Walker & Dunlop, Inc.
Form 10-Q
May 03, 2017
Table of Contents

XBRL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from to

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

Maryland	80-0629925
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7501 Wisconsin Avenue, Suite 1200E	

Bethesda, Maryland 20814

(301) 215-5500

(Address of principal executive offices and registrant's telephone number, including

area code)

Not Applicable

(Former name, former address, and former fiscal year if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

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

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

As of April 26, 2017, there were 31,246,914 total shares of common stock outstanding.

Table of Contents

Walker & Dunlop, Inc.
Form 10-Q
INDEX

		Page
PART I	FINANCIAL INFORMATION	2
Item 1.	Financial Statements	2
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	40
PART II	OTHER INFORMATION	40
Item 1.	Legal Proceedings	40
Item 1A.	Risk Factors	40
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	41
Item 3.	Defaults Upon Senior Securities	41
Item 4.		41

	Mine Safety Disclosures	
Item 5.	Other Information	41
Item 6.	Exhibits	41
	Signatures	43
	Exhibit Index	44

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets March 31, 2017 and December 31, 2016

(In thousands, except per share data)

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$ 50,745	$ 118,756
Restricted cash	9,313	9,861
Pledged securities, at fair value	86,900	84,850
Loans held for sale, at fair value	1,230,311	1,858,358
Loans held for investment, net	311,242	220,377
Servicing fees and other receivables, net	35,882	29,459
Derivative assets	15,446	61,824
Mortgage servicing rights	562,530	521,930
Goodwill and other intangible assets	124,670	97,372
Other assets	54,499	49,645
Total assets	$ 2,481,538	$ 3,052,432
Liabilities		
Accounts payable and other liabilities	$ 205,100	$ 232,231
Performance deposits from borrowers	9,424	10,480
Derivative liabilities	9,449	4,396
Guaranty obligation, net of accumulated amortization	35,311	32,292
Allowance for risk-sharing obligations	3,546	3,613
Warehouse notes payable	1,406,462	1,990,183
Note payable	164,088	164,163
Total liabilities	$ 1,833,380	$ 2,437,358
Equity		
Preferred shares, Authorized 50,000, none issued.	$ —	$ —
Common stock, $0.01 par value. Authorized 200,000; issued and outstanding 30,095 shares at March 31, 2017 and 29,551 shares at December 31, 2016	301	296
Additional paid-in capital	218,908	228,889
Retained earnings	424,252	381,031
Total stockholders' equity	$ 643,461	$ 610,216
Noncontrolling interests	4,697	4,858

Total equity	$ 648,158	$ 615,074
Commitments and contingencies (NOTE 10)	—	—
Total liabilities and equity	$ 2,481,538	$ 3,052,432

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	For the three months ended March 31,	
	2017	2016
Revenues		
Gains from mortgage banking activities	$ 96,432	$ 46,323
Servicing fees	41,525	31,649
Net warehouse interest income	6,620	6,731
Escrow earnings and other interest income	3,292	1,640
Other	10,643	7,898
Total revenues	$ 158,512	$ 94,241
Expenses		
Personnel	$ 56,172	$ 34,230
Amortization and depreciation	32,338	25,155
Provision (benefit) for credit losses	(132)	(409)
Interest expense on corporate debt	2,403	2,469
Other operating expenses	11,608	8,614
Total expenses	$ 102,389	$ 70,059
Income from operations	$ 56,123	$ 24,182
Income tax expense	13,063	8,849
Net income before noncontrolling interests	$ 43,060	$ 15,333
Less: net income (loss) from noncontrolling interests	(161)	(125)
Walker & Dunlop net income	$ 43,221	$ 15,458
Basic earnings per share	$ 1.45	$ 0.52
Diluted earnings per share	$ 1.35	$ 0.50
Basic weighted average shares outstanding	29,809	29,489
Diluted weighted average shares outstanding	32,006	30,782

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
Cash flows from operating activities		
Net income before noncontrolling interests	$ 43,060	$ 15,333
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gains attributable to the fair value of future servicing rights, net of guaranty obligation	(45,535)	(23,917)
Change in the fair value of premiums and origination fees	3,878	(63)
Amortization and depreciation	32,338	25,155
Provision (benefit) for credit losses	(132)	(409)
Other operating activities, net	610,493	1,949,158
Net cash provided by (used in) operating activities	$ 644,102	$ 1,965,257
Cash flows from investing activities		
Capital expenditures	$ (844)	$ (484)
Funding of preferred equity investments	(4,052)	(1,291)
Net cash paid to increase ownership interest in a previously held equity-method investment	—	(1,058)
Acquisitions, net of cash received	(15,000)	—
Originations of loans held for investment	(139,442)	—
Principal collected on loans held for investment	48,400	41,548
Net cash provided by (used in) investing activities	$ (110,938)	$ 38,715
Cash flows from financing activities		
Borrowings (repayments) of warehouse notes payable, net	$ (650,492)	$ (1,999,202)
Borrowings of interim warehouse notes payable	102,377	—
Repayments of interim warehouse notes payable	(36,300)	(30,469)
Repayments of note payable	(276)	(276)
Proceeds from issuance of common stock	2,884	3,291
Repurchase of common stock	(17,541)	(8,345)
Debt issuance costs	(325)	—
Net cash provided by (used in) financing activities	$ (599,673)	$ (2,035,001)
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents (NOTE 2)	$ (66,509)	$ (31,029)
	213,467	214,484

Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period		
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	$ 146,958	$ 183,455
Supplemental Disclosure of Cash Flow Information:		
Cash paid to third parties for interest	$ 11,739	$ 11,880
Cash paid for income taxes	12,632	11,315

See accompanying notes to condensed consolidated financial statements.

Table of Contents

NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

These financial statements represent the condensed consolidated financial position and results of operations of Walker & Dunlop, Inc. and its subsidiaries. Unless the context otherwise requires, references to "we," "us," "our," "Walker & Dunlop" and the "Company" mean the Walker & Dunlop consolidated companies. The statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Form 10-K"). In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or thereafter.

Walker & Dunlop, Inc. is a holding company and conducts the majority of its operations through Walker & Dunlop, LLC, the operating company. Walker & Dunlop is one of the leading commercial real estate services and finance companies in the United States. The Company originates, sells, and services a range of multifamily and other commercial real estate financing products and provides multifamily investment sales brokerage services. The Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), the Government National Mortgage Association ("Ginnie Mae"), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, "HUD"). The Company also offers a proprietary loan program offering interim loans (the "Interim Program").

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The condensed consolidated financial statements include the accounts of Walker & Dunlop, Inc., its wholly owned subsidiaries, and its majority owned subsidiaries. All intercompany transactions have been eliminated in consolidation. When the Company has significant influence over operating and financial decisions for an entity but does not own a majority of the voting interests, the Company accounts for the investment using the equity method of accounting.

