

Walker & Dunlop, Inc.
Form 10-K
March 01, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018

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)

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Maryland (State or other jurisdiction of incorporation or organization)	80-0629925 (I.R.S. Employer Identification No.)
7501 Wisconsin Avenue, Suite 1200E Bethesda, Maryland (Address of principal executive offices)	20814 (Zip Code)

Registrant's telephone number, including area code: (301) 215-5500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common stock, par value \$0.01 per share	Name of each exchange on which registered New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$1.1 billion as of the end of the Registrant’s second fiscal quarter (based on the closing price for the common stock on the New York Stock Exchange on June 30, 2018). The Registrant has no non-voting common equity.

As of January 31, 2019, there were 30,259,282 total shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Walker & Dunlop, Inc. with respect to its 2019 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934 on or prior to April 30, 2019 are incorporated by reference into Part III of this report.

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PART I

Forward-Looking Statements

Some of the statements in this Annual Report on Form 10-K of Walker & Dunlop, Inc. and subsidiaries (the “Company,” “Walker & Dunlop,” “we,” “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 Annual Report on Form 10-K 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; and
- general volatility of the capital markets and the market price of our common stock.

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.”

Item 1. Business

General

We are one of the leading commercial real estate services and finance companies in the United States, with a primary focus on multifamily lending. We have been in business for more than 80 years; a Fannie Mae Delegated Underwriting and Servicing™ (“DUS”) lender since 1988, when the DUS program began; a lender with 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”) since acquiring a HUD license in 2009; and a Freddie Mac Multifamily Approved Seller/Servicer for Conventional Loans (“Freddie Mac seller/servicer”) since 2009. We originate,

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sell, and service a range of multifamily and other commercial real estate financing products, provide multifamily investment sales brokerage services, and engage in commercial real estate investment management activities. Our clients are owners and developers of multifamily properties and other commercial real estate across the country. We originate and sell multifamily loans through the programs of Fannie Mae, Freddie Mac, and HUD (collectively, the “Agencies”). We retain servicing rights and asset management responsibilities on substantially all loans that we originate for the Agencies’ programs. We are approved as a Fannie Mae DUS lender nationally, a Freddie Mac seller/servicer nationally, a Freddie Mac targeted affordable housing seller/servicer, a HUD Multifamily Accelerated Processing (“MAP”) lender nationally, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. We broker, and occasionally service, loans for several life insurance companies, commercial banks, commercial mortgage backed securities (“CMBS”) issuers, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. We also underwrite, service, and asset-manage interim loans. Most of these interim loans are closed through a joint venture. Those interim loans not closed by the joint venture are originated by us and held for investment and included on our balance sheet.

Walker & Dunlop, Inc. is a holding company. We conduct the majority of our operations through Walker & Dunlop, LLC, our operating company.

Our Product and Service Offerings

Our product offerings include a range of multifamily and other commercial real estate financing products, including Multifamily Finance, FHA Finance, Capital Markets, and Bridge Financing. We offer a broad range of commercial real estate finance products to our customers, including first mortgage, second trust, supplemental, construction, mezzanine, preferred equity, small-balance, and bridge/interim loans. Our long-established relationships with the Agencies and institutional investors enable us to offer this broad range of loan products and services. We also provide investment sales brokerage services to owners and developers of multifamily properties and commercial real estate investment management services for various investors. Each of our product offerings is designed to maximize our ability to meet client needs, source capital, and grow our commercial real estate finance business.

The sale of each loan through the Agencies’ programs is negotiated prior to rate locking the loan with the borrower. For loans originated pursuant to the Fannie Mae DUS program, we generally are required to share the risk of loss, with our maximum loss capped at 20% of the loan amount at origination. In addition to our risk-sharing obligations, we may be obligated to repurchase loans that are originated for the Agencies’ programs if certain representations and warranties that we provide in connection with such originations are breached. We have never been required to repurchase a loan. We have established a strong credit culture over decades of originating loans and are committed to disciplined risk management from the initial underwriting stage through loan payoff.

Multifamily Finance

We are one of 25 approved lenders that participate in Fannie Mae's DUS program for multifamily, manufactured housing communities, student housing, affordable housing, and certain seniors housing properties. Under the Fannie Mae DUS program, Fannie Mae has delegated to us responsibility for ensuring that the loans we originate under the Fannie Mae DUS program satisfy the underwriting and other eligibility requirements established from time to time by Fannie Mae. In exchange for this delegation of authority, we share risk for a portion of the losses that may result from a borrower's default. For more information regarding our risk-sharing agreements with Fannie Mae, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Quality and Allowance for Risk-Sharing Obligations" below. Most of the Fannie Mae loans that we originate are sold in the form of a Fannie Mae-guaranteed security to third-party investors. Fannie Mae contracts us to service and asset-manage all loans that we originate under the Fannie Mae DUS program.

We are one of 25 lenders approved as a Freddie Mac seller/servicer, where we originate and sell to Freddie Mac multifamily, manufactured housing communities, student housing, affordable housing, and seniors housing loans that satisfy Freddie Mac's underwriting and other eligibility requirements. Under Freddie Mac's programs, we submit our completed loan underwriting package to Freddie Mac and obtain its commitment to purchase the loan at a specified price after

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closing. Freddie Mac ultimately performs its own underwriting of loans that we sell to it. Freddie Mac may choose to hold, sell, or later securitize such loans. We very rarely have any risk-sharing arrangements on loans we sell to Freddie Mac under its program. Freddie Mac contracts us to service and asset-manage all loans that we originate under its program. During 2018, Freddie Mac designated us as one of a select few lenders that is an approved seller/servicer of conventional loans nationally.

Under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers in acquiring and repositioning properties. The terms of such investments are negotiated with each investment.

FHA Finance

As an approved HUD MAP and HUD LEAN lender and Ginnie Mae issuer, we provide construction and permanent loans to developers and owners of multifamily housing, affordable housing, seniors housing, and healthcare facilities. We submit our completed loan underwriting package to HUD and obtain HUD's approval to originate the loan. We service and asset-manage all loans originated through HUD's various programs.

HUD-insured loans are typically placed in single loan pools which back Ginnie Mae securities. Ginnie Mae is a United States government corporation in the United States Department of Housing and Urban Development. Ginnie Mae securities are backed by the full faith and credit of the United States, and we very rarely bear any risk of loss on Ginnie Mae securities. In the event of a default on a HUD-insured loan, HUD will reimburse approximately 99% of any losses of principal and interest on the loan, and Ginnie Mae will reimburse the remaining losses. We are obligated to continue to advance principal and interest payments and tax and insurance escrow amounts on Ginnie Mae securities until the Ginnie Mae securities are fully paid.

Capital Markets

We serve as an intermediary in the placement of commercial real estate debt between institutional sources of capital, such as life insurance companies, investment banks, commercial banks, pension funds, CMBS issuers, and other institutional investors, and owners of all types of commercial real estate. A client seeking to finance or refinance a property will seek our assistance in developing different alternatives and soliciting interest from various sources of capital. We often advise on capital structure, develop the financing package, facilitate negotiations between our client and institutional sources of capital, coordinate due diligence, and assist in closing the transaction. In these instances, we act as a loan broker and do not underwrite or originate the loan and do not retain any interest in the loan. We service some of these loans.

Over the past five years, the Company has invested approximately \$78.2 million to acquire certain assets and assume certain liabilities of four capital markets brokerage companies. These acquisitions, along with our recruiting efforts, have expanded our network of loan originators, broadened our geographical reach, and provided further diversification to our origination platform.

Bridge Financing

We currently offer bridge financing to our borrowers through interim loans and preferred equity investments. The interim loans 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”). We underwrite, service, and asset-manage all loans executed through the Interim Program. The ultimate goal of the Interim Program is to provide permanent Agency financing on these transitional properties. The Interim Program has two distinct executions: Interim Program JV loans and loans held for investment.

Interim Program JV Loans

During the second quarter of 2017, we formed a joint venture with an affiliate of Blackstone Mortgage Trust, Inc.

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to originate, hold, and finance loans that meet the criteria of the Interim Program (the “Interim Program JV” or the “joint venture”). The Interim Program JV assumes full risk of loss while the loans it originates are outstanding. 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 joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities.

Loans Held for Investment

We originate and hold some interim loans for investment, which are included on our balance sheet. During the time that these loans are outstanding, we assume the full risk of loss. We have not experienced any delinquencies or charged off any loans originated and held for investment under the Interim Program. Prior to June 30, 2017, all loans originated through the Interim Program were held for investment. Many of the loans originated since the formation of the joint venture have been Interim Program JV loans. As of December 31, 2018, we had 14 loans held for investment under the Interim Program with an aggregate outstanding unpaid principal balance of \$503.5 million.

Preferred Equity Investments

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 multifamily properties. These borrowers are large, experienced, and well-capitalized and have a well-established relationship with us. The terms of such investments are negotiated with each transaction.

Investment Sales Brokerage Services

In 2015, we completed our purchase of 75% of certain assets and the assumption of certain liabilities of Engler Financial Group, LLC (“EFG”) and contributed the net assets purchased from EFG to a newly formed subsidiary, Walker & Dunlop Investment Sales, LLC (“WDIS”), through which we conduct our investment sales operations. The acquisition allowed us to begin offering investment sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties. We seek to maximize proceeds and certainty of closure for our clients using our knowledge of the commercial real estate and capital markets and the experience of our transaction professionals. Our investment sales brokerage services are offered in various regions throughout the United States. We have added several investment sales brokerage teams over the past few years and continue to seek to add other investment sales brokers, with the goal of expanding these brokerage services to cover all major regions throughout the United States.

We consolidate the activities of WDIS and present the portion of WDIS that we do not control as Noncontrolling interests in the Consolidated Balance Sheets and Net income from noncontrolling interests in the Consolidated Statements of Income.

Investment Management

During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation (“JCR”), an operator, registered investment adviser, and general partner of private commercial real estate investment funds focused on the management of debt, preferred equity, and mezzanine equity investments in private middle-market commercial real estate funds. JCR is also a registered investment adviser to several insurance company separate accounts for which it originates, underwrites, and asset-manages bridge and permanent loans catering to middle market operators. Investors in JCR’s funds include public pension plans, insurance companies, foundations, fund-of-funds, and wealthy individuals. JCR has closed four funds since its founding in 2006 and raised \$745.9 million of capital through those funds. Two of those funds are still operating with assets totaling \$571.8 million as of December 31, 2018, all of which are managed by JCR.

The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify the Company by growing our investment management platform. Prior to the JCR acquisition, our investment management activities were limited.

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Direct Loan Originators and Correspondent Network

We originate loans directly through loan originators operating out of 29 offices nationwide. At December 31, 2018, we employed 164 loan originators and investment sales brokers. These individuals have deep knowledge of the commercial real estate lending business and bring with them extensive relationships with some of the largest property owners in the country. They have a thorough understanding of the financial needs and objectives of borrowers, the geographic markets in which they operate, market conditions specific to different types of commercial properties, and how to structure a loan product to meet their borrowers' needs. These loan originators collect and analyze financial and property information, assist the borrower in submitting information required to complete a loan application and, ultimately, help the borrower close the loan. Our loan originators are paid a salary and commissions based on the fees associated with the loans that they originate.

In addition to our group of loan originators, at December 31, 2018, we had correspondent agreements with 26 independently owned mortgage banking companies across the country with which we have relationships for Agency loan originations. This network of correspondents helps us extend our geographic reach into new and/or smaller markets on a cost-effective basis. In addition to identifying potential borrowers and key principal(s) (the individual or individuals directing the activities of the borrowing entity), our correspondents assist us in evaluating loans, including pre-screening the borrowers, key principal(s), and properties for program eligibility, coordinating due diligence, and generally providing market intelligence. In exchange for providing these services, the correspondent earns an origination fee based on a percentage of the principal amount of the financing arranged and in some cases a fee paid out over time based on the servicing revenues earned over the life of the loan.

Underwriting and Risk Management

We use several tools to manage our Fannie Mae risk-sharing exposure. These tools include an underwriting and approval process that is independent of the loan originator; evaluating and modifying our underwriting criteria given the underlying multifamily housing market fundamentals; limiting our geographic, borrower, and key principal exposures; and using modified risk-sharing under the Fannie Mae DUS program. Similar tools are used to manage our exposure to credit loss on loans originated under the Interim Program.

Our underwriting process begins with a review of suitability for our investors and a detailed review of the borrower, key principal(s), and the property. We review the borrower's financial statements for minimum net worth and liquidity requirements and obtain credit and criminal background checks. We also review the borrower's and key principal(s)'s operating track records, including evaluating the performance of other properties owned by the borrower and key principal(s). We also consider the borrower's and key principal(s)'s bankruptcy and foreclosure history. We believe that lending to borrowers and key principal(s) with proven track records as operators mitigates our credit risk.

We review the fundamental value and credit profile of the underlying property, including an analysis of regional economic trends, appraisals of the property, site visits, and reviews of historical and prospective financials. Third-party vendors are engaged for appraisals, engineering reports, environmental reports, flood certification reports, zoning reports, and credit reports. We utilize a list of approved third-party vendors for these reports. Each report is reviewed by our underwriting team for accuracy, quality, and comprehensiveness. All third-party vendors are reviewed periodically for the quality of their work and are removed from our list of approved vendors if the quality or timeliness of the reports is below our standards. This is particularly true for engineering and environmental reports on which we rely to make decisions regarding ongoing replacement reserves and environmental matters.

In addition, we have concentration limits with respect to our Fannie Mae loans. We limit geographic concentration, focusing on regional employment concentration and trends. We also limit the aggregate amount of loans subject to full risk-sharing for any one borrower. Fannie Mae's counterparty risk policies require a full risk-sharing cap for individual loans, which is currently set at \$200.0 million for us. Our full-risk sharing cap was increased by Fannie Mae in the second quarter of 2018 from \$60.0 million to the current level of \$200.0 million. Accordingly, our maximum loss exposure on

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any one loan is \$40.0 million (such exposure would occur if the underlying collateral is determined to be completely without value at the time of loss). However, 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 fairly compensated for the risks of the transaction.

Servicing and Asset Management

We service nearly all loans we originate for the Agencies and our Interim Program and some of the loans we broker for institutional investors, primarily life insurance companies. We may also occasionally leverage the scale of our servicing operation by acquiring the rights to service and asset-manage loans originated by others through direct portfolio acquisitions or entity acquisitions. We are an approved servicer for Fannie Mae, Freddie Mac, and HUD loans. We are currently a rated primary servicer with Fitch Ratings. Our servicing function includes loan servicing and asset management activities, performing or overseeing the following activities:

- carrying out all cashiering functions relating to the loan, including providing monthly billing statements to the borrower and collecting and applying payments on the loan;
 - administering reserve and escrow funds for repairs, tenant improvements, taxes, and insurance;
- obtaining and analyzing financial statements of the borrower and performing periodic property inspections;
- preparing and providing periodic reports and remittances to the GSEs, investors, master servicers, or other designated persons;
- administering lien filings; and
- performing other tasks and obligations that are delegated to us.

Life insurance companies, whose loans we may service, may perform some or all of the activities identified in the list above. We outsource some of our servicing activities to a subservicer.

For most loans we service under the Fannie Mae DUS program, we are currently required to advance the principal and interest payments and tax and insurance escrow amounts for four months. We are reimbursed by Fannie Mae for these advances.

