to pay rents for those people who are receiving unemployment benefits under the CARES Act.

As it relates to FHFA and Fannie, I would just say this – when we saw FHFA's move about three weeks ago to basically say that Fannie and Freddie weren't going to set up any kind of facility to fund advances to bond holders, we immediately pivoted and went to private capital markets to get financing for that. And as Steve said in his remarks, we have a commitment from one of the major U.S. banks to provide us with that financing. And it's more of an insurance policy right now than anything else because of the amount of cash on our balance sheet and because of our current estimation of where we will be on forbearance requests. But we're very happy that we have the commitment and we'll have that in place. So I would just say that once we saw where FHFA was headed, that the Fed wasn't going to step in, we immediately pivoted and thankfully we have not only the financial performance, the balance sheet and also the relationships to have put something like that together in very short order.

HENRY COFFEY
Great. Thank you very much.

KELSEY
Thank you. Our next question will come from Steve Delaney of JMP.

STEVE DELANEY
Good morning. Love the webcast approach, and it's great to see both of you looking so well. I'd like to start with sort of Congress and the forbearance. Congress appears willing to do pretty much anything that it needs to do to support those impacted by COVID. I'm wondering if you see any risk that the rent forbearance, the original three months, do you see that that period could be extended another three months to continue to support those unemployed and impacted by COVID?

WILLY
Steve, are you asking about mortgage forbearance or are you talking about the eviction prohibition?

STEVE DELANEY
Eviction.

WILLY
So, I mean, here's the deal. As we saw in April, and as we saw in May so far, people pay their rent. They've got to live somewhere. The last thing that anyone wants is to stop paying their rent and be in any kind of disagreement with their landlord whenever the eviction moratorium ends. So, people aren't just sitting around not paying their rent because they're not going to be kicked out on the curb tomorrow. Having shelter and somewhere to live whether you are currently still employed but at a diminished level because you were not making tips or whatever the case might be, and now it's a carry-out model verses an in-restaurant model, or whether you were unemployed and receiving the benefits from the Federal government, people are still paying rent. So, we feel very good about that and so the eviction moratorium as much as it got a lot of people concerned at first because it's something that hasn't been out there, I don't think it is having a significant impact on the market and on people's propensity to pay.

I think the bigger question in our mind right now, Steve, is the unemployment benefits underneath the CARES Act and the $600 per week supplemental payment from the Federal government. That's a very important component that needs to stay in place post-July. So, if they were to extend the eviction moratorium I don't think, given what we've seen so far as it relates to renter's behavior, that's a big issue. I think what would be a very significant issue is if we get to the end of July, there are neither therapeutics out there that are making it so that people feel more comfortable to get back to work or we haven't seen a big resurgence in employment in the country, and they end up not extending that component of the CARES Act.

I'm hard-pressed to think that they won't when they look at it but that's a super important component part to people, I think, being able to continue to pay their rent.

STEVE DELANEY
That's helpful, Willy. Thank you. And in terms of opportunities for W&D as you look at the space, it seems to me that your origination salesforce, you have all the capacity that you could possibly need for the current market opportunity. Is it possible that any of the smaller services that don't have your liquidity and balance sheet, could you envision smaller servicers, possibly having problems with advances and might there be opportunities for servicing transfers that obviously have to be from one GSE approved servicer to another as opposed to the residential MSR market? Just curious if there's any M&A-like opportunity in the servicing side?

WILLY
So, I think opportunities will present themselves. As I mentioned in my comments, we hired a team last week from one of our biggest competitors and we also closed the largest transaction in Walker & Dunlop's history in the midst of this crisis. That's zigging when others zag. I'd also say it is interesting that, I mean you look at our financial performance for Q1 and having taken a very significant charge for potential future losses, and we are showing the depth of the platform. The fact that we have, for years and years, as you know Steve, a lot of people have said well how fast can Walker & Dunlop grow because they've got Fannie, Freddie and HUD as their three major sources of capital and those are all government capital and those are sort of counter-cyclical. And, as you know, we've grown as fast or faster than all of our competitors in the market. Now all of a sudden you flip that on its head and we're sitting there in probably the best position as it relates to access to "defensive" capital, and I would think that investors would find that to be a very attractive piece to W&D's business model and our market positioning.

And as it relates to opportunities, look, we acquired Column in 2009 in the depths of the financial crisis. We want to make sure right now that we are watching our cash flow very closely but, as you may recall, when we bought Column from Credit Suisse that was a cashless transaction. They took stock in Walker & Dunlop, it turned out to be a fantastic deal for Credit Suisse, and it turned out to be a fantastic deal for us. So, we also have the ability and track record to do deals that may or may not require us to use a lot of cash or go out and access the debt markets to make it happen. So, we're watching, and I'm assuming that over the next several quarters and years there will be opportunities for us to continue to grow.

STEVE DELANEY
And just a final question for me or comment. A couple years ago the GSE's made the decision to cancel their pilot programs for single family rental and the private sector picked that up with a vengeance and really ran with it and I think it has become a pretty effective, well-established program in terms of origination and securitization. Needless to say, that is completely shut

down. It's not clear – it looks like CMBS is starting to come back with a transaction but we're not seeing any signs that much is going to happen with private or RMBS at this time because the triple A's are not included in TALF. Just curious, if under the Affordability Mandate of the GSE's, have you heard any chatter that single family rental programs might be something they would reconsider and how would that possibly fit into your toolkit going forward. Do you need a GSE program or would that area interest you from a private sector approach? That's my final question. Thanks for your comments.

WILLY
Sure, Steve. So, when Fannie and Freddie first entered the SFR financing space we were one of the first Freddie Mac Optigo lenders to be put into the program. We had significant interest in being a major player in that space. As you well know, that got shut down by FHFA. Given everything that FHFA and Doctor Calabria has said since the onset of this crisis, I am in no way holding out any hope that they allow Fannie and Freddie to do anything new or innovative during this period of time. I'd love to be proven wrong by that statement but what we have seen is very much a sort of stay in your fairway type attitude and maintain liquidity.

I would also say, Steve, as you know because you listened in and cover Starwood, Jeff DiModica made the comment during their call that they're seeing the CMBS market start to come back and they actually have some pretty good expectations as it relates to liquidity coming to the market from CMBS. And from the comment I made a moment ago to Henry's question, as it relates to the performance of SFR portfolios, if that comment from one of our clients at 91 percent collected four days through May is indicative of the broader SFR market, I would put forth that private capital will find a way to get there. So while that obviously is one data point and not across the market, so far I haven't either heard a sort of crisis we need capital and then I also, even if you heard that, if you think about the amount of noise that has come out of the servicer advances, particularly on the single family side that Dr. Calabria has completed ignored, I would put forth that I don't know how loud that would have to get before FHFA would sit there and say let's put Fannie and Freddie into this space.

STEVE DELANEY
Thank you for the comments.

KELSEY
We have no additional questions so I will turn the floor back over to Willy for closing remarks.

WILLY
Great. First of all, thank you to everyone who joined us today. I hope you were able to participate via Zoom and actually see Steve and me giving our remarks live. We've been thinking about doing this for quite some time and it took a global pandemic to get us to use Zoom for our quarterly Earnings Call and get off of just the audio.

The second thing is, I would reiterate our hopes and wishes for the health and safety of everyone's families during these challenging times.

And the final one is a real thanks to the W&D team. Q1 was an incredible success and showed the power of all of the investments and all the teamwork we have been able to build over the last several years. We feel very well positioned right now given everything that is going on in the markets. Thanks for everything. Have a great day and we will be in touch soon. Thanks Kelsey.