Subsequent Events—The Company has evaluated the effects of all events that have occurred subsequent to March 31, 2017. There have been no material events that would require recognition in the condensed consolidated financial statements. The Company has made certain disclosures in the notes to the condensed consolidated financial statements of events that have occurred subsequent to March 31, 2017. No other material subsequent events have occurred that would require disclosure.

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

Comprehensive Income—For the three months ended March 31, 2017 and 2016, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

Loans Held for Investment, net—Loans held for investment are multifamily loans originated by the Company through the Interim Program for properties that currently do not qualify for permanent GSE or HUD (collectively, the "Agencies") financing. These loans have terms of up to three years. The loans are carried at their unpaid principal balances, adjusted for net unamortized loan fees and costs, and net of any allowance for loan losses. Interest income is accrued based on the actual coupon rate, adjusted for the amortization of net deferred fees and costs, and is recognized as revenue when earned and deemed collectible. All loans held for investment are multifamily loans with similar risk characteristics. As of March 31, 2017, Loans held for investment, net consisted of 14 loans with an aggregate $313.4 million of unpaid principal balance less $1.8 million of net unamortized deferred fees and costs and $0.4 million of allowance for loan losses. As of December 31, 2016, Loans held for investment, net consisted of 12 loans with an aggregate $222.3 million of unpaid principal balance less $1.5 million of net unamortized deferred fees and costs and $0.4 million of allowance for loan losses.

Table of Contents

The allowance for loan losses is the Company's estimate of credit losses inherent in the interim loan portfolio at the balance sheet date. The Company has established a process to determine the appropriateness of the allowance for loan losses that assesses the losses inherent in the portfolio. That process includes assessing the credit quality of each of the loans held for investment by monitoring the financial condition of the borrower and the financial trends of the underlying property. The allowance levels are influenced by the outstanding portfolio balance, delinquency rates, historic loss experience, and other conditions influencing loss expectations, such as economic conditions. The allowance for loan losses is estimated collectively for loans with similar characteristics and for which there is no evidence of impairment. The allowances for loan losses recorded as of March 31, 2017 and December 31, 2016 were based on the Company's collective assessment of the portfolio.

Loans held for investment are placed on non-accrual status when full and timely collection of interest or principal is not probable. Loans held for investment are considered past due when contractually required principal or interest payments have not been made on the due dates and are charged off when the loan is considered uncollectible. The Company evaluates all loans held for investment for impairment. A loan is considered impaired when the Company believes that the facts and circumstances of the loan suggest that the Company will not be able to collect all contractually due principal and interest. Delinquency status and property financial condition are key components of the Company's consideration of impairment status.

None of the loans held for investment was delinquent, impaired, or on non-accrual status as of March 31, 2017 or December 31, 2016. Additionally, we have not experienced any delinquencies related to these loans or charged off any loan held for investment since the inception of the Interim Program in 2012.

Provision (Benefit) for Credit Losses—The Company records the income statement impact of the changes in the allowance for loan losses and the allowance for risk-sharing obligations within Provision (benefit) for credit losses in the Condensed Consolidated Statements of Income. NOTE 5 contains additional discussion related to the allowance for risk-sharing obligations. Provision (benefit) for credit losses consisted of the following activity for the three months ended March 31, 2017 and 2016:

	For the three months ended March 31,	
(in thousands)	2017	2016
Provision (benefit) for loan losses	$ 25	$ (255)
Provision (benefit) for risk-sharing obligations	(157)	(154)
Provision (benefit) for credit losses	$ (132)	$ (409)

Net Warehouse Interest Income—The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans held for sale and loans held for investment. Substantially all loans that are held for sale are financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. A portion of all loans that are held for investment is financed with matched borrowings

under our warehouse facilities. The portion of loans held for investment not funded with matched borrowings is financed with the Company's own cash. Warehouse interest expense is incurred on borrowings used to fund loans solely while they are held for sale or for investment. Warehouse interest income and expense are earned or incurred on loans held for sale after a loan is closed and before a loan is sold. Warehouse interest income and expense are earned or incurred on loans held for investment after a loan is closed and before a loan is repaid. Included in Net warehouse interest income for the three months ended March 31, 2017 and 2016 are the following components:

	For the three months ended March 31,	
(in thousands)	2017	2016
Warehouse interest income - loans held for sale	$ 11,939	$ 13,523
Warehouse interest expense - loans held for sale	(8,264)	(8,348)
Net warehouse interest income - loans held for sale	$ 3,675	$ 5,175
Warehouse interest income - loans held for investment	$ 4,678	$ 2,822
Warehouse interest expense - loans held for investment	(1,733)	(1,266)
Net warehouse interest income - loans held for investment	$ 2,945	$ 1,556
Total net warehouse interest income	$ 6,620	$ 6,731

Table of Contents

Income Taxes—The Company records the excess tax benefits from stock compensation as a reduction to income tax expense. During the three months ended March 31, 2017 and 2016, the Company recorded excess tax benefits of $8.7 million and $0.3 million, respectively.

Statement of Cash Flows—For presentation in the Condensed Consolidated Statements of Cash Flows, the Company considers Pledged securities, at fair value to be restricted cash equivalents. The following table presents a reconciliation of the total of cash, cash equivalents, restricted cash, and restricted cash equivalents as presented in the Condensed Consolidated Statements of Cash Flows to the related captions in the Condensed Consolidated Balance Sheets as of March 31, 2017 and 2016 and December 31, 2016 and 2015.

(in thousands)	March 31, 2017	2016	December 31, 2016	2015
Cash and cash equivalents	$ 50,745	$ 98,224	$ 118,756	$ 136,988
Restricted cash	9,313	10,006	9,861	5,306
Pledged securities, at fair value (restricted cash equivalents)	86,900	75,225	84,850	72,190
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 146,958	$ 183,455	$ 213,467	$ 214,484

Recently Adopted Accounting Pronouncements—In the first quarter of 2017, Accounting Standards Update 2017-04 (“ASU 2017-04”), Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, was issued. ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating the requirement to calculate the implied fair value of a reporting unit’s goodwill. ASU 2017-04 is effective for the Company on January 1, 2020, with early adoption permitted. The Company prospectively adopted ASU 2017-04 in the first quarter of 2017. There was no impact to the Company as the Company was not required to meaure a goodwill impairment charge.

In the first quarter of 2017, Accounting Standards Update 2017-01 (“ASU 2017-01”), Business Combinations (Topic 805): Clarifying the Definition of a Business, was issued. ASU 2017-01 changed the definition of a business in an effort to assist entities with evaluating whether a set of transferred assets and activities is a business. ASU 2017-01 is effective for the Company on January 1, 2018, with early adoption permitted. The Company prospectively adopted ASU 2017-01 in the first quarter of 2017 with no current impact to the Company.