Under the HUD program, we are obligated to advance tax and insurance escrow amounts and principal and interest payments on the Ginnie Mae securities until the Ginnie Mae security is fully paid. In the event of a default on a HUD-insured loan, we can elect to assign the loan to HUD and file a mortgage insurance claim. HUD will reimburse approximately 99% of any losses of principal and interest on the loan, and Ginnie Mae will reimburse substantially all of the remaining losses. In cases where we elect to not assign the loan to HUD, we attempt to mitigate losses to HUD by assisting the borrower to obtain a modification to the loan that will improve the borrower's likelihood of future performance.

Our Growth Strategy

We believe we are positioned to continue growing and diversifying our business by taking advantage of opportunities in the commercial real estate finance and services market. In 2016, the Company implemented a strategy to reach at least \$1 billion of annual revenues by the end of 2020 by accomplishing the following milestones: (i) \$30 to \$35 billion of annual loan origination volume, (ii) annual investment sales volume of \$8 to \$10 billion, (iii) an unpaid principal balance of at least \$100 billion in our servicing portfolio, and (iv) \$8 to \$10 billion of assets under management. To reach these milestones, we will focus on the following areas:

- Defend Our Market Position as a Leading Provider of Capital to Multifamily Borrowers. We intend to further grow our Agency loan originations with the goal of increasing our market share with the GSEs and remaining a top five lender of HUD products. For 2018, we ranked as the second largest Fannie Mae DUS lender, and we ranked as the fourth largest Freddie Mac seller/servicer. Additionally, we were ranked as the third largest multifamily lender for HUD in 2018 based on MAP initial endorsements. At December 31, 2018, our origination platform had approximately 60 loan originators focused on selling Agency

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products, supplemented by 26 independently owned mortgage banking companies with whom we have correspondent relationships. We believe that we will have significant opportunities to continue broadening our Agency loan origination networks to maintain or grow our market share. This expansion may include organic growth, recruitment of talented origination professionals, and potential acquisitions of competitors with strong origination capabilities.

- Continue to Expand our Capital Markets Team. At December 31, 2018, we had 87 loan originators in 20 offices focused on capital markets transactions across the United States. Over the past five years, we have added 63 net new loan originators to our capital markets team through recruiting and the acquisition of the loan origination platforms of four companies. We intend to continue growing our capital markets team to strengthen our market position and borrower relationships and to grow our market share. Continued growth of our capital markets team will provide greater exposure to the overall commercial real estate market, expose us to new correspondent relationships, and provide us with institutional access to deal flow supporting our bridge lending solutions. In addition, many of our capital markets loan originators also originate loans through the Agencies' programs, assisting our growth objectives with the Agencies.

- Continue to Expand our Investment Sales Team. At December 31, 2018, we had 17 investment sales brokers in nine offices located in various regions throughout the United States. We have more than tripled the number of our investment sales brokers since we acquired an investment sales company in 2015. We intend to continue growing our investment sales team to broaden our market position and borrower relationships and to grow our market share. Continued growth of our investment sales team will provide greater exposure to the multifamily market. In addition, we are able to capture additional loan origination volume as our loan originators, working with our investment sales brokers are successful at arranging the financing for many of our investment sales transactions.

- Continue to Develop Proprietary Sources of Capital. Since our initial public offering, we have expanded our product offerings to include the Interim Program and investment management. We continue to explore partnering with additional sources of third-party capital and acquiring additional investment management platforms, which will allow us to offer an expanded array of commercial real estate loan products to our clients as their financial needs evolve, while generating positive returns for the third-party capital. We believe that we have the structuring, underwriting, servicing, credit, and asset management expertise to expand these commercial real estate loan products and services and our investment management platform; and we believe that cash on hand, together with third-party financing sources and our continued cash generation, will allow us to meet client demand for additional products that are within our areas of expertise, including for our balance sheet or for our partnerships or future funds.

If we are successful in achieving all or most of the growth objectives noted above, we believe we can achieve the financial milestones by the end of 2020, generating at least \$1 billion of annual revenues.

Competition

We compete in the commercial real estate services industry. We are one of 25 approved lenders that participate in Fannie Mae's DUS program and one of 25 lenders approved as a Freddie Mac seller/servicer. We face significant competition across our business, including, but not limited to, commercial real estate services subsidiaries of large national commercial banks, privately-held and public commercial real estate service providers, CMBS conduits, public and private real estate investment trusts, private equity, investment funds, and insurance companies, some of which are also investors in loans we originate. Our competitors include, but are not limited to, Wells Fargo, N.A.; CBRE Group, Inc.; Jones Lang LaSalle Incorporated; Marcus & Millichap, Inc.; HFF, Inc.; Eastdil Secured (a subsidiary of Wells Fargo, N.A.); PNC Real Estate; Northmarq Capital, LLC; Newmark Realty Capital; and Berkadia Commercial Mortgage, LLC. Many of these competitors enjoy advantages over us, including greater name recognition, financial resources, well-established investment management platforms, and access to lower-cost capital.

The commercial real estate services subsidiaries of the large

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national commercial banks may have an advantage over us in originating commercial loans if borrowers already have other lending relationships with the bank.

We compete on the basis of quality of service, speed of execution, relationships, loan structure, terms, pricing, breadth of product offerings, and industry depth. Industry depth includes the knowledge of local and national real estate market conditions, loan product expertise, and the ability to analyze and manage credit risk. Our competitors seek to compete aggressively on these factors. Our success depends on our ability to offer attractive loan products, provide superior service, demonstrate industry depth, maintain and capitalize on relationships with investors, borrowers, and key loan correspondents, and remain competitive in pricing. In addition, future changes in laws, regulations, and Agency program requirements, increased investment from foreign entities, and consolidation in the commercial real estate finance market could lead to the entry of more competitors.

Regulatory Requirements

Our business is subject to laws and regulations in a number of jurisdictions. The level of regulation and supervision to which we are subject varies from jurisdiction to jurisdiction and is based on the type of business activities involved. The regulatory requirements that apply to our activities are subject to change from time to time and may become more restrictive, making our compliance with applicable requirements more difficult or expensive or otherwise restricting our ability to conduct our business in the manner that it is now conducted. Changes in applicable regulatory requirements, including changes in their enforcement, could materially and adversely affect us.

Federal and State Regulation of Commercial Real Estate Lending Activities

Our multifamily and commercial real estate lending, servicing, and asset management businesses are subject, in certain instances, to supervision and regulation by federal and state governmental authorities in the United States. In addition, these businesses may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions, which, among other things, regulate lending activities, regulate conduct with borrowers, establish maximum interest rates, finance charges, and other charges and require disclosures to borrowers. Although most states do not regulate commercial finance, certain states impose limitations on interest rates, as well as other charges on certain collection practices and creditor remedies. Some states also require licensing of lenders, loan brokers, and loan servicers and adequate disclosure of certain contract terms. We also are required to comply with certain provisions of, among other statutes and regulations, the USA PATRIOT Act, regulations promulgated by the Office of Foreign Asset Control, the Employee Retirement Income Security Act of 1974, as amended, which we refer to as "ERISA," and federal and state securities laws and regulations.

Requirements of the Agencies

To maintain our status as an approved lender for Fannie Mae and Freddie Mac and as a HUD-approved mortgagee and issuer of Ginnie Mae securities, we are required to meet and maintain various eligibility criteria from time to time established by the Agencies, such as minimum net worth, operational liquidity and collateral requirements, and compliance with reporting requirements. We also are required to originate our loans and perform our loan servicing functions in accordance with the applicable program requirements and guidelines from time to time established by the Agencies. If we fail to comply with the requirements of any of these programs, the Agencies may terminate or withdraw our approval. In addition, the Agencies have the authority under their guidelines to terminate a lender's authority to sell loans to them and service their loans. The loss of one or more of these approvals would have a material adverse impact on us and could result in further disqualification with other counterparties, and we may be required to obtain additional state lender or mortgage banker licensing to originate loans if that status is revoked.

Investment Advisers Act

Under the Investment Advisers Act of 1940, JCR is required to be registered as an investment adviser with the SEC and follow the various rules and regulations applicable to investment advisers. These rules and regulations cover, among

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other areas, communications with investors, marketing materials provided to potential investors, disclosure and calculation of fees, calculation and reporting of performance information, maintenance of books and records, and custody. Investment advisers are also subject to periodic inspection and examination by the SEC and filing requirements on Form ADV and Form PF. Should JCR not meet any of the requirements of the Investment Advisers Act, it could face, among other things, fines, penalties, legal proceedings, an order to cease and desist, or revocation of its registration.

Employees

At December 31, 2018, we employed 723 full-time employees. All employees, except our executive officers, are employed by our operating subsidiary, Walker & Dunlop, LLC. Our executive officers are employees of Walker & Dunlop, Inc. None of our employees is represented by a union or subject to a collective bargaining agreement, and we have never experienced a work stoppage. We believe that our employee relations are exceptional. For example, in 2018, we were ranked one of the best workplaces in the United States in Fortune's Great Place to Work® 2018 Best Medium Workplaces list. This is the sixth time in seven years that we have received this recognition.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). These filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>.

Our principal Internet website can be found at <http://www.walkeranddunlop.com>. The content within or accessible through our website is not part of this Annual Report on Form 10-K. We make available free of charge on or through our website, access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such material is electronically filed, or furnished, to the SEC.

Our website also includes a corporate governance section which contains our Corporate Governance Guidelines (which includes our Director Responsibilities and Qualifications), Code of Business Conduct and Ethics, Code of Ethics for Principal Executive Officer and Senior Financial Officers, Board of Directors' Committee Charters for the Audit, Compensation, and Nominating and Corporate Governance Committees, Complaint Procedures for Accounting and Auditing Matters, and the method by which interested parties may contact our Ethics Hotline.

In the event of any changes to these charters, codes, or guidelines, changed copies will also be made available on our website. If we waive or amend any provision of our code of ethics, we will promptly disclose such waiver or amendment as required by SEC or New York Stock Exchange (“NYSE”) rules. We intend to promptly post any waiver or amendment of our Code of Ethics for Principal Executive Officer and Senior Financial Officers to our website.

You may request a copy of any of the above documents, at no cost to you, by writing or telephoning us at: Walker & Dunlop, Inc., 7501 Wisconsin Avenue, Suite 1200E, Bethesda, Maryland 20814, Attention: Investor Relations, telephone (301) 215-5500. We will not send exhibits to these reports, unless the exhibits are specifically requested and you pay a modest fee for duplication and delivery.

Item 1A. Risk Factors.

Investing in our common stock involves risks. You should carefully consider the following risk factors, together with all the other information contained in this Annual Report on Form 10-K, before making an investment decision to purchase our common stock. The realization of any of the following risks could materially and adversely affect our business, prospects, financial condition, results of operations, and the market price and liquidity of our common stock, which could cause you to lose all or a significant part of your investment in our common stock. Some statements in this Annual Report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section titled “Forward-Looking Statements.”

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Risks Relating to Our Business

The loss of or changes in our relationships with the Agencies and institutional investors would adversely affect our ability to originate commercial real estate loans through the Agencies' programs, which would materially and adversely affect us.

Currently, we originate a significant percentage of our loans held for sale through the Agencies' programs. We are approved as a Fannie Mae DUS lender nationwide, a Freddie Mac seller/servicer nationwide, a Freddie Mac targeted affordable housing seller/servicer, a HUD MAP lender nationwide, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. Our status as an approved lender affords us a number of advantages and may be terminated by the applicable Agency at any time. The loss of such status would, or changes in our relationships could, prevent us from being able to originate commercial real estate loans for sale through the particular Agency, which would materially and adversely affect us. It could also result in a loss of similar approvals from the other Agencies.

We also broker loans on behalf of certain life insurance companies, investment banks, commercial banks, pension funds, CMBS conduits, and other institutional investors that directly underwrite and provide funding for the loans at closing. In cases where we do not fund the loan, we act as a loan broker. If these investors discontinue their relationship with us and replacement investors cannot be found on a timely basis, we could be adversely affected.

A change to the conservatorship of Fannie Mae and Freddie Mac and related actions, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. federal government or the existence of Fannie Mae and Freddie Mac, could materially and adversely affect our business.

Currently, we originate a majority of our loans for sale through the GSEs' programs. Additionally, a substantial majority of our servicing rights are derived from loans we sell through the GSEs' programs. Changes in the business charters, structure, or existence of one or both of the GSEs could eliminate or substantially reduce the number of loans we originate with the GSEs, which in turn would lead to a reduction in fees related to such loans. These effects would likely cause us to realize significantly lower revenues from our loan originations and servicing fees, and ultimately would have a material adverse impact on our business and financial results.

Conservatorships of the GSEs

In September 2008, the GSEs' regulator, the Federal Housing Finance Agency, (the "FHFA") placed each GSE into conservatorship. The conservatorship is a statutory process designed to preserve and conserve the GSEs' assets and property and put them in a sound and solvent condition. The conservatorships have no specified termination dates and there continues to be significant uncertainty regarding the future of the GSEs, including how long they will continue to exist in their current forms, the extent of their roles in the housing markets and whether or in what form they may exist following conservatorship.

Housing Finance Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. It is unclear at this time what the Trump Administration's goals are with respect to the future state of the GSEs.

Regulatory Reform

As the primary regulator of the GSEs, the FHFA has taken a number of steps during conservatorship to manage the GSEs' multifamily business activities. In 2013, the FHFA established limits on the volume of new multifamily loans that may be purchased annually by the GSEs. In November 2018, the FHFA announced that the GSE's 2019 multifamily loan purchases would be capped at \$35.0 billion for each GSE, with exceptions for loans in "affordable" and underserved

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market segments. These exemptions allowed Fannie Mae and Freddie Mac's 2018 lending volumes to reach \$65 billion and \$78 billion, respectively.

The current Director of the FHFA is serving in an "acting" capacity. A new permanent Director has been appointed by President Trump but has not yet been confirmed by the Senate. We cannot predict whether the acting director or new permanent director, once confirmed, will implement regulatory and other policy changes at FHFA that will modify the GSEs' multifamily businesses.

Legislative Reform

Congress has considered various housing finance reform bills since the GSEs went into conservatorship in 2008. Several of the bills have called for the winding down or receivership of the GSEs. We expect Congress to continue considering housing finance reform in the future, including conducting hearings and considering legislation that would alter the housing finance system. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs.

We are subject to risk of loss in connection with defaults on loans sold under the Fannie Mae DUS program that could materially and adversely affect our results of operations and liquidity.

Under the Fannie Mae DUS program, we originate and service multifamily loans for Fannie Mae without having to obtain Fannie Mae's prior approval for certain loans, as long as the loans meet the underwriting guidelines set forth by Fannie Mae. In return for the delegated authority to make loans and the commitment to purchase loans by Fannie Mae, we must maintain minimum collateral and generally are required to share risk of loss on loans sold through Fannie Mae. Under the full risk-sharing formula, we are required to absorb the first 5% of any losses on the unpaid principal balance of a loan at the time of loss settlement, and above 5% we are required to share the loss with Fannie Mae, with our maximum loss capped at 20% of the original unpaid principal balance of a loan. In addition, Fannie Mae can double or triple our risk-sharing obligations if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae. As of December 31, 2018, we had pledged securities of \$116.3 million as collateral against future losses under \$32.5 billion of loans outstanding that are subject to risk-sharing obligations, as more fully described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," which we refer to as our "at risk balance." Fannie Mae collateral requirements may change in the future. As of December 31, 2018, our allowance for risk-sharing as a percentage of the at risk balance was 0.01%, or \$4.6 million, and reflects our current estimate of our future expected payouts under our risk-sharing obligations. Additionally, we have a guaranty obligation of \$46.9 million as of December 31, 2018. The guaranty obligation and the allowance for risk-sharing obligations as a percentage of the at risk balance was 0.8% as of December 31, 2018. We cannot ensure that our estimate of the allowance for risk-sharing obligations will be sufficient to cover future write offs. Other factors may also affect a borrower's decision to default on a loan, such as property, cash flow, occupancy, maintenance needs, and other financing obligations. As of December 31, 2018, there were two loans with an aggregate unpaid principal balance of \$11.1 million in our at risk servicing portfolio that had

defaulted, representing 0.03% of our at risk servicing portfolio. If loan defaults increase, actual risk-sharing obligation payments under the Fannie Mae DUS program may increase, and such defaults and payments could have a material adverse effect on our results of operations and liquidity. In addition, any failure to pay our share of losses under the Fannie Mae DUS program could result in the revocation of our license from Fannie Mae and the exercise of various remedies available to Fannie Mae under the Fannie Mae DUS program.

The number of delinquent and/or defaulted loans could increase, which could have a material adverse effect on us.

As a loan servicer, we maintain the primary contact with the borrower throughout the life of the loan and are responsible, pursuant to our servicing agreements with the Agencies and institutional investors, for asset management. We are also responsible, together with the applicable Agency or institutional investor, for taking actions to mitigate losses. Our asset management process may be unsuccessful in identifying loans that are in danger of underperforming or defaulting or in taking appropriate action once those loans are identified. While we can recommend a loss mitigation strategy for the Agencies, decisions regarding loss mitigation are within the control of the Agencies. Previous turmoil in the real estate,

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credit and capital markets have made this process even more difficult and unpredictable. When loans become delinquent, we incur additional expenses in servicing and asset managing the loan and are typically required to advance principal and interest payments and tax and insurance escrow amounts. We also could be subject to a loss of our contractual servicing fee and we could suffer losses of up to 20% (or more for loans that do not meet specific underwriting criteria or default within 12 months) of the original unpaid principal balance of a Fannie Mae DUS loan with full risk-sharing. These items could have a negative impact on our cash flows and a negative effect on the net carrying value of the mortgage servicing right (“MSR”) on our balance sheet and could result in a charge to our earnings. Because of the foregoing, a rise in delinquencies could have a material adverse effect on us.

A reduction in the prices paid for our loans and services or an increase in loan or security interest rates required by investors could materially and adversely affect our results of operations and liquidity.

Our results of operations and liquidity could be materially and adversely affected if the Agencies or institutional investors lower the price they are willing to pay to us for our loans or services or adversely change the material terms of their loan purchases or service arrangements with us. Multiple factors determine the price we receive for our loans. With respect to Fannie Mae-related originations, our loans are generally sold as Fannie Mae-insured securities to third-party investors. With respect to HUD related originations, our loans are generally sold as Ginnie Mae securities to third-party investors. In both cases, the price paid to us reflects, in part, the competitive market bidding process for these securities.

We sell loans directly to Freddie Mac. Freddie Mac may choose to hold, sell or later securitize such loans. We believe terms set by Freddie Mac are influenced by similar market factors as those that impact the price of Fannie Mae-insured or Ginnie Mae securities, although the pricing process differs. With respect to loans that are placed with institutional investors, the origination fees that we receive from borrowers are determined through negotiations, competition, and other market conditions.

Loan servicing fees are based, in part, on the risk-sharing obligations associated with the loan and the market pricing of credit risk. The credit risk premium offered by Fannie Mae for new loans can change periodically but remains fixed once we enter into a commitment to sell the loan. Over the past several years, Fannie Mae loan servicing fees have generally been higher principally due to the market pricing of credit risk. There can be no assurance that such fees will continue to remain at such levels or that such levels will be sufficient if delinquencies occur.

Servicing fees for loans placed with institutional investors are negotiated with each institutional investor pursuant to agreements that we have with them. These fees for new loans vary over time and may be materially and adversely affected by a number of factors, including competitors that may be willing to provide similar services at lower rates.

A significant portion of our revenue is derived from loan servicing fees, and declines in or terminations of servicing engagements or breaches of servicing agreements, including from non-performance by third parties that we engage for back-office loan servicing functions, could have a material adverse effect on us.

We expect that loan servicing fees will continue to constitute a significant portion of our revenues for the foreseeable future. Nearly all of these fees are derived from loans that we originate and sell through the Agencies' programs or place with institutional investors. A decline in the number or value of loans that we originate for these investors or terminations of our servicing engagements will decrease these fees. HUD has the right to terminate our current servicing engagements for cause. In addition to termination for cause, Fannie Mae and Freddie Mac may terminate our servicing engagements without cause by paying a termination fee. Our institutional investors typically may terminate our servicing engagements at any time with or without cause, without paying a termination fee. We are also subject to losses that may arise from servicing errors, such as a failure to maintain insurance, pay taxes, or provide notices. In addition, we have contracted with a third party to perform certain routine back-office aspects of loan servicing. If we or this third party fails to perform, or we breach or the third-party causes us to breach our servicing obligations to the Agencies or institutional investors, our servicing engagements may be terminated. Declines or terminations of servicing engagements or breaches of such obligations could materially and adversely affect us.

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If one or more of our warehouse facilities, on which we are highly dependent, are terminated, we may be unable to find replacement financing on favorable terms, or at all, which would have a material adverse effect on us.

We require a significant amount of short-term funding capacity for loans we originate. As of December 31, 2018, we had \$2.9 billion of committed and uncommitted loan funding available through six commercial banks and \$1.5 billion of uncommitted funding available through Fannie Mae's As Soon As Pooled ("ASAP") program. Additionally, consistent with industry practice, five of our existing warehouse facilities are short-term, requiring annual renewal. If any of our committed facilities are terminated or are not renewed or our uncommitted facilities are not honored, we may be unable to find replacement financing on favorable terms, or at all, and we might not be able to originate loans, which would have a material adverse effect on us. Additionally, as our business continues to expand, we may need additional warehouse funding capacity for loans we originate. There can be no assurance that, in the future, we will be able to obtain additional warehouse funding capacity on favorable terms, on a timely basis, or at all.

If we fail to meet or satisfy any of the financial or other covenants included in our warehouse facilities, we would be in default under one or more of these facilities and our lenders could elect to declare all amounts outstanding under the facilities to be immediately due and payable, enforce their interests against loans pledged under such facilities and restrict our ability to make additional borrowings. These facilities also contain cross-default provisions, such that if a default occurs under any of our debt agreements, generally the lenders under our other debt agreements could also declare a default. These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which could materially and adversely affect us. There can be no assurance that we will maintain compliance with all financial and other covenants included in our warehouse facilities in the future.

We are subject to the risk of failed loan deliveries, and even after a successful closing and delivery, may be required to repurchase the loan or to indemnify the investor if there is a breach of a representation or warranty made by us in connection with the sale of loans through the programs of the Agencies, any of which could have a material adverse effect on us.

We bear the risk that a borrower will choose not to close on a loan that has been pre-sold to an investor or that the investor will choose not to take delivery of the loan, including because a catastrophic change in the condition of a property occurs after we fund the loan and prior to the investor purchase date. We also have the risk of serious errors in loan documentation which prevent timely delivery of the loan prior to the investor purchase date. A complete failure to deliver a loan could be a default under the warehouse line used to finance the loan. We can provide no assurance that we will not experience failed deliveries in the future or that any losses will not be material or will be mitigated through property insurance or payment protections.

We must make certain representations and warranties concerning each loan originated by us for the Agencies' programs. The representations and warranties relate to our practices in the origination and servicing of the loans and the accuracy of the information being provided by us. For example, we are generally required to provide the following, among other, representations and warranties: we are authorized to do business and to sell or assign the

loan; the loan conforms to the requirements of the Agencies and certain laws and regulations; the underlying mortgage represents a valid lien on the property and there are no other liens on the property; the loan documents are valid and enforceable; taxes, assessments, insurance premiums, rents and similar other payments have been paid or escrowed; the property is insured, conforms to zoning laws and remains intact; and we do not know of any issues regarding the loan that are reasonably expected to cause the loan to be delinquent or unacceptable for investment or adversely affect its value. We are permitted to satisfy certain of these representations and warranties by furnishing a title insurance policy.

In the event of a breach of any representation or warranty concerning a loan, investors could, among other things, require us to repurchase the full amount of the loan and seek indemnification for losses from us, or, for Fannie Mae DUS loans, increase the level of risk-sharing on the loan. Our obligation to repurchase the loan is independent of our risk-sharing obligations. The Agencies could require us to repurchase the loan if representations and warranties are breached, even if the loan is not in default. Because the accuracy of many such representations and warranties generally is based on

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our actions or on third-party reports, such as title reports and environmental reports, we may not receive similar representations and warranties from other parties that would serve as a claim against them. Even if we receive representations and warranties from third parties and have a claim against them in the event of a breach, our ability to recover on any such claim may be limited. Our ability to recover against a borrower that breaches its representations and warranties to us may be similarly limited. Our ability to recover on a claim against any party would also be dependent, in part, upon the financial condition and liquidity of such party. There can be no assurance that we, our employees or third parties will not make mistakes that would subject us to repurchase or indemnification obligations. Any significant repurchase or indemnification obligations imposed on us could have a material adverse effect on us.

We have made preferred equity investments and investments in interim loans, both of which are funded with corporate capital. These investments may involve a greater risk of loss than our traditional real estate lending activities.

We have made preferred equity investments in entities owning real estate in the past. Such investments are subordinate to debt financing and are not secured by property. If the issuer of the preferred equity defaults on our investment, in most instances we would only be able to proceed against the entity that issued the equity in accordance with the terms of the investment, and not any property owned by the entity. As a result, we may not recover some or all of our invested capital, which could result in losses to the Company. As of December 31, 2018, we had no preferred equity investments.

Under the Interim Program, we offer short-term, floating-rate loans to borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing. Such a borrower under an interim loan often has identified a transitional asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the interim loan, and we bear the risk that we may not recover some or all of the loan balance. In addition, borrowers usually use the proceeds of a long-term mortgage loan to repay an interim loan. We may therefore be dependent on a borrower's ability to obtain permanent financing to repay our interim loan, which could depend on market conditions and other factors. Further, interim loans may be relatively less liquid than loans against stabilized properties due to their short life, their potential unsuitability for securitization, any unstabilized nature of the underlying real estate and the difficulty of recovery in the event of a borrower's default. This lack of liquidity may significantly impede our ability to respond to adverse changes in the performance of loans in the Interim Program and may adversely affect the fair value of such loans and the proceeds from their disposition. Carrying loans for longer periods of time on our balance sheet exposes us to greater risks of loss than we currently face for loans that are pre-sold or placed with investors, including, without limitation, 100% exposure for defaults and impairment charges, which may adversely affect our profitability. At December 31, 2018, the outstanding principal balance of \$503.5 million of loans held by us under the Interim Program was the largest it has ever been. One loan in the portfolio totaled \$150.0 million, which is the largest interim loan we have ever made.

Our business is significantly affected by general business, economic and market conditions and cycles, particularly in the multifamily and commercial real estate industry, including changes in government fiscal and monetary policies, and, accordingly, we could be materially harmed in the event of a market downturn or changes in government policies

or the operating status of the government.

We are sensitive to general business, economic and market conditions and cycles, particularly in the multifamily and commercial real estate industry. These conditions include changes in short-term and long-term interest rates, inflation and deflation, fluctuations in the real estate and debt capital markets and developments in national and local economies, unemployment rates, commercial property vacancy rates, and rental rates. Any sustained period of weakness or weakening business or economic conditions in the markets in which we do business or in related markets could result in a decrease in the demand for our loans and services, which could materially harm us. In addition, the number of borrowers who become delinquent, become subject to bankruptcy or default on their loans could increase, resulting in a decrease in the value of our MSRs, higher levels of servicer advances, and loss on our Fannie Mae loans for which we share risk of loss, and could materially and adversely affect us.

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We also are significantly affected by the fiscal, monetary, and budgetary policies of the U.S. government and its agencies and the operating status of the U.S. government. In particular, we are affected by the policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), which regulates the supply of money and credit in the United States. The Federal Reserve’s policies affect interest rates, which can have a significant impact on the demand for multifamily and commercial real estate loans. Significant fluctuations in interest rates as well as protracted periods of increases or decreases in interest rates could adversely affect the operation and income of multifamily and commercial real estate properties, as well as the demand from investors for multifamily and commercial real estate debt in the secondary market. Higher interest rates may decrease the number of loans originated. An increase in interest rates could cause refinancing of existing loans to become less attractive and qualifying for a loan to become more difficult. Budgetary policies also impact our ability to originate loans, particularly if it has a negative impact on the ability of the Agencies to do business with us. During periods of limited or no U.S. government operations, our ability to originate HUD loans may be severely constrained. Changes in fiscal, monetary, and budgetary policies and the operating status of the U.S. government are beyond our control, are difficult to predict, and could materially and adversely affect us.

We are dependent upon the success of the multifamily real estate sector and conditions that negatively impact the multifamily sector may reduce demand for our products and services and materially and adversely affect us.

We provide commercial real estate financial products and services primarily to developers and owners of multifamily properties. Accordingly, the success of our business is closely tied to the overall success of the multifamily real estate market. Various changes in real estate conditions may impact the multifamily sector. Any negative trends in such real estate conditions may reduce demand for our products and services and, as a result, adversely affect our results of operations. These conditions include:

- oversupply of, or a reduction in demand for, multifamily housing;
- a change in policy or circumstances that may result in a significant number of potential residents of multifamily properties deciding to purchase homes instead of renting;
- rent control or stabilization laws, or other laws regulating multifamily housing, which could affect the profitability of multifamily developments;
- the inability of residents and tenants to pay rent;
- changes in the tax code related to investment real estate;
- increased competition in the multifamily sector based on considerations such as the attractiveness, location, rental rates, amenities, and safety record of various properties; and
- increased operating costs, including increased real property taxes, maintenance, insurance, and utilities costs.

Moreover, other factors may adversely affect the multifamily sector, including changes in government regulations and other laws, rules and regulations governing real estate, zoning or taxes, changes in interest rate levels, the potential liability under environmental and other laws, and other unforeseen events. Any or all of these factors could negatively impact the multifamily sector and, as a result, reduce the demand for our products and services. Any such reduction could materially and adversely affect us.

The loss of our key management could result in a material adverse effect on our business and results of operations.

Our future success depends to a significant extent on the continued services of our senior management, particularly William Walker, our Chairman and Chief Executive Officer. The loss of the services of any of these individuals could have a material adverse effect on our business and results of operations. We maintain “key person” life insurance only on Mr. Walker, and the insurance proceeds from such insurance may be insufficient to cover the cost associated with recruiting a new Chief Executive Officer.

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Our growth strategy relies upon our ability to hire and retain qualified loan originators, and if we are unable to do so, our growth could be limited.

We depend on our loan originators to generate borrower clients by, among other things, developing relationships with commercial property owners, real estate agents and brokers, developers and others, which we believe leads to repeat and referral business. Accordingly, we must be able to attract, motivate and retain skilled loan originators. The market for loan originators is highly competitive and may lead to increased costs to hire and retain them. We cannot guarantee that we will be able to attract or retain qualified loan originators. If we cannot attract, motivate or retain a sufficient number of skilled loan originators, or if our hiring and retention costs increase, we could be materially and adversely affected.

We have numerous significant competitors and potential future competitors, some of which may have greater resources and access to capital than we do; consequently, we may not be able to compete effectively in the future.

We continue to face significant competition from other commercial real estate service providers, commercial banks, CMBS conduit lenders, and life insurance companies, some of which are also investors in loans we originate. Many of these competitors may enjoy competitive advantages over us, including:

- greater name recognition;
- a larger, more established network of correspondents and loan originators;
- established relationships with institutional investors;
- access to lower cost and more stable funding sources;
- an established market presence in markets where we do not yet have a presence or where we have a smaller presence;
- ability to diversify and grow by providing a greater variety of commercial real estate loan products on more attractive terms, some of which require greater access to capital and the ability to retain loans on the balance sheet; and
- greater financial resources and access to capital to develop branch offices and compensate key employees.