Recently Announced Accounting Pronouncements—The following table presents the accounting pronouncements that the Financial Accounting Standards Board (“FASB”) has issued and that have the potential to impact the Company but have not yet been adopted by the Company.

Table of Contents

Standard	Issue Date	Description	Effective Date	Expected Financial Statement Impact
Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	Q2 2016	ASU 2016-13 ("the Standard") represents a significant change to the incurred loss model currently used to account for credit losses. The Standard requires an entity to estimate the credit losses expected over the life of the credit exposure upon initial recognition of that exposure. The expected credit losses consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Exposures with similar risk characteristics are required to be grouped together when estimating expected credit losses. The initial estimate and subsequent changes to the estimated credit losses are required to be reported in current earnings in the income statement and through an allowance in the balance sheet. ASU 2016-13 is applicable to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures. The Standard will modify the way the Company estimates its allowance for risk-sharing obligations and its allowance for loan losses. ASU 2016-13 requires modified retrospective application to all outstanding, in-scope instruments, with a cumulative-effect adjustment recorded to opening retained earnings as of the beginning of the period of adoption.	January 1, 2020 (early adoption permitted January 1, 2019)	The Company is in the preliminary stages of implementation as it is still in the process of determining the significance of the impact the Standard will have on its financial statements and the timing of when it will adopt ASU 2016-13. The Company expects its Allowance for risk-sharing obligations and allowance for loan losses to increase when ASU 2016-13 is adopted. The magnitude of the impacts will not be known until closer to the adoption date.
ASU 2016-02, Leases (Topic 842)	Q1 2016	ASU 2016-02 represents a significant reform to the accounting for leases. Lessees initially recognize a lease liability for the obligation to make lease payments and a right-of-use (“ROU”) asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments over the lease term. The ROU asset is measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee’s initial direct costs. Lessees generally recognize lease expense for these leases on a straight-line basis, which is similar to what they do today. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements.	January 1, 2019 (early adoption is permitted)	The Company is in the preliminary stages of implementation as it is still in the process of determining the significance of the impact ASU 2016-02 will have on its financial statements and the timing of when it will adopt ASU 2016-02.
ASU 2016-01, Financial Instruments –	Q1 2016	The guidance requires that unconsolidated equity investments not accounted for under the equity method be recorded at fair value, with changes in fair	January 1, 2018 (early adoption	The Company does not believe that ASU 2016-01 will have a material impact

Overall – Recognition and Measurement of Financial Assets and Financial Liabilities		value recorded through net income. The accounting principles that permitted available-for-sale classification with unrealized holding gains and losses recorded in other comprehensive income for equity securities will no longer be applicable. The guidance is not applicable to debt securities and loans and requires minor changes to the disclosure and presentation of financial instruments. ASU 2016-01 generally requires a cumulative-effect adjustment to opening retained earnings as of the beginning of the period of adoption.	permitted for certain parts)	on its reported financial results.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	Q2 2014	ASU 2014-09 represents a comprehensive reform of many of the revenue recognition requirements in GAAP. The guidance in the ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and supersedes or amends much of the industry-specific revenue recognition guidance found throughout the Accounting Standards Codification. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The ASU creates a five-step process for achieving the core principle: 1) identifying the contract with the customer, 2) identifying the performance obligations in the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations, and 5) recognizing revenue when an entity has completed the performance obligations. The ASU also requires additional disclosures that allow users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows resulting from contracts with customers. The guidance permits the use of the full retrospective or modified retrospective transition methods.	January 1, 2018 (early adoption permitted January 1, 2017)	The Company completed its analysis of ASU 2014-09 and concluded that it will not have a material impact on the amount or timing of revenue the Company records under its current revenue recognition practices. Additionally, the Company believes that this ASU will not impact the presentation of the Company's financial statements or require significant additional footnote disclosures.

Table of Contents

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

There have been no material changes to the accounting policies discussed in NOTE 2 of the Company's 2016 Form 10-K other than the changes made pursuant to the adoption of the two ASUs as discussed above.

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

NOTE 3—GAINS FROM MORTGAGE BANKING ACTIVITIES

Gains from mortgage banking activities consisted of the following activity for the three months ended March 31, 2017 and 2016:

	For the three months ended March 31,	
(in thousands)	2017	2016
Contractual loan origination related fees, net	$ 50,897	$ 22,406
Fair value of expected net cash flows from servicing recognized at commitment	48,677	25,427
Fair value of expected guaranty obligation recognized at commitment	(3,142)	(1,510)
Total gains from mortgage banking activities	$ 96,432	$ 46,323

The origination fees shown in the table are net of co-broker fees of $3.7 million and $5.4 million for the three months ended March 31, 2017 and 2016, respectively.

NOTE 4—MORTGAGE SERVICING RIGHTS

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

The fair values of the MSRs at March 31, 2017 and December 31, 2016 were $698.2 million and $669.4 million, respectively. The Company uses a discounted static cash flow valuation approach, and the key economic assumption is the discount rate. For example, see the following sensitivities:

The impact of a 100-basis point increase in the discount rate at March 31, 2017 is a decrease in the fair value of $22.2 million.

The impact of a 200-basis point increase in the discount rate at March 31, 2017 is a decrease in the fair value of $42.7 million.

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

Activity related to capitalized MSRs for the three months ended March 31, 2017 and 2016 is shown in the table below:

Table of Contents

	For the three months ended March 31,	
(in thousands)	2017	2016
Beginning balance	$ 521,930	$ 412,348
Additions, following the sale of loan	72,925	34,973
Amortization	(28,900)	(22,723)
Pre-payments and write-offs	(3,425)	(2,947)
Ending balance	$ 562,530	$ 421,651

The following summarizes the components of the net carrying value of the Company's acquired and originated MSRs as of March 31, 2017:

	As of March 31, 2017		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Acquired MSRs	$ 175,934	$ (109,552)	$ 66,382
Originated MSRs	704,240	(208,092)	496,148
Total	$ 880,174	$ (317,644)	$ 562,530

The expected amortization of MSRs recorded as of March 31, 2017 is shown in the table below. Actual amortization may vary from these estimates.

(in thousands)	Originated MSRs Amortization	Acquired MSRs Amortization	Total MSRs Amortization
Nine Months Ending December 31, 2017	$ 73,246	$ 10,545	$ 83,791
Year Ending December 31,			
2018	$ 86,820	$ 11,804	$ 98,624
2019	74,090	10,375	84,465
2020	66,297	8,713	75,010
2021	56,993	6,970	63,963
2022	44,992	4,989	49,981
Thereafter	93,710	12,986	106,696
Total	$ 496,148	$ 66,382	$ 562,530

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

When a loan is sold under the Fannie Mae DUS program, the Company typically agrees to guarantee a portion of the ultimate loss incurred on the loan should the borrower fail to perform. The compensation for this risk is a component of the servicing fee on the loan. The Company does not provide a guaranty for any other loan product it sells or

brokers.