Commercial banks may have an advantage over us in originating loans if borrowers already have a line of credit or construction financing with the bank. Commercial real estate service providers may have an advantage over us to the extent they also offer a larger or more comprehensive investment sales platform. We compete based on quality of service, relationships, loan structure, terms, pricing, and industry depth. Industry depth includes the knowledge of local and national real estate market conditions, commercial real estate expertise, loan product expertise, and the ability to analyze and manage credit risk. Our competitors seek to compete aggressively on the basis of these factors and our success depends on our ability to offer attractive loan products, provide superior service, demonstrate industry depth, maintain and capitalize on relationships with investors, borrowers and key loan correspondents and remain competitive in pricing. In addition, future changes in laws, regulations, and Agency program requirements and consolidation in the commercial real estate finance market could lead to the entry of more competitors. We cannot guarantee that we will be able to compete effectively in the future, and our failure to do so would materially and

adversely affect us.

We have grown our business through corporate acquisitions. We intend to drive a significant portion of our future growth through additional acquisitions. If we do not successfully identify and complete such acquisitions, our growth may be limited. Additionally, continued growth in our business may place significant demands on our administrative, operational, and financial resources.

We have completed several corporate acquisitions in recent years that have expanded our pre-existing product lines and services, increased our origination capacity, broadened our geographic coverage, and diversified our product offerings. We intend to pursue continued growth by acquiring complementary businesses, but we cannot guarantee such efforts will be successful. We do not know whether the favorable conditions that enabled our recent growth will continue.

In addition, if our growth continues, it could increase our expenses and place additional demands on our management, personnel, information systems, and other resources. Sustaining our growth could require us to commit additional

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management, operational and financial resources to maintain appropriate operational and financial systems to adequately support expansion. There can be no assurance that we will be able to manage any growth effectively and any failure to do so could adversely affect our ability to generate revenue and control our expenses, which could materially and adversely affect us.

The integration of any companies that we may acquire or start up in the future, including investments in new ventures and new lines of business, may be difficult, resulting in high transaction, start-up, and integration costs. Additionally, the integration process may be disruptive to our business, and the acquired businesses or new venture may not perform as we expect.

Our future success depends, in part, on our ability to expand or modify our business in response to changing borrower demands and competitive pressures. In some circumstances, we may determine to do so through the acquisition of complementary businesses or investments in new ventures rather than through internal growth.

In the future, we may explore additional strategic acquisitions or investments. The identification of suitable acquisition candidates and new ventures can be difficult, time consuming and costly, and we may not be able to successfully complete identified acquisitions or investments in new ventures on favorable terms, or at all. Furthermore, even if we successfully complete an acquisition or an investment, we may not be able to successfully integrate newly acquired businesses or new investments into our operations, and the process of integration could be expensive and time consuming and may strain our resources. Acquisitions or new investments also typically involve significant costs related to integrating information technology, accounting, reporting, and management services and rationalizing personnel levels and may require significant time to obtain new or updated regulatory approvals from the Agencies and other federal and state authorities. Acquisitions or new ventures could divert management's attention from the regular operations of our business and result in the potential loss of our key personnel, and we may not achieve the anticipated benefits of the acquisitions or new investments, any of which could materially and adversely affect us. In addition, future acquisitions or new investments could result in significantly dilutive issuances of equity securities or the incurrence of substantial debt, contingent liabilities, or expenses or other charges, which could also materially and adversely affect us.

Risks Relating to Regulatory Matters

If we fail to comply with the numerous government regulations and program requirements of the Agencies, we may lose our approved lender status with these entities and fail to gain additional approvals or licenses for our business. We are also subject to changes in laws, regulations and existing Agency program requirements, including potential increases in reserve and risk retention requirements that could increase our costs and affect the way we conduct our business, which could materially and adversely affect us.

Our operations are subject to regulation by federal, state, and local government authorities, various laws and judicial and administrative decisions, and regulations and policies of the Agencies. These laws, regulations, rules, and policies impose, among other things, minimum net worth, operational liquidity and collateral requirements. Fannie Mae requires us to maintain operational liquidity based on a formula that considers the balance of the loan and the level of credit loss exposure (level of risk-sharing). Fannie Mae requires us to maintain collateral, which may include pledged securities, for our risk-sharing obligations. The amount of collateral required under the Fannie Mae DUS program is calculated at the loan level and is based on the balance of the loan, the level of risk-sharing, the seasoning of the loan, and our rating.

Regulatory authorities also require us to submit financial reports and to maintain a quality control plan for the underwriting, origination and servicing of loans. Numerous laws and regulations also impose qualification and licensing obligations on us and impose requirements and restrictions affecting, among other things: our loan originations; maximum interest rates, finance charges and other fees that we may charge; disclosures to consumers; the terms of secured transactions; debt collection; personnel qualifications; and other trade practices. We also are subject to inspection by the Agencies and regulatory authorities. Our failure to comply with these requirements could lead to, among other things, the loss of a license as an approved Agency lender, the inability to gain additional approvals or licenses, the termination of contractual

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rights without compensation, demands for indemnification or loan repurchases, class action lawsuits and administrative enforcement actions.

Regulatory and legal requirements are subject to change. For example, Fannie Mae increased its collateral requirements, on loans classified by Fannie Mae as Tier II, from 60 basis points to 75 basis points, effective as of January 1, 2013, which applied to a large portion of our outstanding Fannie Mae at risk portfolio. The incremental collateral required for existing loans was funded over a two-year period ending December 31, 2014. The incremental requirement for any newly originated Fannie Mae Tier II loans will be funded over the 48 months subsequent to the sale of the loan to Fannie Mae. Fannie Mae has indicated that it may increase collateral requirements in the future, which may adversely impact us.

If we fail to comply with laws, regulations and market standards regarding the privacy, use, and security of customer information, or if we are the target of a successful cyber-attack, we may be subject to legal and regulatory actions and our reputation would be harmed.

We receive, maintain, and store non-public personal information of our loan applicants. The technology and other controls and processes designed to secure our customer information and to prevent, detect, and remedy any unauthorized access to that information were designed to obtain reasonable, not absolute, assurance that such information is secure and that any unauthorized access is identified and addressed appropriately. We are not aware of any data breaches, successful hacker attacks, unauthorized access and misuse, or significant computer viruses affecting our networks that may have occurred in the past; however, our controls may not have detected, and may in the future fail to prevent or detect, unauthorized access to our borrower information. In addition, we are exposed to the risks of denial-of-service (“DOS”) attacks and damage to or destruction of our network or other information systems. A successful DOS attack or damage to our systems could result in a delay in the processing of our business, or even lost business. Additionally, we could incur significant costs associated with the recovery from a DOS attack or damage to our systems.

If borrower information is inappropriately accessed and used by a third party or an employee for illegal purposes, such as identity theft, we may be responsible to the affected applicant or borrower for any losses he or she may have incurred as a result of misappropriation. In such an instance, we may be liable to a governmental authority for fines or penalties associated with a lapse in the integrity and security of our customers' information. Additionally, if we are the target of a successful cyber-attack, we may experience reputational harm that could impact our standing with our borrowers and adversely impact our financial results.

We regularly update our existing information technology systems and install new technologies when deemed necessary and provide employee awareness training around phishing, malware, and other cyber risks and physical security to address the risk of cyber-attacks and other security breaches. However, such preventative measures may not be sufficient to prevent future cyber-attacks or a breach of customer information.

Risks Related to Our Common Stock

The trading and market price of our common stock may be volatile and could decline substantially.

The stock markets, including the NYSE (on which our common stock is listed), have at times experienced significant price and volume fluctuations. As a result, the trading and market price of our common stock is likely to be similarly volatile and subject to wide fluctuations, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance. The market price of our common stock could decline substantially in response to a number of factors, including (in no particular order):

- our actual or anticipated financial condition, liquidity and operating performance;
- actual or anticipated changes in our business and growth strategies or the success of their implementation;
- failure to meet, or changes in, earnings estimates of stock analysts;
- publication of research reports about us, the commercial real estate finance market or the real estate industry;
- equity issuances by us, or stock resales by our stockholders, or the perception that such issuances or resales

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could occur;

- the passage of adverse legislation or other regulatory developments, including those from or affecting the Agencies;
- general business, economic and market conditions and cycles;
- changes in market valuations of similar companies;
- additions to or departures of our key personnel;
- actions by our stockholders;
- actual, potential, or perceived accounting problems or changes in accounting principles;
- failure to satisfy the listing requirements of the NYSE;
- failure to comply with the requirements of the Sarbanes-Oxley Act;
- speculation in the press or investment community; and
- the realization of any of the other risk factors presented in this Annual Report on Form 10-K.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have a material adverse effect on our ability to execute our business and growth strategies.

Future issuances of debt securities, which would rank senior to our common stock upon our liquidation, and future issuances of equity securities, which would dilute the holdings of our existing common stockholders and may be senior to our common stock for the purposes of paying dividends, periodically or upon liquidation, may negatively affect the market price of our common stock.

In the future, we may issue debt or equity securities or incur other borrowings. Upon liquidation, holders of our debt securities and other loans and preferred stock will receive a distribution of our available assets before common stockholders. We are not required to offer any such additional debt or equity securities to existing common stockholders on a preemptive basis. Therefore, additional common stock issuances, directly or through convertible or exchangeable securities, warrants or options, could dilute our existing common stockholders' ownership in us and such issuances, or the perception that such issuances may occur, may reduce the market price of our common stock. Our preferred stock, if issued, would likely have a preference on dividend payments, periodically or upon liquidation, which could eliminate or otherwise limit our ability to pay dividends to common stockholders. Because our decision to issue debt or equity securities or otherwise incur debt in the future will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, nature or success of our future capital raising efforts. Thus, common stockholders bear the risk that our future issuances of debt or equity securities or our other borrowing will negatively affect the market price of our common stock and dilute their ownership in us.

Risks Related to Our Organization and Structure

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law (the “MGCL”) may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price of our common stock. We will be subject to the “business combination” provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of our then outstanding voting capital stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting capital stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by holders of outstanding shares of

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our voting capital stock; and (ii) two-thirds of the votes entitled to be cast by holders of voting capital stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder.

The “control share” provisions of the MGCL provide that “control shares” of a Maryland corporation (defined as shares which, when aggregated with other shares controlled by the stockholder (except solely by virtue of a revocable proxy) entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct and indirect acquisition of ownership or control of issued and outstanding "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes entitled to be cast by the acquirer of control shares, our officers and our personnel who are also our directors.

Certain provisions of the MGCL permit our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to adopt certain mechanisms, some of which (for example, a classified board) we do not yet have. These provisions may have the effect of limiting or precluding a third party from making an acquisition proposal for us or of delaying, deferring or preventing a transaction or a change in control of our company under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then current market price. Our charter contains a provision whereby we elect, at such time as we become eligible to do so, to be subject to the provisions of Title 3, Subtitle 8 of the MGCL relating to the filling of vacancies on our board of directors.

Our authorized but unissued shares of common and preferred stock may prevent a change in our control.

Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of common or preferred stock that could delay, defer, or prevent a transaction or a change in control of our company that might involve a premium price for shares of our common stock or otherwise be in the best interests of our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit our stockholders’ recourse in the event actions are taken that are not in our stockholders’ best interests.

Under Maryland law generally, a director is required to perform his or her duties in good faith, in a manner he or she reasonably believes to be in the best interests of the Company and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Under Maryland law, directors are presumed to have acted with this standard of care. In addition, our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- active and deliberate dishonesty by the director or officer that was established by a final judgment as being material to the cause of action adjudicated.

Our charter and bylaws obligate us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. In addition, we are obligated to advance the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and

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officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with companies domiciled in jurisdictions other than Maryland.

Our charter contains limitations on our stockholders' ability to remove our directors, which could make it difficult for our stockholders to effect changes to our management.

Our charter provides that a director may only be removed for cause upon the affirmative vote of holders of two-thirds of the votes entitled to be cast in the election of directors. Vacancies may be filled only by a majority of the remaining directors in office, even if less than a quorum. These requirements make it more difficult to change our management by removing and replacing directors and may delay, defer, or prevent a change in control of our company that is in the best interests of our stockholders.

We are a holding company with minimal direct operations and rely largely on funds received from our subsidiaries for our cash requirements.

We are a holding company and conduct the majority of our operations through Walker & Dunlop, LLC, our operating company. We do not have, apart from our ownership of this operating company and certain other subsidiaries, any significant independent operations. As a result, we rely on distributions from our operating company to pay any dividends we might declare on shares of our common stock. We also rely largely on distributions from this operating company to meet any of our cash requirements, including our tax liability on taxable income allocated to us and debt payments.

In addition, because we are a holding company, any claims from common stockholders are structurally subordinated to all existing and future liabilities (whether or not for borrowed money) and any preferred equity of our operating company. Therefore, in the event of our bankruptcy, liquidation or reorganization, our assets and those of our operating company will be able to satisfy the claims of our common stockholders only after all of our and our operating company's liabilities and any preferred equity have been paid in full.

Risks Related to Our Financial Statements

Our financial statements are based in part on assumptions and estimates which, if wrong, could result in unexpected cash and non-cash losses in the future, and our financial statements depend on our internal control over financial reporting.

Pursuant to U.S. GAAP, we are required to use certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves and the fair value of MSRs, among other items. We make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management judgment. These and other assets and liabilities may have no direct observable price levels, making their valuation particularly subjective as they are based on significant estimation and judgment. Several of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If assumptions or estimates underlying our financial statements are incorrect, losses may be greater than those expectations.

The Sarbanes-Oxley Act requires our management to evaluate our disclosure controls and procedures and its internal control over financial reporting and requires our auditors to issue a report on our internal control over financial reporting. We are required to disclose, in our Annual Report on Form 10-K, the existence of any “material weaknesses” in our internal control over financial reporting. We cannot assure that we will not identify one or more material weaknesses as of the end of any given quarter or year, nor can we predict the effect on our stock price of disclosure of a material weakness.

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Our existing goodwill could become impaired, which may require us to take significant non-cash charges.

Under current accounting guidelines, we evaluate our goodwill for potential impairment annually or more frequently if circumstances indicate impairment may have occurred. In addition to the annual impairment evaluation, we evaluate at least quarterly whether events or circumstances have occurred in the period subsequent to the annual impairment testing which indicate that it is more likely than not an impairment loss has occurred. Any impairment of goodwill as a result of such analysis would result in a non-cash charge against earnings, which charge could materially adversely affect our reported results of operations, stockholders' equity, and our stock price.

* * *

Any factor described in this filing or in any of our other SEC filings could by itself, or together with other factors, adversely affect our financial results and condition. Refer to our quarterly reports on Form 10-Q filed with the SEC in 2018 for material changes to the above discussion of risk factors.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal headquarters are located in Bethesda, Maryland. We currently maintain an additional 28 offices across the country. Most of our offices are small, loan origination and investment sales offices. The majority of our real estate services activity occurs in our corporate headquarters and our office in Needham, Massachusetts. We believe that our facilities are adequate for us to conduct our present business activities.

All of our office space is leased. The most significant terms of the lease arrangements for our office space are the length of the lease and the amount of the rent. Our leases have terms varying in duration as a result of differences in prevailing market conditions in different geographic locations, with the longest leases generally expiring in 2023. We do not believe that any single office lease is material to us. In addition, we believe there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our results of operations and cash flows when we execute new leases.

Item 3. 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 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Our common stock trades on the NYSE under the symbol "WD." In connection with our initial public offering, our common stock began trading on the NYSE on December 15, 2010. As of the close of business on January 31, 2019, there were 19 stockholders of record. We believe that the number of beneficial holders is much greater.

Dividend Policy

During 2018, our Board of Directors declared, and we paid, four quarterly dividends totaling \$1.00 per share. These dividend payments represent the first such payment of dividends since our initial public offering in December 2010. In February 2019, our Board of Directors declared a dividend for the first quarter of 2019 of \$0.30 per share, a 20% increase over the dividend declared for the fourth quarter of 2018. We expect to make regular quarterly dividend payments for the foreseeable future.

Our current and projected dividends provide a return to shareholders while retaining sufficient capital to continue investing in the growth of our business. Our Term Loan (defined in Item 7 below) contains direct restrictions to the amount of dividends we may pay, and our warehouse debt facilities and agreements with the Agencies contain minimum equity, liquidity, and other capital requirements that indirectly restrict the amount of dividends we may pay. While the dividend level remains a decision of our Board of Directors, it is subject to these direct and indirect restrictions, and will continue to be evaluated in the context of future business performance. We currently believe that we can support future annual dividend payments, barring significant unforeseen events.

Stock Performance Graph

The following chart graphs our performance in the form of a cumulative five-year total return to holders of our common stock since December 31, 2013 in comparison to the Standard and Poor's ("S&P") 500 and the S&P 600 Small Cap Financials Index for that same five-year period. We believe that the S&P 600 Small Cap Financials Index is an appropriate index to compare us with other companies in our industry and that it is a widely recognized and used index for which components and total return information are readily accessible to our security holders to assist in their understanding of our performance relative to other companies in our industry.

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The comparison below assumes \$100 was invested on December 31, 2013 in our common stock and in each of the indices shown and assumes that all dividends were reinvested. Our stock price performance shown in the following graph is not indicative of future performance or relative performance in comparison to the indices.

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 minimum tax withholding obligations at the time of vesting or exercise by allowing the Company to withhold and purchase the shares of stock otherwise issuable to the grantee. For the quarter and year ended December 31, 2018, we purchased 15 thousand shares and 228 thousand shares, respectively, to satisfy grantee tax withholding obligations. Additionally, we purchased 244 thousand shares in the first quarter of 2018 as part of a share repurchase program that began in 2017 and ended in February 2018. In February 2018, our Board of Directors authorized the repurchase of \$50.0 million of shares of our common stock over a 12-month period as part of the share repurchase program. The Company had \$4.4 million of authorized share repurchase capacity remaining as of December 31, 2018. The following table provides information regarding common stock repurchases for the quarter and year ended December 31, 2018:

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
1st Quarter	435,607	\$ 49.12	243,865	
2nd Quarter	—	\$ N/A	—	
3rd Quarter	96,690	\$ 54.35	74,994	
October 1-31, 2018	—	\$ —	—	
November 1-30, 2018	469,529	46.30	465,000	
December 1-31, 2018	474,858	43.01	464,846	
4th Quarter	944,387	\$ 44.65	929,846	\$ 4,413,003
Total	1,476,684		1,248,705	

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Securities Authorized for Issuance Under Equity Compensation Plans

For information regarding securities authorized for issuance under our employee stock-based compensation plans, see Part III, Item 12.

Item 6. Selected Financial Data

The selected historical financial information as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014 has been derived from our audited historical financial statements. The selected historical financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017, and 2016, and the related notes, all contained elsewhere in this Annual Report on Form 10-K. The significant reduction in the Company’s effective tax rate for the year ended December 31, 2017 and the reduction in the Company’s statutory federal rate for the year ended December 31, 2018 are more fully discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations” in Item 7 below.

As more fully discussed in NOTES 2 and 12 to the consolidated financial statements, for the years ended December 31, 2017, 2016, and 2015, basic and diluted earnings per share amounts and basic weighted-average and diluted weighted-average shares outstanding have been corrected from amounts previously reported in prior Annual Reports on Form 10-K to properly reflect the two-class method. In addition, the basic and diluted earnings per share amounts and basic weighted-average and diluted weighted-average shares outstanding for December 31, 2018 have been corrected from amounts previously reported in our earnings release on Current Report on Form 8-K dated February 6, 2019 (“2019 8-K”) to properly reflect the two-class method. Basic and diluted EPS for the year ended December 31, 2018 as reported on the 2019 8-K were \$0.20 and \$0.08 higher, respectively, than the amounts shown below. The correction of the error had no impact to Walker & Dunlop net income, Total equity, or our cash flows as of and for the years ended December 31, 2018, 2017, 2016, and 2015.

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SELECTED FINANCIAL DATA

(dollars in thousands, except
per share amounts)

Statement of Income Data	As of and For the Year Ended December 31,				
	2018	2017	2016	2015	2014
Revenues					
Gains from mortgage banking activities	\$ 407,082	\$ 439,370	\$ 367,185	\$ 290,466	\$ 221,983
Servicing fees	200,230	176,352	140,924	114,757	98,414
Net warehouse interest income, loans held for sale	5,993	15,077	16,245	14,541	11,343
Net warehouse interest income, loans held for investment	8,038	9,390	7,482	9,419	6,151
Escrow earnings and other interest income	42,985	20,396	9,168	4,473	4,526
Other	60,918	51,272	34,272	34,542	18,355
Total revenues	\$ 725,246	\$ 711,857	\$ 575,276	\$ 468,198	\$ 360,772
Expenses					
Personnel	\$ 297,303	\$ 289,277	\$ 227,491	\$ 184,590	\$ 149,374
Amortization and depreciation	142,134	131,246	111,427	98,173	80,138
Provision (benefit) for credit losses	808	(243)	(612)	1,644	2,206
Interest expense on corporate debt	10,130	9,745	9,851	9,918	10,311
Other operating expenses	62,021	48,171	41,338	38,507	34,831
Total expenses	\$ 512,396	\$ 478,196	\$ 389,495	\$ 332,832	\$ 276,860
Income from operations	\$ 212,850	\$ 233,661	\$ 185,781	\$ 135,366	\$ 83,912
Income tax expense	51,908	21,827	71,470	52,771	32,490
Net income before noncontrolling interests	\$ 160,942	\$ 211,834	\$ 114,311	\$ 82,595	\$ 51,422
Net income (loss) from noncontrolling interests	(497)	707	414	467	—
Walker & Dunlop net income	\$ 161,439	\$ 211,127	\$ 113,897	\$ 82,128	\$ 51,422
Basic earnings per share	\$ 5.15	\$ 6.72	\$ 3.66	\$ 2.65	\$ 1.60
Diluted earnings per share	\$ 4.96	\$ 6.47	\$ 3.57	\$ 2.62	\$ 1.58
Cash dividends declared per common share	\$ 1.00	\$ —	\$ —	\$ —	\$ —
Basic weighted average shares outstanding	30,202	30,176	29,768	30,227	32,210
Diluted weighted average shares outstanding	31,384	31,386	30,537	30,497	32,624
Balance Sheet Data					
Cash and cash equivalents	\$ 90,058	\$ 191,218	\$ 118,756	\$ 136,988	\$ 113,354
	137,152	104,536	94,711	77,496	81,573

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Restricted cash and pledged securities					
Mortgage servicing rights	670,146	634,756	521,930	412,348	375,907
Loans held for sale, at fair value	1,074,348	951,829	1,858,358	2,499,111	1,072,116
Loans held for investment, net	497,291	66,510	220,377	231,493	223,059
Goodwill	173,904	123,767	96,420	90,338	74,525
Total assets	2,782,057	2,208,427	3,052,432	3,514,991	2,009,390
Warehouse notes payable	1,161,382	937,769	1,990,183	2,649,470	1,214,279
Note payable	296,010	163,858	164,163	164,462	169,095
Total liabilities	1,874,865	1,393,446	2,437,358	3,022,642	1,575,939
Total equity	907,192	814,981	615,074	492,349	433,451

Supplemental Data

Operating margin	29	%	33	%	32	%	29	%	23	%
Return on equity	19	%	31	%	21	%	19	%	13	%
Total transaction volume	\$ 28,047,532		\$ 27,905,831		\$ 19,298,112		\$ 17,758,748		\$ 11,367,706	
Servicing portfolio	85,689,262		74,309,991		63,081,154		50,212,264		44,031,890	
Assets under management	1,422,735		182,175		—		—		—	

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with “Selected Financial Data” and the historical financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K.

Business

Walker & Dunlop, Inc. is a holding company, and we conduct the majority of our operations through Walker & Dunlop, LLC, our operating company.

We are one of the leading commercial real estate services and finance companies in the United States, with a primary focus on multifamily lending. We originate, sell, and service a range of multifamily and other commercial real estate financing products to owners and developers of commercial real estate across the country, provide multifamily investment sales brokerage services in various regions throughout the United States, and engage in commercial real estate investment management activities.

We originate and sell multifamily loans through the programs of Fannie Mae, Freddie Mac, Ginnie Mae, and HUD, with which we have licenses and long-established relationships. We retain servicing rights and asset management responsibilities on nearly all loans that we originate for the Agencies’ programs. We are approved as a Fannie Mae DUS lender nationally, a Freddie Mac seller/servicer nationally, a Freddie Mac targeted affordable housing seller/servicer, a HUD MAP lender nationally, a HUD LEAN lender nationally, and a Ginnie Mae issuer. We broker and service loans for a number of life insurance companies, CMBS conduits, commercial banks, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker.

We fund loans for the Agencies’ programs, generally through warehouse facility financings, and sell them to investors in accordance with the related loan sale commitment, which we obtain at rate lock. Proceeds from the sale of the loan are used to pay off the warehouse facility. The sale of the loan is typically completed within 60 days after the loan is closed, and we retain the right to service substantially all of these loans. In cases where we do not fund the loan, we act as a loan broker and service some of the loans. Our loan originators who focus on loan brokerage are engaged by borrowers to work with a variety of institutional lenders to find the most appropriate loan. These loans are then funded directly by the institutional lender, and for those brokered loans we 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.

We recognize gains from mortgage banking activities when we make simultaneous commitments to originate a loan to a borrower and sell that loan to an investor. The gains from mortgage banking activities 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 also recognize gains from mortgage banking activities when we receive the origination fee from a brokered loan transaction. Other sources of revenue include (i) net warehouse interest income we earn while the loan is held for sale through one of our warehouse facilities, (ii) net warehouse interest income from loans held for investment while they are outstanding, (iii) sales commissions for brokering the sale of multifamily properties, and (iv) asset management fees from our investment management activities.

We retain servicing rights on substantially all the 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, from late charges, and from other ancillary fees. Servicing fees set at the time an investor agrees to purchase the loan are generally paid monthly for the duration of the loan and are based on the unpaid principal balance of the loan. Our Fannie Mae and

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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. 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 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). We occasionally request modified risk-sharing based on the size of the loan. During the second quarter of 2018, Fannie Mae increased our risk-sharing cap from \$60.0 million to \$200.0 million. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur if 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 fairly compensated for the risks of the transaction. Our servicing fees for risk-sharing loans include compensation for the risk-sharing obligations and are larger than the servicing fees we 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.

Our Interim Program offers 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. We underwrite, asset-manage, and service all loans executed through the Interim Program. The ultimate goal of the Interim Program is to provide permanent Agency financing on these transition properties. The Interim Program has two distinct executions: held by the Interim Program JV and held for investment.

The Interim Program JV assumes full risk of loss while the loans it originates are outstanding. 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 joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities.

Prior to 2017 and during the first six months of 2017, all loans originated through the Interim Program were held for investment. During the third quarter of 2017, we transferred \$119.8 million of loans from our loans held for investment portfolio to the joint venture at par. We do not expect to sell additional loans held for investment to the joint venture in the future.

During the year ended December 31, 2018, \$350.0 million of the \$993.1 million of interim loan originations were executed through the joint venture. As of December 31, 2018, we asset-managed \$334.6 million of interim loans on behalf of the Interim Program JV.

We originate and hold some Interim Program loans for investment, which are included on our balance sheet. During the time that these loans are outstanding, we assume the full risk of loss. Since we began originating interim loans, we have not experienced any delinquencies or charged off any Interim Program loans. As of December 31, 2018, we had

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loans held for investment under the Interim Program with an aggregate outstanding unpaid principal balance of \$503.5 million.

During the third quarter of 2018, we transferred a \$70.1 million portfolio of participating interests in loans held for investment to a third party and accounted for the transfer as a secured borrowing. The balance of the portfolio is presented as loans held for investment with an offsetting amount for the secured borrowing included as account payable as of December 31, 2018. We do not have credit risk related to the transferred loans. During the fourth quarter of 2018, we completed a \$150.0 million participation in a subordinated note with a large institutional investor in multifamily loans. The participation was fully funded with corporate cash. The note is collateralized by a portfolio of multifamily loans and other assets, has a term of one year, and has scheduled principal curtailments prior to maturity.

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 multifamily properties. The terms of such investments are negotiated with each investment. As of December 31, 2017, we had preferred equity investments with one borrower totaling \$41.7 million, all of which were repaid during the year ended December 31, 2018.

Through WDIS, we offer investment sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties. Through these investment 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. Our investment sales services are offered in various regions throughout the United States. We have added several investment sales brokerage teams over the past few years and continue to seek to add other investment sales brokers, with the goal of expanding these brokerage services to cover all major regions throughout the United States. We consolidate the activities of WDIS and present the portion of WDIS that we do not control as Noncontrolling interests in the Consolidated Balance Sheets and Net income from noncontrolling interests in the Consolidated Statements of Income.

During the second quarter of 2018, the Company acquired JCR, the operator, registered investment adviser, and general partner of private commercial real estate investment funds focused on the management of debt, preferred equity, and mezzanine equity investments in private middle-market commercial real estate funds and separately managed accounts. The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify the company 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 consist entirely of funded investments. Unfunded commitments are highest during the fund raising and investment phases. AUM for this purpose may differ from regulatory assets under management disclosed on JCR's Form ADV. The following table summarizes JCR's AUM as of December 31, 2018:

Components of JCR assets under management (in thousands)	Unfunded Commitments	Funded Investments	Total
Fund III	\$ 95,172	\$ 162,999	\$ 258,171

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Fund IV	248,139	65,473	313,612
Separate account	—	446,282	446,282
Total assets under management	\$ 343,311	\$ 674,754	\$ 1,018,065

JCR typically receives management fees based on limited partner capital commitments, unfunded investment commitments, and funded investments. Additionally, with respect to Fund III and Fund IV, JCR receives a percentage of the profits above the fund expenses and preferred return specified in the fund offering agreements.

Over the past three years, we have purchased the rights to service HUD loans with an aggregate \$4.3 billion unpaid principal balance from third-party servicers for a total of \$52.7 million. The acquisition of these servicing rights substantially increased our HUD servicing portfolio and led to our being one of the largest servicers of HUD commercial real estate loans as of December 31, 2018. We expect the servicing rights acquisitions to have the following benefits:

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reduce the average cost to service each loan as we leverage our existing servicing platform, provide new borrower relationships, provide opportunities for additional loan origination volume when these loans mature or prepay, and produce a stable stream of cash revenues over the estimated lives of the portfolios.

As of December 31, 2018, our servicing portfolio was \$85.7 billion, up 15% from December 31, 2017, making it the 7th largest commercial/multifamily primary and master servicing portfolio in the nation according to the Mortgage Bankers' Association's ("MBA") 2018 year-end survey (the "Survey"). Our servicing portfolio includes \$36.0 billion of loans serviced for Fannie Mae and \$30.4 billion for Freddie Mac, making us the 2nd and 3rd largest primary and master servicer of Fannie Mae and Freddie Mac loans in the nation, respectively, according to the Survey. Also included in our servicing portfolio is \$9.9 billion of HUD loans, the 2nd largest HUD primary and master servicing portfolio in the nation according to the Survey.