Activity related to the guaranty obligation for the three months ended March 31, 2017 and 2016 is presented in the following table:

Table of Contents

	For the three months ended March 31,	
(in thousands)	2017	2016
Beginning balance	$ 32,292	$ 27,570
Additions, following the sale of loan	4,689	1,911
Amortization	(1,580)	(1,212)
Other	(90)	283
Ending balance	$ 35,311	$ 28,552

Activity related to the allowance for risk-sharing obligations for the three months ended March 31, 2017 and 2016 is shown in the following table:

	For the three months ended March 31,	
(in thousands)	2017	2016
Beginning balance	$ 3,613	$ 5,586
Provision (benefit) for risk-sharing obligations	(157)	(154)
Write-offs	—	—
Other	90	(283)
Ending balance	$ 3,546	$ 5,149

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

The Allowance for risk-sharing obligations as of March 31, 2017 is based entirely on the Company's collective assessment of the probability of loss related to the loans on the watch list as of March 31, 2017.

As of March 31, 2017, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement was $5.2 billion. The maximum quantifiable contingent liability is not representative of the actual loss the Company would incur. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

NOTE 6—SERVICING

The total unpaid principal balance of the Company's servicing portfolio was $64.4 billion as of March 31, 2017 compared to $63.1 billion as of December 31, 2016.

NOTE 7—WAREHOUSE NOTES PAYABLE

At March 31, 2017, to provide financing to borrowers, the Company has arranged for warehouse lines of credit. In support of the Agencies' programs, the Company has warehouse lines of credit in the amount of $1.7 billion with certain national banks and a $1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). The Company has pledged substantially all of its loans held for sale against the Agency Warehouse Facilities. The Company has arranged for warehouse lines of credit in the amount of $0.4 billion with certain national banks to assist in funding loans held for investment under the Interim Program ("Interim Warehouse Facilities"). The Company has pledged substantially all of its loans held for investment against these Interim Warehouse Facilities. The maximum amount and outstanding borrowings under the warehouse notes payable at March 31, 2017 are shown in the table below:

Table of Contents

(dollars in thousands) Facility	March 31, 2017 Maximum Amount	Outstanding Balance	Loan Type Funded (1)	Interest rate
Agency warehouse facility #1	$ 425,000	$ 130,719	LHFS	30-day LIBOR plus 1.40%
Agency warehouse facility #2	650,000	562,583	LHFS	30-day LIBOR plus 1.40%
Agency warehouse facility #3	280,000	90,358	LHFS	30-day LIBOR plus 1.35%
Agency warehouse facility #4	350,000	214,116	LHFS	30-day LIBOR plus 1.40%
Agency warehouse facility #5	30,000	20,348	LHFS	30-day LIBOR plus 1.80%
Fannie Mae repurchase agreement, uncommitted line and open maturity	1,500,000	180,378	LHFS	30-day LIBOR plus 1.15%
Total agency warehouse facilities	$ 3,235,000	$ 1,198,502		
Interim warehouse facility #1	$ 85,000	$ 36,916	LHFI	30-day LIBOR plus 1.90%
Interim warehouse facility #2	200,000	113,272	LHFI	30-day LIBOR plus 2.00%
Interim warehouse facility #3	75,000	59,006	LHFI	30-day LIBOR plus 2.00% to 2.50%
Total interim warehouse facilities	$ 360,000	$ 209,194		
Debt issuance costs	—	(1,234)		
Total warehouse facilities	$ 3,595,000	$ 1,406,462		

(1) Type of loan the borrowing facility is used to fully or partially fund – loans held for sale (“LHFS”) or loans held for investment (“LHFI”).

During the second quarter of 2017, the Company executed a short-term extension related to Agency Warehouse Facility #3. The extension reduced the interest rate to the 30-day London Interbank Offered Rate (“LIBOR”) plus 125 basis points and extended the maturity date to May 30, 2017. Prior to the expiration of the extension, the Company expects to execute an amendment to extend the maturity date for a one-year period with increased capacity and the same interest rate as the extension. No other material modifications have been made to the agreement during 2017.

During the second quarter of 2017, the Company executed the seventh amendment to the credit and security agreement related to Interim Warehouse Facility #1 that extended the maturity date to April 30, 2018. No other material modifications have been made to the agreement during 2017.

During the second quarter of 2017, the Company exercised its option to extend the maturity date of Interim Warehouse Facility #3 to May 19, 2018. No other material modifications have been made to the agreement during 2017.

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

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of the Company’s goodwill as of and for the three months ended March 31, 2017 and 2016 follows:

	Three Months Ended March 31,	
(in thousands)	2017	2016
Beginning balance	$ 96,420	$ 90,338
Additions from acquisitions	27,347	—
Impairment	—	—
Ending balance	$ 123,767	$ 90,338

The addition from acquisitions during the three months ended March 31, 2017 shown in the table above relates to an immaterial acquisition completed on January 30, 2017. The Company purchased certain assets and assumed certain liabilities of Deerwood Real Estate

Table of Contents

Capital, LLC ("Deerwood"), a regional commercial mortgage banking company based in the greater New York City area, for $28.2 million in total consideration, which consisted of cash and contingent consideration. The contingent consideration may be earned over the three-year period after the acquisition based on achievement of certain revenue targets. The Company determined the fair value of the contingent consideration using a probability-based, discounted cash flow estimate for the revenue targets (Level 3).

Prior to the acquisition, Deerwood engaged in commercial real estate loan brokerage services across the United States, with a primary focus in the Greater New York City area. The acquisition expands the Company's network of loan originators and provides further diversification to its loan origination platform.

Substantially all of the value associated with Deerwood related to its assembled workforce and commercial lending platform, resulting in $27.3 million of goodwill. The Company expects all of goodwill to be tax deductible, with the tax-deductible amount of goodwill related to the contingent consideration to be determined once the cash payments to settle the contingent consideration are made. The other assets acquired included immaterial balances related to mortgage pipeline intangible assets and other assets. The operations of Deerwood have been merged into the Company's existing operations. The goodwill resulting from the acquisition of Deerwood is allocated to the Company's one reporting unit.

As of March 31, 2017, the Company has fully amortized all intangible assets obtained from acquisitions.

NOTE 9—FAIR VALUE MEASUREMENTS

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

- Level 1—Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Financial assets and liabilities whose values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3—Financial assets and liabilities whose values are based on inputs that are both unobservable and significant to the overall valuation.