The average number of our loan originators increased from 130 during 2017 to 138 during 2018 due to our own organic growth and from acquisitions completed in the current year, resulting in an increase of 2% in our loan origination volume, from a total of \$24.9 billion during 2017 to a total of \$25.3 billion during 2018. Fannie Mae recently announced that we ranked as its 2nd largest DUS lender in 2018, by loan deliveries, and Freddie Mac recently announced that we ranked as its 4th largest seller/servicer in 2018, by loan deliveries. Additionally, we were the third largest multifamily lender for HUD in 2018 based on MAP initial endorsements.

Basis of Presentation

The accompanying consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries, and all intercompany transactions have been eliminated.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("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 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 each in 2016, 2017, and 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

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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 MSR's 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 portfolio separately from our other MSR's. The MSR's from stand-alone portfolio purchases and from loan sales are tested for impairment at the portfolio level. We have never recorded an impairment of MSR's in our history. We engage a third party to assist in determining an estimated fair value of our existing and outstanding MSR's 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 MSR's 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 Consolidated Statements of Income.

For MSR's 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 MSR's 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 (and thus included as a component of the portfolio's amortization). Accordingly, prepayments and defaults of individual MSR's 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 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 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 (benefit) for credit losses in the 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 the 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 and 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

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reserves have not varied significantly 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 that are based on the characteristics of the servicing portfolio and the current market conditions. We have not experienced volatility in the general reserves loss percentage 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.

Overview of Current Business Environment

The fundamentals of the commercial and multifamily real estate market remain strong. 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 loan origination volumes due to their importance to the cash flows of the underlying properties. Additionally, the headwinds facing single-family home ownership, including high valuations, higher interest rates, and reduced 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 third quarter of 2018, reaching \$3.3 trillion, an increase of 1.4% from the end of the second quarter of 2018. Multifamily mortgage debt outstanding rose to \$1.3 trillion as of the end of the third quarter of 2018, an increase of 2.0% from the end of the second quarter of 2018. The multifamily category with the largest growth in mortgage debt outstanding was Agency lending. The MBA also reported that commercial and multifamily loan originations during the first nine months of 2018 decreased 1% from the first nine months of 2017, while multifamily loan originations grew by 18% year over year.

The increase in rental housing demand and gaps in housing production have led to continued steady 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 from the fourth quarter of 2017 to the fourth quarter of 2018 was 3.3%, pushing 2018's rent growth above the 2.5% growth for 2017. 2018 also marked the sixth year out of the past eight that rent growth has topped 3%. RealPage also reported that new multifamily housing construction completed during 2018 was 287 thousand units. Despite the significant new construction completions, the multifamily housing market has been able to absorb the new units as evidenced by a decrease in the vacancy rate of 40 basis points from 5.0% at the end of 2017 to 4.6% at the end of the fourth quarter of 2018. RealPage also recently reported 2019 construction completions are forecasted to be 319 thousand units. 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.

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In addition to the improved property fundamentals, for the last several years, the U.S. commercial 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 raised its targeted Fed Funds Rate by 100 basis points during 2018 and 200 basis points during the past two years. We have not experienced a pronounced or sustained decline in 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, during the second half of 2018, we did experience compression in the servicing fees we received on our loan originations with Fannie Mae due to increased competition for loan originations, combined with the increase in interest rates and the flattening of the yield curve. The decrease in servicing fees on new Fannie Mae loan originations in the second half of 2018 contributed to a decline in the gains from mortgage banking activities from the year ended December 31, 2017 to the year ended December 31, 2018. We cannot be certain that these trends will continue as the number, timing, and magnitude of any future increases by the Federal Reserve, taken together with previous interest rate increases and combined with other macroeconomic and market factors, including increased competition for loan originations, may have a different effect on the commercial real estate market and on us.

We expect to see continued strength in the multifamily market for the foreseeable future due to the underlying fundamentals of the multifamily market as labor markets are strong, home ownership remains challenging for many households, and demand increases from new household formation. Additionally, the MBA recently released the results of its 2019 survey of commercial real estate firms and reported 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 as the FHFA expects 2019 volumes in the multifamily market to be consistent with those seen in 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 from the 2018 Caps 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.

The GSEs reported a combined loan origination volume of \$142.9 billion during 2018 compared to \$139.3 billion during 2017, an increase of 3%. Fannie Mae's volume decreased 1% year over year, while Freddie Mac's volume increased 6% year over year. Our loan origination volume with Fannie Mae decreased 1%, while our loan origination volume with Freddie Mac decreased 13%. During 2017, we originated a \$1.9 billion portfolio of Freddie Mac loans with no comparable activity in 2018, which significantly impacted the year-over-year Freddie Mac loan origination volume. Excluding the large transaction in 2017, our Freddie Mac loan origination volume increased 15% year over year. We expect the GSEs to maintain their historical market share in a multifamily market that is projected by the MBA to be \$309.0 billion in 2019, which is 2% higher than the MBA's projected 2018 multifamily market volume of \$302.0 billion. 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 MSR's and cash revenue streams

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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 acting director of the FHFA was appointed in early 2019, and we expect a permanent director will be appointed in the first half of 2019. We do not know whether the FHFA will impose stricter limitations on GSE multifamily production volume beyond 2019.

We continue to significantly grow our capital markets 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 brokered loan originators over the past several years, has resulted in significant growth in our brokered originations as evidenced by the 17% growth in brokered loan originations from 2017 to 2018, which followed 75% growth from 2016 to 2017. From 2016 to 2018, we more than doubled our brokered loan originations. Our outlook for our capital markets platform is positive as we expect continued growth in the commercial real estate and multifamily markets in the near future.

Although our HUD loan origination volume decreased 26% from 2017 to 2018, 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 \$993.1 million of interim loans during 2018 compared to \$314.4 million during 2017. Of the overall interim loan origination volume for 2018 and 2017, \$350.0 million and \$231.9 million, respectively, were originated for the Interim Program JV. Included within the origination volume for 2018 is a loan portfolio of \$93.5 million, 90% of which we sold to our Interim Program JV partner through a secured borrowing transaction in the third quarter of 2018. Additionally, we originated a \$150.0 million portfolio of interim loans in 2018, the largest transaction we have ever originated through the Interim Program.

We saw decreased activity within our multifamily-focused investment sales business during 2018 compared to 2017. We made additions to our investment sales team over the past year in 2018 and continue our efforts to expand our investment sales platform more broadly across the United States and to increase the size of our investment sales team to capture what we believe will be strong multifamily investment sales activity over the coming years.

During 2018, Hurricanes Florence and Michael and wildfires in California each caused substantial damage to the affected areas. Located within the affected areas are multiple properties collateralizing loans for which the Company has risk-sharing obligations. Based on its preliminary assessment of these properties, the Company believes that few,

if any, of these properties incurred significant damage, and those that did have adequate insurance coverage. Additionally, the Company has not experienced an increase in late payments from risk-sharing loans collateralized by properties in the affected areas. Accordingly, based on information currently available, the natural disasters did not have a material impact on the Allowance for risk-sharing obligations as of December 31, 2018. Additionally, the Company does not believe that these natural disasters will have a material impact on its Allowance for risk-sharing obligations in the future. However, the impact to borrowers from such natural disasters may not be known by us until well after the occurrence of the disaster; therefore, over the coming months, we may experience an increase in late payments or defaults of loans for which we have risk-sharing obligations that are collateralized by properties in the affected areas.

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Factors That May Impact Our Operating Results

We believe that our results are affected by a number of factors, including the items discussed below.

- **Performance of Multifamily and Other Commercial Real Estate Related Markets.** Our business is dependent on the general demand for, and value of, commercial real estate and related services, which are sensitive to long-term mortgage interest rates and other macroeconomic conditions and the continued existence of the GSEs. Demand for multifamily and other commercial real estate generally increases during stronger economic environments, resulting in increased property values, transaction volumes, and loan origination volumes. During weaker economic environments, multifamily and other commercial real estate may experience higher property vacancies, lower demand and reduced values. These conditions can result in lower property transaction volumes and loan originations, as well as an increased level of servicer advances and losses from our Fannie Mae DUS risk-sharing obligations and our interim lending program.
- **The Level of Losses from Fannie Mae Risk-Sharing Obligations.** Under the Fannie Mae DUS program, we share risk of loss on most loans we sell to Fannie Mae. In the majority of cases, we absorb the first 5% of any losses on the loan's unpaid principal balance 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 loan's unpaid principal balance on the origination date. As a result, a rise in defaults could have a material adverse effect on us.
- **The Price of Loans in the Secondary Market.** Our profitability is determined in part by the price we are paid for the loans we originate. A component of our origination related revenues is the premium we recognize on the sale of a loan. Stronger investor demand typically results in larger premiums while weaker demand results in little to no premium.
- **Market for Servicing Commercial Real Estate Loans.** Servicing fee rates for new loans are set at the time we enter into a loan sale commitment based on origination fees, competition, prepayment rates, and any risk-sharing obligations we undertake. Changes in servicing fee rates impact the value of our MSR and future servicing revenues, which could impact our profit margins and operating results immediately and over time.
- **The Percentage of Adjustable Rate Loans Originated and the Overall Loan Origination Mix.** The adjustable rate mortgage loans ("ARMs") we originate typically have less stringent prepayment protection features than fixed rate mortgage loans ("FRMs"), resulting in a shorter expected life for ARMs than FRMs. The shorter expected life for ARMs results in smaller MSR recorded than for FRMs. Absent an increase in originations, an increase in the proportion of our loans originated that are ARMs could adversely impact the gains from mortgage banking activities we record. Additionally, the loan product mix we originate can significantly impact our overall earnings. For example, an increase in loan origination volume for our two highest-margin products, Fannie Mae and HUD loans, without a change in total loan origination volume would increase our overall profitability, while a decrease in the loan origination volume of these two products without a change in total loan origination volume would decrease our overall profitability, all else equal.

Revenues

Gains from Mortgage Banking Activities. Mortgage banking activity income is recognized when we record a derivative asset upon the simultaneous commitments to originate a loan with a borrower and sell 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 co-broker fees, the estimated fair value of the expected net cash flows associated with the servicing of the loan, and the estimated fair value of any guaranty obligations to be assumed. Also included in gains from mortgage banking activities are changes to the fair value of loan commitments, forward sale commitments, and loans held for sale that occur during their respective holding periods. Upon sale of the loans, no gains or losses are recognized as such loans are recorded at fair value during their holding periods. MSRs and guaranty obligations are recognized as assets and liabilities, respectively, upon the sale of the loans.

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Brokered loans tend to have lower origination fees because they often require less time to execute, there is more competition for brokerage assignments, and because the borrower will also have to pay an origination fee to the institutional lender.

Premiums received on the sale of a loan result when a loan is sold to an investor for more than its face value. There are various reasons investors may pay a premium when purchasing a loan. For example, the fixed rate on the loan may be higher than the rate of return required by an investor or the characteristics of a particular loan may be desirable to an investor. We do not receive premiums on brokered loans.

MSRs are recorded at fair value upon loan sale. The fair value is based on estimates of expected net cash flows associated with the servicing rights. 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 loan.

Servicing Fees. We service nearly all loans we originate and some loans we broker. We earn servicing fees for performing certain loan servicing functions such as processing loan, tax, and insurance payments and managing escrow balances. Servicing generally also includes asset management functions, such as monitoring the physical condition of the property, analyzing the financial condition and liquidity of the borrower, and performing loss mitigation activities as directed by the Agencies.

Our servicing fees on loans we originate provide a stable revenue stream. They are based on contractual terms, are earned over the life of the loan, and are generally not subject to significant prepayment risk. Our Fannie Mae and Freddie Mac servicing agreements provide for make-whole payments in the event of a voluntary prepayment. Accordingly, we currently do not hedge our servicing portfolio for prepayment risk. Any make-whole payments received are included in Other revenue.

HUD has the right to terminate our current servicing engagements for cause. In addition to termination for cause, Fannie Mae and Freddie Mac may terminate our servicing engagements without cause by paying a termination fee. Our institutional investors typically may terminate our servicing engagements for brokered loans at any time with or without cause, without paying a termination fee.

Net Warehouse Interest Income, Loans Held for Sale. We earn net interest income on loans funded through borrowings from our warehouse facilities from the time the loan is closed until the loan is sold pursuant to the loan purchase agreement. Each borrowing on a warehouse line relates to a specific loan for which we have already secured a loan sale commitment with an investor. Related interest expense from the warehouse loan funding is netted in our financial statements against interest income. Net warehouse interest income related to loans held for sale varies based

on the period of time between the loan closing and the sale of the loan to the investor, the size of the average balance of the loans held for sale, and the net interest spread between the loan coupon rate and the cost of warehouse financing. Loans may remain in the warehouse facility for up to 60 days, but the average time in the warehouse facility is approximately 30 days. Loans that we broker for institutional investors and other investors are funded directly by them; therefore, there is no warehouse interest income or expense associated with brokered loan transactions. Additionally, the amortization of debt issuance costs is included in net warehouse interest income, loans held for sale.

Net Warehouse Interest Income, Loans Held for Investment. Similar to loans held for sale, we earn net interest income on loans held for investment during the period they are outstanding. We earn interest income on the loan, which is funded partially by an investment of our cash and through one of our interim warehouse credit facilities. The loans originated for investment are typically interest-only, variable-rate loans with terms up to three years. The warehouse credit facilities are variable rate. The interest rate reset date is typically the same for the loans and the credit facility. Related interest expense from the warehouse loan funding is netted in our financial statements against interest income. Net warehouse interest income related to loans held for investment varies based on the period of time the loans are outstanding, the size of the average balance of the loans held for investment, and the net interest spread between the loan coupon rate and the cost of warehouse financing. The net spread has historically not varied much. Additionally, the amortization of deferred

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fees and costs and the amortization of debt issuance costs are included in net warehouse interest income, loans held for investment. Net warehouse interest income from loans held for investment will decrease in the coming years if most, if not all, of the loans originated through the Interim Program are held by the Interim Program JV.

Escrow Earnings and Other Interest Income. We earn fee income on property-level escrow deposits in our servicing portfolio, generally based on a fixed or variable placement fee negotiated with the financial institutions that hold the escrow deposits. Escrow earnings reflect interest income net of interest paid to the borrower, if required, which generally equals a money market rate. Escrow earnings tend to increase as short-term interest rates increase as they did in 2017 and 2018. We expect this trend to continue for the foreseeable future. Also included with escrow earnings and other interest income are interest earnings from our cash and cash equivalents and interest income earned on our pledged securities. Interest income from pledged securities increased during 2018 as we sold investments in money market funds and invested those proceeds in higher-earning multifamily Agency mortgage-backed securities (“MBS”).

Other. Other income is comprised of fees for processing loan assumptions, prepayment fee income, application fees, investment sales broker fees, income from equity-method investments, income from preferred equity investments, asset management fees, and other miscellaneous revenues related to our operations.

Costs and Expenses

Personnel. Personnel expense includes the cost of employee compensation and benefits, which include fixed and discretionary amounts tied to company and individual performance, commissions, severance expense, signing and retention bonuses, and share-based compensation.

Amortization and Depreciation. Amortization and depreciation is principally comprised of amortization of our MSR, net of amortization of our guaranty obligations. The MSR is amortized using the interest method over the period that servicing income is expected to be received. We amortize the guaranty obligations evenly over their expected lives. When the loan underlying an MSR prepays, we write off the remaining unamortized balance, net of any related guaranty obligation, and record the write off to Amortization and depreciation. Similarly, when the loan underlying an MSR defaults, we write the MSR off to Amortization and depreciation. We depreciate property, plant, and equipment ratably over their estimated useful lives.

Amortization and depreciation also includes the amortization of intangible assets, principally related to the amortization of the mortgage pipeline and other intangible assets recognized in connection with acquisitions. For the years presented in the Consolidated Statements of Income, the amortization of intangible assets relates primarily to the mortgage pipeline intangible asset recognized in conjunction with acquisitions in 2016, 2017, and 2018. We recognize amortization related to the mortgage pipeline intangible asset when a loan included in the mortgage pipeline intangible asset is rate locked or is no longer probable of rate locking. Also included in amortization and depreciation

for the year ended December 31, 2018 is the amortization of intangible assets associated with our acquisition of JCR. These intangible assets consisted primarily of asset management contracts, which had an estimated life at acquisition of five years.

Provision (Benefit) for Credit Losses. The provision (benefit) for credit losses consists of two components: the provision associated with our risk-sharing loans and the provision associated with our loans held for investment. The provision (benefit) for credit losses associated with risk-sharing loans is established at the loan level when the borrower has defaulted on the loan or is probable of defaulting on the loan or collectively for loans that are not probable of default but on a watch list. The provision (benefit) for credit losses associated with our loans held for investment is established collectively for loans that are not impaired and individually for loans that are impaired. Our estimates of property fair value are 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.

Interest Expense on Corporate Debt. Interest expense on corporate debt includes interest expense incurred and amortization of debt discount and debt issuance costs related to our term note facility.

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Other Operating Expenses. Other operating expenses include sub-servicing costs, facilities costs, travel and entertainment costs, marketing costs, professional fees, license fees, dues and subscriptions, corporate insurance premiums, and other administrative expenses.

Income Tax Expense. The Company is a C-corporation subject to both federal and state corporate tax. As of December 31, 2018, our estimated combined statutory federal and state tax rate was approximately 25.1% compared to approximately 38.2% as of December 31, 2017 and 38.6% as of December 31, 2016. Our combined statutory tax rate has historically not varied significantly as the only material difference in the calculation of the combined statutory tax rate from year to year is the apportionment of our taxable income amongst the various states where we are subject to taxation since we do not have foreign operations or significant permanent differences. For example, from the period since we went public in 2010 through 2017, our combined statutory tax rate varied by only 0.7%, with a low of 38.2% and a high of 38.9%. In December 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted. Tax Reform significantly reduced the federal income tax rate from 35.0% to 21.0%. Due to the reduced federal statutory rate, our combined statutory tax rate in 2018 declined to approximately 25.1%. Absent additional significant legislative changes to statutory tax rates (particularly the federal tax rate), we expect minimal deviation from the 2018 combined statutory tax rate for years after 2018. However, we do expect some variability in the effective tax rate going forward due to excess tax benefits recognized and limitations on the deductibility of certain book expenses as a result of Tax Reform, primarily related to executive compensation.

Excess tax benefits recognized in 2016, 2017, and 2018 reduced income tax expense by \$0.6 million, \$9.5 million, and \$6.8 million, respectively. The decrease in the excess tax benefits from 2017 to 2018 related primarily to the aforementioned reduction in the combined statutory tax rate due to Tax Reform. We expect the net reduction to income tax expense due to excess tax benefits in 2019 to be less than the net reductions in 2017 and 2018 given the limitations on the deductibility of the vesting of restricted stock awards and performance stock awards granted to executives due to Tax Reform.

Results of Operations

Following is a discussion of our results of operations for the years ended December 31, 2018, 2017, and 2016. The financial results are not necessarily indicative of future results. Our annual 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, and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

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SUPPLEMENTAL OPERATING DATA

(in thousands; except per share data)	For the year ended December 31,					
	2018		2017		2016	
Transaction Volume:						
Loan Origination Volume by Product Type						
Fannie Mae	\$ 7,805,517		\$ 7,894,106		\$ 7,000,942	
Freddie Mac	6,972,299		7,981,156		4,234,071	
Ginnie Mae - HUD	999,001		1,358,221		879,941	
Brokered (1)	8,564,357		7,326,907		4,189,116	
Interim Loans	993,053		314,372		419,600	
Total Loan Origination Volume	\$ 25,334,227		\$ 24,874,762		\$ 16,723,670	
Investment Sales Volume	2,713,305		3,031,069		2,574,442	
Total Transaction Volume	\$ 28,047,532		\$ 27,905,831		\$ 19,298,112	
Key Performance Metrics:						
Operating margin	29	%	33	%	32	%
Return on equity	19	%	31	%	21	%
Walker & Dunlop net income	\$ 161,439		\$ 211,127		\$ 113,897	
Adjusted EBITDA (2)	\$ 220,081		\$ 200,950		\$ 129,928	
Diluted EPS (3)	\$ 4.96		\$ 6.47		\$ 3.57	
Key Expense Metrics (as a percentage of total revenues):						
Personnel expenses	41	%	41	%	40	%
Other operating expenses	9	%	7	%	7	%
Key Revenue Metrics (as a percentage of loan origination volume):						
Origination related fees (4)	0.96	%	0.99	%	1.06	%
Gains attributable to MSR's (4)	0.71	%	0.79	%	1.18	%
Gains attributable to MSR's, as a percentage of Agency loan origination volume (5)	1.09	%	1.13	%	1.59	%
(in thousands; except per share data)						
Managed Portfolio:						
Servicing Portfolio by Product Type						
Fannie Mae	\$ 35,983,178		\$ 32,075,617		\$ 27,728,164	
Freddie Mac	30,350,724		26,782,581		20,688,410	
Ginnie Mae - HUD	9,944,222		9,640,312		9,155,794	
Brokered (6)	9,127,640		5,744,518		5,286,473	
Interim Loans	283,498		66,963		222,313	
Total Servicing Portfolio	\$ 85,689,262		\$ 74,309,991		\$ 63,081,154	

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Assets under management	1,422,735	182,175	—
Total Managed Portfolio	\$ 87,111,997	\$ 74,492,166	\$ 63,081,154
Key Servicing Portfolio Metrics (end of period):			
Weighted-average servicing fee rate (basis points)	24.3	25.7	26.1
Weighted-average remaining servicing portfolio term (years)	9.8	10.0	10.3

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

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- (2) This is a non-GAAP financial measure. For more information on adjusted EBITDA, refer to the section below titled “Non-GAAP Financial Measures.”
- (3) As more fully discussed in NOTES 2 and 12 to the consolidated financial statements, for the years ended December 31, 2017 and 2016, diluted EPS amounts have been corrected from amounts previously reported in prior Annual Reports on Form 10-K to properly reflect the two-class method. In addition, diluted EPS for December 31, 2018 has been corrected from the previously reported amount in our earnings release on Current Report on Form 8-K dated February 6, 2019 (“2019 8-K”) to properly reflect the two-class method. Diluted EPS for the year ended December 31, 2018 as reported on the 2019 8-K was \$0.08 higher than the amount shown here. The correction of the error had no impact to Walker & Dunlop net income, Total equity, or our cash flows as of and for the years ended December 31, 2018, 2017, and 2016.
- (4) Excludes the income and loan origination volume from interim loans.
- (5) 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 loan origination volume.
- (6) Brokered loans serviced for life insurance companies, commercial mortgage backed securities, commercial banks, and other capital sources.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table presents a period-to-period comparison of our financial results for the years ended December 31, 2018 and 2017.

FINANCIAL RESULTS –2018 COMPARED TO 2017

(dollars in thousands)	For the year ended		Dollar Change	Percentage Change	
	December 31, 2018	2017			
Revenues					
Gains from mortgage banking activities	\$ 407,082	\$ 439,370	\$ (32,288)	(7)	%
Servicing fees	200,230	176,352	23,878	14	
Net warehouse interest income, loans held for sale	5,993	15,077	(9,084)	(60)	
Net warehouse interest income, loans held for investment	8,038	9,390	(1,352)	(14)	
Escrow earnings and other interest income	42,985	20,396	22,589	111	
Investment sales broker fees	17,257	19,213	(1,956)	(10)	
Other	43,661	32,059	11,602	36	
Total revenues	\$ 725,246	\$ 711,857	\$ 13,389	2	
Expenses					
Personnel	\$ 297,303	\$ 289,277	\$ 8,026	3	%
Amortization and depreciation	142,134	131,246	10,888	8	
Provision (benefit) for credit losses	808	(243)	1,051	(433)	
Interest expense on corporate debt	10,130	9,745	385	4	
Other operating expenses	62,021	48,171	13,850	29	
Total expenses	\$ 512,396	\$ 478,196	\$ 34,200	7	
Income from operations	\$ 212,850	\$ 233,661	\$ (20,811)	(9)	
Income tax expense	51,908	21,827	30,081	138	

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Net income before noncontrolling interests	\$ 160,942	\$ 211,834	\$ (50,892)	(24)
Less: net income (loss) from noncontrolling interests	(497)	707	(1,204)	(170)
Walker & Dunlop net income	\$ 161,439	\$ 211,127	\$ (49,688)	(24)

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Overview

The slight increase in revenues was primarily attributable to increases in servicing fees, escrow earnings and other interest income, and other revenues, largely offset by decreases in gains from mortgage banking activities and net warehouse income from loans held for sale. The increase in servicing fees was due to an increase in the average servicing portfolio. The substantial increase in escrow earnings and other interest income related to increases in the escrow balances of loans serviced and the escrow earnings rate. Other revenues increased primarily from an increase in investment management fees as we acquired JCR Capital in 2018. The decrease in gains from mortgage banking activities was due primarily to a decrease in Fannie Mae servicing fees, while the decrease in net warehouse interest income from loans held for sale was due to a lower net interest spread on loans held for sale.

The increase in total expenses was due primarily to increases in personnel expense mostly due to an increase in salaries expense resulting from a rise in average headcount year over year, amortization and depreciation costs due to an increase in the average balance of MSR's outstanding year over year, and other operating expenses.

Revenues

Gains from Mortgage Banking Activities. The following table provides additional information that helps explain changes in gains from mortgage banking activities over the past three years:

	Loan Origination Volume by Product Type For the year ended December 31,					
	2018		2017		2016	
Fannie Mae	31	%	32	%	42	%
Freddie Mac	28		32		25	
Ginnie Mae - HUD	4		5		5	
Brokered	33		30		25	
Interim Loans	4		1		3	

	Gains from Mortgage Banking Activities Detail For the year ended December 31,		
(dollars in thousands)	2018	2017	2016
Origination Fees	\$ 234,681	\$ 245,484	\$ 174,360
Dollar Change	\$ (10,803)	\$ 71,124	
Percentage Change	(4)	% 41	%

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MSR Income (1)	\$ 172,401	\$ 193,886	\$ 192,825
Dollar Change	\$ (21,485)	\$ 1,061	
Percentage Change	(11)	% 1	%
Origination Fee Rate (2) (basis points)	96	99	106
Basis Point Change	(3)	(7)	
Percentage Change	(3)	% (7)	%
MSR Rate (3) (basis points)	71	79	118
Basis Point Change	(8)	(39)	
Percentage Change	(10)	% (33)	%
Agency MSR Rate (4) (basis points)	109	113	159
Basis Point Change	(4)	(46)	
Percentage Change	(4)	% (29)	%

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- (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 loan origination volume, excluding the income and loan origination volume from interim loans.

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- (3) MSR income as a percentage of loan origination volume, excluding the income and loan origination volume from interim loans.
- (4) MSR income as a percentage of Agency loan origination 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 decrease in origination fees was largely attributable to the change in the mix of loan origination volume year over year, resulting in a decline in the origination fee rate. For the year ended December 31, 2018, Agency loan origination volume as a percentage of overall loan origination volume decreased to 63% from 69% for the year ended December 31, 2017. Agency loan originations produce higher loan origination fees than brokered and interim loan originations.

The decreases in MSR income and MSR rate for the year ended December 31, 2018 are related primarily to a year-over-year decrease of 14% in the weighted-average servicing fee rate on new Fannie Mae loan originations and the aforementioned change in the mix of loan origination volume. The decrease in the weighted-average servicing fee rate was due principally to increased competition for new loan originations with Fannie Mae, which resulted in tighter credit spreads and lower servicing fees.

See the “Overview of Current Business Environment” section above for a detailed discussion of the factors driving the changes in loan origination volumes.

Servicing Fees. The increase was primarily attributable to an increase in the average servicing portfolio from 2017 to 2018 as shown below due primarily to new loan originations and relatively few payoffs. Partially offsetting the increase in servicing fees due to an increase in the average servicing portfolio was a decrease in the servicing portfolio’s weighted average servicing fee as shown below primarily due to an increase in brokered loans as a percentage of the overall servicing portfolio as well as the aforementioned decrease in the weighted average servicing fee of new Fannie Mae loan originations.

(dollars in thousands)	Servicing Fees Details		
	For the year ended December 31,		
	2018	2017	2016
Average Servicing Portfolio	\$ 78,635,979	\$ 67,072,015	\$ 55,540,993
Dollar Change	\$ 11,563,964	\$ 11,531,022	
Percentage Change	17	% 21	%
Average Servicing Fee (basis points)	25.2	26.2	25.3
Basis Point Change	(1.0)	0.9	
Percentage Change	(4)	% 4	%

Net Warehouse Interest Income, Loans Held for Sale. The decrease was largely the result of a decrease in the average balance and a significant decrease in the net spread as shown below. The decrease in the net spread was the result of a greater increase 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 continues to flatten, a tightening of the net spread may continue.

		Net Warehouse Interest Income Details - LHFS		
		For the year ended December 31,		
(dollars in thousands)		2018	2017	2016
Average LHFS Outstanding Balance		\$ 1,310,589	\$ 1,613,898	\$ 1,342,928
Dollar Change		\$ (303,309)	\$ 270,970	
Percentage Change		(19)	% 20	%
LHFS Net Spread (basis points)		46	93	121
Basis Point Change		(47)	(28)	
Percentage Change		(51)	% (23)	%

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Escrow Earnings and Other Interest Income. The increase was due to increases in both the average balance of escrow accounts and the average earnings rate from 2017 to 2018. The increase in the average balance was due to an increase in the average servicing portfolio. The increase in the average earnings rate was due to the increase in short-term interest rates, upon which our earnings rates are based, over the past year as discussed above in the “Overview of Current Business Environment” section.

Other Revenues. The increase is primarily related to a \$9.0 million increase in investment management fees due to the acquisition of JCR as more fully discussed in the “Business” section above and a \$1.6 million gain from the sale of an equity-method investment for the year ended December 31, 2018 with no comparable activity for the year ended December 31, 2017.

Expenses

Personnel. The increase was primarily the result of an \$8.8 million increase in salaries and benefits due to acquisitions and hiring to support our growth, resulting in an increase in the average headcount from 599 for the year ended December 31, 2017 to 671 for the year ended December 31, 2018. The increase in salaries and benefits costs was slightly offset by decreases in variable compensation costs.

Amortization and Depreciation. The increase was attributable to loan origination activity and the resulting growth in the average MSR balance outstanding from 2017 to 2018. During the year ended December 31, 2018, we added \$35.4 million of MSRs, net of amortization and write offs due to prepayment.

Other Operating Expenses. The increase in other operating expenses primarily stem from increased office expenses of \$2.3 million and travel costs of \$2.0 million due to the increase in average headcount year over year and increased legal expenses of \$1.5 million largely in connection with our acquisitions. Additionally, during the year ended December 31, 2018, we incurred a loss on the extinguishment of debt of \$2.1 million with no comparable activity for the year ended December 31, 2017.