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

A description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied

Table of Contents

to all of the Company's assets and liabilities carried at fair value on a recurring basis:

- Derivative Instruments—The derivative instruments used by the Company consist of interest rate lock commitments and forward sale agreements. These instruments are valued using a discounted cash flow model developed based on changes in the U.S. Treasury rate and other observable market data. The value was determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company, and are classified within Level 3 of the valuation hierarchy.
- Loans Held for Sale—Loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using discounted cash flow models that incorporate quoted observable prices from market participants. Therefore, the Company classifies these loans held for sale as Level 2.
- Pledged Securities—The pledged securities are valued using quoted market prices from recent trades. Therefore, the Company classifies pledged securities as Level 1.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2017, and December 31, 2016, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value:

(in thousands)	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
March 31, 2017				
Assets				
Loans held for sale	$ —	$ 1,230,311	$ —	$ 1,230,311
Pledged securities	86,900	—	—	86,900
Derivative assets	—	—	15,446	15,446
Total	$ 86,900	$ 1,230,311	$ 15,446	$ 1,332,657
Liabilities				
Derivative liabilities	$ —	$ —	$ 9,449	$ 9,449
Total	$ —	$ —	$ 9,449	$ 9,449
December 31, 2016				
Assets				
Loans held for sale	$ —	$ 1,858,358	$ —	$ 1,858,358
Pledged securities	84,850	—	—	84,850
Derivative assets	—	—	61,824	61,824
Total	$ 84,850	$ 1,858,358	$ 61,824	$ 2,005,032
Liabilities				
Derivative liabilities	$ —	$ —	$ 4,396	$ 4,396
Total	$ —	$ —	$ 4,396	$ 4,396

There were no transfers between any of the levels within the fair value hierarchy during the three months ended March 31, 2017.

Table of Contents

Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 60 days). A roll forward of derivative instruments is presented below for the three months ended March 31, 2017 and 2016:

	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments For the three months ended March 31,	
(in thousands)	2017	2016
Derivative assets and liabilities, net		
Beginning balance	$ 57,428	$ 10,345
Settlements	(147,863)	(49,159)
Realized gains recorded in earnings (1)	90,435	38,814
Unrealized gains recorded in earnings (1)	5,997	9,578
Ending balance	$ 5,997	$ 9,578

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

The following table presents information about significant unobservable inputs used in the measurement of the fair value of the Company's Level 3 assets and liabilities as of March 31, 2017:

	Quantitative Information about Level 3 Measurements			
(in thousands)	Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	$ 15,446	Discounted cash flow	Counterparty credit risk	—
Derivative liabilities	$ 9,449	Discounted cash flow	Counterparty credit risk	—

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

The carrying amounts and the fair values of the Company's financial instruments as of March 31, 2017 and December 31, 2016 are presented below:

	March 31, 2017		December 31, 2016	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 50,745	$ 50,745	$ 118,756	$ 118,756
Restricted cash	9,313	9,313	9,861	9,861
Pledged securities	86,900	86,900	84,850	84,850
Loans held for sale	1,230,311	1,230,311	1,858,358	1,858,358
Loans held for investment, net	311,242	313,355	220,377	222,313

Derivative assets	15,446	15,446	61,824	61,824
Total financial assets	$ 1,703,957	$ 1,706,070	$ 2,354,026	$ 2,355,962
Financial liabilities:				
Derivative liabilities	$ 9,449	$ 9,449	$ 4,396	$ 4,396
Warehouse notes payable	1,406,462	1,407,696	1,990,183	1,992,111
Note payable	164,088	167,051	164,163	167,327
Total financial liabilities	$ 1,579,999	$ 1,584,196	$ 2,158,742	$ 2,163,834

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is

Table of Contents

practicable to estimate that value:

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

Pledged Securities—Consist of highly liquid investments in money market accounts invested in government securities and investments in government guaranteed securities. Investments typically have maturities of 90 days or less and are valued using quoted market prices from recent trades.

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

Loans Held For Investment—Consist of originated interim loans which the Company expects to hold for investment for the term of the loan, which is three years or less, and are valued using discounted cash flow models that incorporate primarily observable inputs from market participants and also credit-related adjustments, if applicable (Level 3). As of March 31, 2017 and December 31, 2016, no credit-related adjustments were required.

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

Warehouse Notes Payable—Consist of borrowings outstanding under warehouse line agreements. The borrowing rates on the warehouse lines are based upon 30-day LIBOR plus a margin. The unpaid principal balance of warehouse notes payable approximates fair value because of the short maturity of these instruments and the monthly resetting of the index rate to prevailing market rates (Level 2).

Note Payable—Consists of borrowings outstanding under a term note agreement. The borrowing rate on the note payable is based upon 30-day LIBOR plus an applicable margin. The Company estimates the fair value by discounting the future cash flows at market rates (Level 2).

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

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

Both the rate lock commitments to borrowers and the forward sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through Gains on mortgage banking activities in the Condensed

Consolidated Statements of Income. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input levels includes, as applicable:

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

The fair value of the Company's forward sales contracts to investors considers effects of interest rate movements between the trade date and the balance sheet date (Level 2). The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

Table of Contents

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon sale of the loan (Level 2). The fair value of the expected net cash flows associated with servicing the loan is calculated pursuant to the valuation techniques applicable to MSRs (Level 2).

To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date or loan origination date and the balance sheet date by the notional loan commitment amount (Level 2).

The fair value of the Company's forward sales contracts to investors considers the market price movement of the same type of security between the trade date and the balance sheet date (Level 2). The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

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

The following table presents the components of fair value and other relevant information associated with the Company’s derivative instruments and loans held for sale as of March 31, 2017 and December 31, 2016.

		Fair Value Adjustment Components			Balance Sheet Location		
(in thousands)	Notional or Principal Amount	Assumed Gain on Sale	Interest Rate Movement	Total Fair Value Adjustment	Derivative Assets	Derivative Liabilities	Fair Value Adjustment To Loans Held for Sale
March 31, 2017							
Rate lock commitments	$ 481,351	$ 12,923	$ 1,289	$ 14,212	$ 14,212	$ —	$ —
Forward sale contracts	1,680,620	—	(8,215)	(8,215)	1,234	(9,449)	—
Loans held for sale	1,199,269	24,116	6,926	31,042	—	—	31,042
Total		$ 37,039	$ —	$ 37,039	$ 15,446	$ (9,449)	$ 31,042
December 31, 2016							
Rate lock commitments	$ 395,462	$ 15,844	$ (2,275)	$ 13,569	$ 14,482	$ (913)	$ —
Forward sale contracts	2,248,385	—	43,859	43,859	47,342	(3,483)	—
Loans held for sale	1,852,923	47,019	(41,584)	5,435	—	—	5,435
Total		$ 62,863	$ —	$ 62,863	$ 61,824	$ (4,396)	$ 5,435

NOTE 10—LITIGATION, COMMITMENTS, AND CONTINGENCIES

Fannie Mae DUS Related Commitments—Commitments for the origination and subsequent sale and delivery of loans to Fannie Mae represent those mortgage loan transactions where the borrower has locked an interest rate and scheduled

closing and the Company has entered into a mandatory delivery commitment to sell the loan to Fannie Mae. As discussed in NOTE 9, the Company accounts for these commitments as derivatives recorded at fair value.

The Company is generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. The Company is required to secure these obligations by assigning restricted cash balances and securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Restricted liquidity held in the form of money market funds holding U.S. Treasuries is discounted 5% for purposes of calculating compliance with the restricted liquidity requirements. As of March 31, 2017, the Company held substantially all of its restricted liquidity in money market funds holding U.S. Treasuries. Additionally, substantially all of the loans for which the Company has risk sharing are Tier 2 loans.

The Company is in compliance with the March 31, 2017 collateral requirements as outlined above. As of March 31, 2017, reserve

Table of Contents

requirements for the DUS loan portfolio will require the Company to fund $61.0 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within the at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. The Company generates sufficient cash flow from its operations to meet these capital standards and does not expect any future changes to have a material impact on its future operations; however, any future changes to collateral requirements may adversely impact the Company’s available cash.

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate the Company's servicing authority for all or some of the portfolio if at any time it determines that the Company's financial condition is not adequate to support its obligations under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of March 31, 2017. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk sharing. At March 31, 2017, the minimum net worth requirement was $137.1 million, and the Company's net worth was $513.8 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of March 31, 2017, the Company was required to maintain at least $26.8 million of liquid assets to meet operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, and Ginnie Mae. As of March 31, 2017, the Company had operational liquidity of $65.0 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

Other Commitments—Under certain limited circumstances, the Company may make preferred equity investments in entities controlled by certain of its borrowers that will assist those borrowers to acquire and reposition properties. The terms of such investments are negotiated with each investment. As of March 31, 2017, the Company has made commitments to fund such preferred equity investments in monthly installments totaling $42.8 million, $28.9 million of which has been funded. The Company expects to fund the unfunded commitment amounts by the end of 2017.

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

NOTE 11—EARNINGS PER SHARE

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three months ended March 31, 2017 and 2016:

	For the three months ended March 31,	
(in thousands)	2017	2016
Weighted average number of shares outstanding used to calculate basic earnings per share	29,809	29,489
Dilutive securities		
Unvested restricted shares and restricted share units	1,541	1,020

Stock options	656	273
Weighted average number of shares and share equivalents outstanding used to calculate diluted earnings per share	32,006	30,782

The assumed proceeds used for calculating the dilutive impact of restricted stock awards under the treasury method includes the unrecognized compensation costs associated with the awards. The following table presents any average outstanding options to purchase shares of common stock and average restricted shares that were not included in the computation of diluted earnings per share because the

Table of Contents

effect would have been anti-dilutive (the exercise price of the options or the grant date market price of the restricted shares was greater than the average market price of the Company's shares during the periods presented).

	For the three months ended March 31,	
(in thousands)	2017	2016
Average options	55	102
Average restricted shares	101	216

NOTE 12—TOTAL EQUITY

A summary of changes in total equity is presented below:

	Stockholders' Equity					
(in thousands)	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	29,551	$ 296	$ 228,889	$ 381,031	$ 4,858	$ 615,074
Walker & Dunlop net income	—	—	—	43,221	—	43,221
Net income from noncontrolling interests	—	—	—	—	(161)	(161)
Stock-based compensation - equity classified	—	—	4,681	—	—	4,681
Issuance of common stock in connection with equity compensation plans	983	9	2,875	—	—	2,884
Repurchase and retirement of common stock	(439)	(4)	(17,537)	—	—	(17,541)
Balance at March 31, 2017	30,095	$ 301	$ 218,908	$ 424,252	$ 4,697	$ 648,158

NOTE 13—SUBSEQUENT EVENTS

During the second quarter of 2017, the Company formed a joint venture with an affiliate of one of the world's largest owners of commercial real estate that will originate, hold, and finance loans that previously met the criteria of the Company's Interim Program. The Company holds a 15% ownership interest in the joint venture, and will be responsible for underwriting, servicing, and asset-managing the loans originated by the joint venture. The joint venture will fund its operations using a combination of equity contributions from its owners and warehouse credit facilities. The Company does not expect to consolidate the activities of the joint venture. Accordingly, the Company

expects to account for the activities associated with its ownership interest using the equity method. It is expected that substantially all loans satisfying the criteria for the Interim Program will be originated by the joint venture going forward; however, the Company may opportunistically originate loans held for investment through the Interim Program in the future.

Table of Contents

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

The following discussion should be read in conjunction with the historical financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q"). The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those expressed or contemplated in those forward-looking statements as a result of certain factors, including those set forth under the headings "Forward-Looking Statements" and "Risk Factors" elsewhere in this Form 10-Q and in the Annual Report on Form 10-K for the year ended December 31, 2016 ("2016 Form 10-K").

Forward-Looking Statements

Some of the statements in this Form 10-Q of Walker & Dunlop, Inc. and subsidiaries (the "Company," "Walker & Dunlop," "we," "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," "anticipa "believes," "estimates," "predicts," or "potential" or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

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

- the future of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), including their origination capacities, and their impact on our business;
- changes to 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;
- 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, interest rates, commercial real estate values, the credit and capital markets, or the general economy;
- general volatility of the capital markets and the market price of our common stock;
- our commitment to make preferred equity investments as part of our overall growth strategy; and
- other risks and uncertainties associated with our business described in the 2016 Form 10-K and our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

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

cause future results to differ materially from those expressed or contemplated in any forward-looking statements, see "Risk Factors."

Business

We are one of the leading commercial real estate services and finance companies in the United States, with a primary focus on multifamily lending. We originate, sell, and service a range of multifamily and other commercial real estate financing products and provide

Table of Contents

multifamily investment sales brokerage services. Our clients are owners and developers of commercial real estate across the country. We originate and sell loans through the programs of the GSEs and HUD (collectively the “Agencies”), with which we have long-established relationships. 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 Delegated Underwriting and Servicing ("DUS" ™) lender nationally, a Freddie Mac Multifamily Approved Seller/Servicer for Conventional Loans (“Freddie Mac seller/servicer”) in 23 states and the District of Columbia, a Freddie Mac Approved Seller/Servicer for Seniors Housing and Targeted Affordable Housing nationwide, a HUD Multifamily Accelerated Processing ("MAP") lender nationally, a HUD LEAN lender nationally, and a Ginnie Mae issuer. We also broker loans for a number of life insurance companies, commercial banks, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. We service some of the loans for which we act as a loan broker.

We fund loans for the Agencies, generally through warehouse facility financings, and sell them to investors in accordance with the related loan sale commitment, which we obtain prior to rate lock. Proceeds from the sale of the loan are used to pay off the warehouse borrowing. The sale of the loan is typically completed within 60 days after the loan is closed.

We recognize gains from mortgage banking activities when we commit to both make 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 generate revenue from (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, and (iii) sales commissions for brokering the sale of multifamily properties.

We retain servicing rights on substantially all of 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, 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 Freddie Mac servicing arrangements generally provide for prepayment fees to us in the event of a voluntary prepayment. For loans serviced outside of Fannie Mae and Freddie Mac, we typically do not share in any such payments.