Income Tax Expense. The increase in income tax expense was primarily due to (i) a decrease in excess tax benefits from stock compensation recognized year over year, (ii) a decrease in the benefit from the enactment of Tax Reform in 2017, and (iii) a \$2.8 million expense related to a 100% valuation allowance placed on certain deferred tax assets, partially offset by the decrease in income from operations and a decrease in the federal statutory income tax rate from 35.0% for the year ended December 31, 2017 to 21.0% for the year ended December 31, 2018. Excess tax benefits reduced income tax expense by \$9.5 million in 2017 compared to \$6.8 million in 2018.

As discussed previously, Tax Reform was enacted in December 2017, reducing the federal income tax rate from 35.0% to 21.0%. In connection with the enactment of Tax Reform, we revalued our net deferred tax liabilities using the new federal income tax rate of 21.0%. These net deferred tax liabilities decreased as the future payment of taxes from these liabilities will be less than previously expected, resulting in a decrease to income tax expense of \$58.3 million. The significant reductions to income tax expense in 2017 resulted in an effective tax rate of 9.3% compared to 24.4% in 2018.

Based on the information available as of December 31, 2018, we currently believe that it may be more likely than not that the expense associated with certain compensation agreements for our executives will not be deductible for tax purposes in future years. Accordingly, as of December 31, 2018, we recorded a 100% valuation allowance on the associated deferred tax assets, resulting in a \$2.8 million charge to tax expense for the year ended December 31, 2018.

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Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The following table presents a period-to-period comparison of our financial results for the years ended December 31, 2017 and 2016.

FINANCIAL RESULTS – 2017 COMPARED TO 2016

(dollars in thousands)	Year Ended December 31,		Dollar	Percentage	
	2017	2016	Change	Change	
Revenues					
Gains from mortgage banking activities	\$ 439,370	\$ 367,185	\$ 72,185	20	%
Servicing fees	176,352	140,924	35,428	25	
Net warehouse interest income, loans held for sale	15,077	16,245	(1,168)	(7)	
Net warehouse interest income, loans held for investment	9,390	7,482	1,908	26	
Escrow earnings and other interest income	20,396	9,168	11,228	122	
Other	51,272	34,272	17,000	50	
Total revenues	\$ 711,857	\$ 575,276	\$ 136,581	24	
Expenses					
Personnel	\$ 289,277	\$ 227,491	\$ 61,786	27	%
Amortization and depreciation	131,246	111,427	19,819	18	
Provision (benefit) for credit losses	(243)	(612)	369	(60)	
Interest expense on corporate debt	9,745	9,851	(106)	(1)	
Other operating expenses	48,171	41,338	6,833	17	
Total expenses	\$ 478,196	\$ 389,495	\$ 88,701	23	
Income from operations	\$ 233,661	\$ 185,781	\$ 47,880	26	
Income tax expense	21,827	71,470	(49,643)	(69)	
Net income before noncontrolling interests	\$ 211,834	\$ 114,311	\$ 97,523	85	
Less: net income from noncontrolling interests	707	414	293	71	
Walker & Dunlop net income	\$ 211,127	\$ 113,897	\$ 97,230	85	

Overview

The increase in revenues was primarily attributable to increases in gains from mortgage banking activities, servicing fees, escrow earnings and other interest income, and other revenues. The increase in gains from mortgage banking activities was largely due to the significant increase in loan origination volume from 2016 to 2017. The growth in loan origination volume is primarily due to an increase in the average number of loan originators from 2016 to 2017. The increase in servicing fees was due to an increase in the average servicing portfolio. The substantial increase in escrow earnings and other interest income related to increases in the escrow balances of loans serviced and the escrow earnings rate. Other revenues increased due to increases in investment sales broker fees, preferred equity investment

income, prepayment fees, and assumption fees.

The increase in expenses was principally the result of higher personnel, amortization and depreciation, and other operating expenses. Personnel expense increased mostly due to an increase in salaries expense resulting from a rise in average headcount year over year and an increase in commissions costs due to an increase in origination fees driven by the increase in total transaction volume. Headcount increased due to acquisitions and hiring to support the growth of the Company. Amortization and depreciation expense increased as a result of a rise in the average balance of MSRs outstanding year over year as we originated a record amount of loans in 2017. The increase in other operating expenses was largely due to an increase in office expenses due to the increase in average headcount year over year.

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Revenues

Gains from Mortgage Banking Activities. The following table provides additional information that helps explain changes in gains from mortgage banking activities over the past three years:

	Loan Origination Volume by Product Type For the year ended December 31,					
	2017		2016		2015	
Fannie Mae	32	%	42	%	31	%
Freddie Mac	32		25		39	
Ginnie Mae - HUD	5		5		4	
Brokered	30		25		25	
Interim Loans	1		3		1	

	Gains from Mortgage Banking Activities Detail For the year ended December 31,					
(dollars in thousands)	2017		2016		2015	
Origination Fees	\$	245,484	\$	174,360	\$	156,835
Dollar Change	\$	71,124	\$	17,525		
Percentage Change		41	%	11	%	
MSR Income (1)	\$	193,886	\$	192,825	\$	133,631
Dollar Change	\$	1,061	\$	59,194		
Percentage Change		1	%	44	%	
Origination Fee Rate (2) (basis points)		99		106		97
Basis Point Change		(7)		9		
Percentage Change		(7)	%	9	%	
MSR Rate (3) (basis points)		79		118		83
Basis Point Change		(39)		35		
Percentage Change		(33)	%	42	%	
Agency MSR Rate (4) (basis points)		113		159		112
Basis Point Change		(46)		47		
Percentage Change		(29)	%	42	%	

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- (1) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained.
- (1) Origination fees as a percentage of loan origination volume, excluding the income and loan origination volume from interim loans.
- (1) MSR income as a percentage of loan origination volume, excluding the income and loan origination volume from interim loans.

(1) MSR income as a percentage of Agency loan origination 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 was largely attributable to the 49% increase in loan origination volume year over year, partially offset by a small decline in the origination fee rate. The small increase in MSR income was driven by the \$5.1 billion increase in Agency loan origination volume from 2016 to 2017, almost completely offset by the 29% decrease in the Agency MSR rate. The decline in the Agency MSR rate was driven by (i) an increase in Freddie Mac loan origination volume as a percentage of total Agency volume from 35% in 2016 to 46% in 2017 and (ii) an increase in the large portfolio transactions year over year. The MSR income from Freddie Mac loans is the lowest of the Agency loan products. In addition, we typically receive lower servicing fees on large portfolio transactions, resulting in a lower MSR rate on these loans.

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Servicing Fees. The increase was primarily attributable to an increase in the average servicing portfolio from 2016 to 2017 as shown below due primarily to record new loan originations and relatively few payoffs. Additionally, the servicing portfolio's weighted average servicing fee increased as shown below due to an increase in the Fannie Mae servicing portfolio.

(dollars in thousands)	Servicing Fees Details		
	For the year ended December 31,		
	2017	2016	2015
Average Servicing Portfolio	\$ 67,072,015	\$ 55,540,993	\$ 47,096,080
Dollar Change	\$ 11,531,022	\$ 8,444,913	
Percentage Change	21	% 18	%
Average Servicing Fee (basis points)	26.2	25.3	24.3
Basis Point Change	0.9	1.0	
Percentage Change	4	% 4	%

Escrow Earnings and Other Interest Income. The increase was due to increases in both the average balance of escrow accounts and the average earnings rate from 2016 to 2017. The increase in the average balance was due to the increase in the average servicing portfolio. The increase in the average earnings rate was due to the increase in short-term interest rates during 2017.

Other Revenues. The increase is related to increases in investment sales broker fees, preferred equity investment income, prepayment fees, and assumption fees. Investment sales broker fees increased \$5.0 million year over year as a result of the increase in investment sales volume. Preferred equity investment income increased \$2.8 million from 2016 to 2017 due to an increase in the average balance of preferred equity investments outstanding. Prepayment fees increased \$6.7 million, while assumption fees increased \$1.8 million, both as a result of increased activity as our average servicing portfolio continues to grow.

Expenses

Personnel. The increase was principally the result of higher loan originator commission costs and increased salaries expense. Commission costs increased due to the increase in origination fee income attributable to the increase in total transaction volume. Salaries expense increased due to a rise in average headcount from 519 in 2016 to 599 in 2017 as a result of acquisitions and organic growth of the Company.

Amortization and Depreciation. The increase was attributable to loan origination activity and the resulting growth in the average MSR balance outstanding from 2016 to 2017.

Other Operating Expenses. The increase was primarily attributable to a \$2.9 million increase in office expenses. These expenses increased as a result of the aforementioned increase in average headcount.

Income Tax Expense. The decrease in income tax expense was primarily due to an increase in excess tax benefits from stock compensation recognized year over year and the enactment of Tax Reform in 2017, partially offset by the increase in income from operations. Excess tax benefits reduced income tax expense by \$9.5 million in 2017 compared to \$0.6 million in 2016.

As discussed previously, Tax Reform was enacted in December 2017, reducing the federal income tax rate from 35.0% to 21.0%. In connection with the enactment of Tax Reform, we revalued our net deferred tax liabilities using the new federal income tax rate of 21.0%. These net deferred tax liabilities decreased as the future payment of taxes from these liabilities will be less than previously expected, resulting in a decrease to income tax expense of \$58.3 million. The significant reductions to income tax expense in 2017 resulted in an effective tax rate of 9.3% compared to 38.5% in 2016.

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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 (benefit) for credit losses net of write-offs, stock-based incentive compensation charges, and non-cash revenues such as gains attributable to MSR's. Additionally, adjusted EBITDA further includes or excludes other significant non-cash items that are not part of our ongoing operations. 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 this non-GAAP measure, 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 ongoing 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 year ended December 31,		
	2018	2017	2016

Edgar Filing: Walker & Dunlop, Inc. - Form 10-K

Reconciliation of Walker & Dunlop Net Income to Adjusted EBITDA

Walker & Dunlop Net Income	\$ 161,439	\$ 211,127	\$ 113,897
Income tax expense	51,908	21,827	71,470
Interest expense on corporate debt	10,130	9,745	9,851
Amortization and depreciation	142,134	131,246	111,427
Provision (benefit) for credit losses	808	(243)	(612)
Net write-offs	—	—	(1,757)
Stock compensation expense	23,959	21,134	18,477
Gains attributable to mortgage servicing rights (1)	(172,401)	(193,886)	(192,825)
Unamortized issuance costs from early debt extinguishment	2,104	—	—
Adjusted EBITDA	\$ 220,081	\$ 200,950	\$ 129,928

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

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Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

The following table presents a period-to-period comparison of our adjusted EBITDA for the years ended December 31, 2018 and 2017:

ADJUSTED EBITDA – 2018 COMPARED TO 2017

(dollars in thousands)	For the year ended		Dollar Change	Percentage Change	
	December 31, 2018	2017			%
Origination fees	\$ 234,681	\$ 245,484	\$ (10,803)	(4)	%
Servicing fees	200,230	176,352	23,878	14	
Net warehouse interest income	14,031	24,467	(10,436)	(43)	
Escrow earnings and other interest income	42,985	20,396	22,589	111	
Other revenues	61,415	50,565	10,850	21	
Personnel	(273,344)	(268,143)	(5,201)	2	
Net write-offs	—	—	—	N/A	
Other operating expenses	(59,917)	(48,171)	(11,746)	24	
Adjusted EBITDA	\$ 220,081	\$ 200,950	\$ 19,131	10	

See the table above for the components of the change in adjusted EBITDA. The decrease in origination fees was largely attributable to the change in the mix of loan origination volume year over year. Servicing fees increased principally due to an increase in the average servicing portfolio from 2017 to 2018 as a result of new loan originations, partially offset by a decrease in the average servicing fee. Net warehouse interest income decreased largely as a result of declines in the average balance and the net interest margin on loans held for sale due to a flattening yield curve. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate following the increases in short-term interest rates over the past year. Other revenues increased primarily due to an increase in investment management fees. The increase in personnel expense was primarily due to increased salaries and benefits due to a rise in headcount. Other operating expenses increased largely due to increased occupancy and travel costs due to the larger average headcount year over year and increased professional fees due to the JCR and iCap acquisitions.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The following table presents a period-to-period comparison of our adjusted EBITDA for the years ended December 31, 2017 and 2016:

ADJUSTED EBITDA – 2017 COMPARED TO 2016

Edgar Filing: Walker & Dunlop, Inc. - Form 10-K

(dollars in thousands)	For the year ended		Dollar Change	Percentage Change	
	December 31, 2017	2016			%
Origination fees	\$ 245,484	\$ 174,360	\$ 71,124	41	%
Servicing fees	176,352	140,924	35,428	25	
Net warehouse interest income	24,467	23,727	740	3	
Escrow earnings and other interest income	20,396	9,168	11,228	122	
Other revenues	50,565	33,858	16,707	49	
Personnel	(268,143)	(209,014)	(59,129)	28	
Net write-offs	—	(1,757)	1,757	(100)	
Other operating expenses	(48,171)	(41,338)	(6,833)	17	
Adjusted EBITDA	\$ 200,950	\$ 129,928	\$ 71,022	55	

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See the table above for the components of the change in adjusted EBITDA. The increase in origination fees was largely attributable to the 49% increase in loan origination volume year over year. Servicing fees increased principally due to an increase in the average servicing portfolio from 2016 to 2017 primarily as a result of record new loan originations and relatively few payoffs. Escrow earnings and other interest income increased largely due to a rise in the average outstanding balances of escrow accounts and an increase in the average earnings rate from 2016 to 2017. Other revenues increased due to increases in investment sales broker fees, preferred equity investment income, prepayment fees, and assumption fees. The increase in personnel expense was principally the result of higher loan originator commission costs due to the increase in origination fees and increased salaries expense due to an increase in average headcount. The increase in other operating expenses was largely due to an increase in office expenses due to the increase in average headcount year over year.

Financial Condition

Cash Flows from Operating Activities

Our cash flows from operations are generated from loan sales, servicing fees, escrow earnings, net warehouse interest income, investment sales broker fees, asset management fees, and other income, net of loan origination and operating costs. Our cash flows from operations are impacted by the fees generated by our loan originations and investment sales, the timing of loan closings, assets under management, escrow account balances, the average balance of loans held for investment, and the period of time loans are held for sale in the warehouse loan facility prior to delivery to the investor.

Cash Flow from Investing Activities

We usually lease facilities and equipment for our operations. However, when necessary and cost effective, we invest cash in property and equipment. 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, the acquisition and disposition of equity-method investments, and the purchase of available-for-sale (“AFS”) securities pledged to Fannie Mae. We opportunistically invest cash for acquisitions and MSR portfolio purchases.

Cash Flow 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.

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Years Ended December 31, 2018 Compared to Years Ended December 31, 2017

The following table presents a period-to-period comparison of the significant components of cash flows for the years ended December 31, 2018 and 2017.

SIGNIFICANT COMPONENTS OF CASH FLOWS – 2018 COMPARED TO 2017

(dollars in thousands)	For the year ended		Dollar Change	Percentage Change	
	December 31, 2018	2017			
Net cash provided by (used in) operating activities	\$ 64,076	\$ 1,067,642	\$ (1,003,566)	(94)	%
Net cash provided by (used in) investing activities	(552,238)	97,170	(649,408)	(668)	
Net cash provided by (used in) financing activities	321,830	(1,089,491)	1,411,321	(130)	
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period ("Total Cash")	120,348	286,680	(166,332)	(58)	
Cash flows from operating activities					
Net receipt (use) of cash for loan origination activity	\$ (102,071)	\$ 919,491	\$ (1,021,562)		