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

In cases where we do not fund the loan, we act as a loan broker and retain the right to 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 instrument for the borrowers' needs. These loans are then funded directly by the institutional lender, and we receive an origination fee for placing the loan, 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 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 may, however, request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above. We occasionally request modified risk-sharing based on the size of the loan. We may also request modified risk-sharing on large transactions if we do not believe that we are being fully compensated for the risks of the transactions or to manage overall risk levels. Our current credit management policy is to cap each loan balance subject to full risk-sharing at $60.0 million. Accordingly, we generally elect to use modified risk-sharing for loans of more than $60.0 million in order to limit our maximum loss exposure on any one loan to $12.0 million (such exposure would occur in the event that the underlying collateral is determined

Table of Contents

to be completely without value at the time of loss). However, we may on occasion elect to originate a loan with full risk sharing even when the loan balance is greater than $60.0 million if we believe the loan characteristics support such an approach.

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

We have an interim loan program offering floating-rate, interest-only loans for terms of 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 all loans originated through the Interim Program and assume the full risk of loss on the loans while they are outstanding. In addition, we service and asset-manage loans originated through the Interim Program, with the ultimate goal of providing permanent Agency financing on the properties. We have not experienced any delinquencies or charged off any loans originated under the Interim Program, which began operations in 2012. As of March 31, 2017, we had 14 loans held for investment under the Interim Program with an aggregate outstanding unpaid principal balance of $313.4 million.

During the second quarter of 2017, we entered into a joint venture with an affiliate of one of the world’s largest owners of commercial real estate that will originate, hold, and finance loans that previously met the criteria of the Interim Program (the “Interim Program JV” or the “joint venture”). We hold a 15% ownership interest in the Interim Program JV and will be responsible for underwriting, servicing, and asset-managing the loans originated by the joint venture. The joint venture will fund its operations using a combination of equity contributions from its owners and warehouse credit facilities. It is expected that substantially all loans satisfying the criteria for the Interim Program will be originated by the joint venture going forward; however, we may opportunistically originate loans held for investment through the Interim Program in the future.

Under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers to acquire and reposition properties. The terms of such investments are negotiated with each investment. As of March 31, 2017, we have made commitments to fund such preferred equity investments in monthly installments totaling $42.8 million, $28.9 million of which has been funded. We expect to fund the unfunded commitment amounts by the end of 2017.

We offer investment sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties through Walker & Dunlop Investment Sales, LLC (“WDIS”). Through our investment sales 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 our experienced transaction professionals. Our investment sales services are offered primarily in the eastern United States, with a particular focus in the southeastern United States. We will seek to add other investment sales brokerage talent, with the goal of expanding these brokerage services nationally. We consolidate the activities of WDIS and present the portion of WDIS that we do not control as Noncontrolling interests in the Condensed Consolidated Balance Sheets and Net income from noncontrolling interests in the Condensed Consolidated Statements of Income.

During the first quarter of 2017, we completed the purchase of certain assets and assumption of certain liabilities of Deerwood Real Estate Capital, LLC ("Deerwood"), a regional commercial mortgage banking company based in the greater New York City area. Prior to the acquisition, Deerwood engaged in commercial real estate loan brokerage services across the United States, with a primary focus in the Greater New York City area. The acquisition expands our network of loan originators and provides further diversification to our loan origination platform. The acquisition increased our group of loan originators focusing on capital markets transactions by 19 loan originators.

Basis of Presentation

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

Critical Accounting Policies

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

Table of Contents

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 assumes 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 only one stand-alone servicing portfolio purchase, which occurred in the second quarter of 2016.

The assumptions used to estimate the fair value of MSRs at loan sale are based on internal models and are periodically compared to assumptions used by other market participants. Due to the relatively few transactions in the multifamily MSR market, we have experienced little volatility in the assumptions we use during the periods presented, including the most-significant assumption – the discount rate. Additionally, we do not expect to see much volatility in the assumptions for the foreseeable future. Management actively monitors the assumptions used and makes adjustments to those assumptions when market conditions change or other factors indicate such adjustments are warranted. We carry originated and purchased MSRs at the lower of amortized cost or fair value and evaluate the carrying value for impairment quarterly. We test for impairment on the purchased stand-alone servicing portfolio separately from our other MSRs. The MSRs from both stand-alone portfolio purchases and from loans sales are tested for impairment at the portfolio level. We engage a third party to assist in determining an estimated fair value of our existing and outstanding MSRs on at least a semi-annual basis.

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

All MSRs are amortized using the interest method over the period that servicing income is expected to be received. For MSRs recognized at loan sale, the individual loan-level MSR is written off through a charge to Amortization and depreciation when a loan prepays, defaults, or is probable of default. For MSRs related to purchased stand-alone servicing portfolios, a constant rate of prepayments and defaults is included in the determination of the portfolio's estimated life (and thus included as a component of the portfolio's amortization). Accordingly, prepayments and defaults of individual MSRs do not change the level of amortization expense recorded for the portfolio unless the pattern of actual prepayments and defaults varies significantly from the estimated pattern. When such a significant difference in the pattern of estimated and actual prepayments and defaults occurs, we prospectively adjust the estimated life of the portfolio (and thus future amortization) to approximate the actual pattern observed. We have not adjusted the estimated life of our one purchased stand-alone servicing portfolio due to the limited history we have with the portfolio as we purchased it less than a year ago.

Allowance for Risk-sharing Obligations and Allowance for Loan Losses. The allowance for risk-sharing obligations relates to our at risk servicing portfolio and is presented as a separate liability within the Condensed Consolidated

Balance Sheets. The allowance for loan losses relates to our loans held for investment from our Interim Program and is included as a reduction to Loans held for investment, net within the Condensed Consolidated Balance Sheets. The amount of each of these allowances 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, which for loans held for investment is 100%. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. We regularly monitor each allowance on all applicable loans and update loss estimates as current information is received. Provision (benefit) for credit losses in the Condensed Consolidated Statements of Income reflects the income statement impact of changes to both the allowance for risk-sharing obligations and allowance for loan losses.

We perform a quarterly evaluation of all of our risk-sharing loans to determine whether a loss is probable. Our process for identifying which risk-sharing loans may be probable of loss consists of an assessment of several qualitative and quantitative factors including payment status, property financial performance, local real estate market conditions, loan-to-value ratio, debt-service-coverage ratio, and property condition. When we believe a loan is probable of foreclosure or 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

Table of Contents

fair value at initial recognition of the allowance for risk-sharing obligations is based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value. The allowance for risk-sharing obligations for such loans is updated as any additional information is received until the loss is settled with Fannie Mae. The settlement with Fannie Mae is based on the actual sales price of the property less selling and property preservation costs and considers the Fannie Mae loss-sharing requirements. Loss settlement with Fannie Mae has historically concluded within 18 to 36 months after foreclosure. Historically, the initial specific reserves have not varied 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. When we place a risk-sharing loan on our watch list, we cease to amortize the guaranty obligation and transfer the remaining unamortized balance of the guaranty obligation to the general reserves. If a risk-sharing loan is subsequently removed from our watch list due to improved financial performance, we transfer the unamortized balance of the guaranty obligation back to the guaranty obligation classification on the balance sheet and amortize the remaining unamortized balance evenly over the remaining estimated life. For each loan for which we have a risk-sharing obligation, we record one of the following liabilities associated with that loan as discussed above: guaranty obligation, general reserve, or specific reserve. Although the liability type may change over the life of the loan, at any particular point in time, only one such liability is associated with a loan for which we have a risk-sharing obligation. The Allowance for risk-sharing obligations as of March 31, 2017 is based entirely on general reserves related to the loans on the watch list as of March 31, 2017.

We evaluate all of our loans held for investment for impairment quarterly. Our impairment evaluation focuses primarily on payment status and property financial performance. We consider a loan impaired when the current facts and circumstances suggest it is not probable that we will collect all contractually due principal and interest payments. When a loan is not considered impaired, we apply a collective allowance that is based on recent historical loss probability and historical loss rates incurred in our risk-sharing portfolio, adjusted as needed for current market conditions ("loss factors"). We use the loss experience from our risk-sharing portfolio as a proxy for losses incurred in our loans held for investment portfolio since (i) we have not experienced any actual losses related to our loans held for investment to date and (ii) the loans in the loans-held-for-investment portfolio have similar characteristics to loans held in the risk-sharing portfolio. Since the inception of the Interim Program in 2012, we have not had any delinquent or impaired loans or charged off any loans. The historical loss factors are updated quarterly. We have not experienced significant change in the loss factors during the periods presented in the financial statements. These loss factors may change in the future as economic and market conditions change and as the Interim Program matures and expands.

Overview of Current Business Environment

The fundamentals of the commercial and multifamily real estate market remain strong. Multifamily occupancy rates and effective rents continue to remain at historical highs based upon strong 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 single-family home ownership level continues to decline, resulting in increased demand for multifamily housing. Most other commercial real estate asset classes have experienced similar performance in underlying fundamentals. The positive performance has boosted the value of many commercial and multifamily properties towards the high end of historical ranges.

In addition to the improved property fundamentals, for the last several years, the U.S. commercial and multifamily mortgage market has experienced historically low interest rates, leading many borrowers to seek refinancing prior to the scheduled maturity date of their loans. As borrowers have sought to take advantage of the interest rate environment and improved property fundamentals, the number of lenders and amount of capital available to lend have increased dramatically. According to the Mortgage Bankers Association, commercial and multifamily loan maturities are expected to remain at elevated levels through the end of 2017, as the loans originated at the height of the commercial mortgage-backed securities ("CMBS") market mature a decade later. All of these factors have benefited our origination volumes over the past several years. Competition for lending on commercial and multifamily real estate among commercial real estate services firms, banks, life insurance companies, and the GSEs remains fierce.

During the first quarter of 2017, the Federal Reserve raised its targeted Fed Funds Rate by 25 basis points, the second increase in the past several months. We have not experienced a significant decline in origination volume or profitability as a result of the increases as long-

Table of Contents

term mortgage interest rates remain at historically low levels. We cannot be certain that trend 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 factors, may have a different effect on the commercial real estate market.

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") 2017 GSE Scorecard ("2017 Scorecard") established Fannie Mae's and Freddie Mac's 2017 loan origination caps at $36.5 billion each for market-rate apartments ("2017 Caps"). Affordable housing loans, loans to small multifamily properties, and manufactured housing rental community loans continue to be excluded from the 2017 Caps. Additionally, the definition of the affordable loan exclusion continues to encompass affordable housing in high- and very-high cost markets and to allow for an exclusion from the 2017 Caps for the pro-rata portion of any loan on a multifamily property that includes affordable units. The 2017 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 2017 Caps upward should the market be larger than expected in 2017, as the FHFA did twice in 2016. The 2017 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 energy or water efficiency improvements.

Our GSE loan origination volumes for the three months ended March 31, 2017 increased 108% from the three months ended March 31, 2016 as demand for multifamily lending remained strong as borrowers focused on locking in interest rates ahead of an expected rising interest rate environment. We expect the GSEs to maintain their historical market share in a multifamily market that is projected by Freddie Mac to be $300.0 billion in 2017. The GSEs reported a combined loan origination volume of $112.1 billion during 2016 and $30.0 billion during the three months ended March 31, 2017. As seen from our loan origination volumes for the three months ended March 31, 2017, we believe our market leadership with the GSEs 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 mortgage servicing rights, and annuity-like cash revenue streams in the future. A decline in our GSE originations would negatively impact our financial results as our non-cash revenues would decrease disproportionately with loan origination volume and future servicing fee revenue would be constrained or decline. We do not know whether the FHFA will impose stricter limitations on GSE multifamily production volume beyond 2017.

We continue to grow our capital markets platform to take advantage of the ongoing wave of loan maturities that began in 2015 and to gain greater access to capital, deal flow, and borrower relationships. According to the Mortgage Bankers Association, the commercial real estate debt origination market grew substantially from 2014 to record levels in 2015 and then declined 3% in 2016. The apparent appetite for debt funding within the broader commercial real estate market, coupled with the additions of brokered loan originators over the past several years, has resulted in significant growth in our brokered originations over the past several years, as evidenced by the 53% year-over-year growth in brokered origination volumes from the first quarter of 2016 to the first quarter of 2017. Our outlook for our capital markets platform is positive as non-bank commercial and multifamily loan maturities are expected to grow in 2017.

Over the last few years, HUD has undergone reorganization efforts with the goal of improving the speed and efficiency of the process and reducing the cost of obtaining a loan, making HUD loans more competitive and returning them to relevance for our core multifamily borrowers in 2016 and into 2017, as evidenced by a 49% increase in HUD loan originations from 2015 to 2016 and a 67% increase from the first quarter of 2016 to the first quarter of 2017. 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 remain committed to the HUD multifamily business, adding resources and scale to our HUD lending platform, particularly in the area of seniors housing and skilled nursing, where HUD remains a dominant provider of capital in the current business environment.

Many of our borrowers continue to seek higher returns by identifying and acquiring the transitional properties that the Interim Program is designed to address. The growth in transitional lending was evident in 2016 as we originated $419.6 million of interim loans during 2016 compared to $185.1 million during 2015 and $136.6 million in the first quarter of 2017 compared to none in the first quarter of 2016. We remain optimistic about this market for the foreseeable future, which is one of the reasons we created the Interim Program JV that both increases the overall capital commitment to the opportunity and dramatically expands our capacity to originate new interim loans. The demand for transitional lending has brought increased competition from lenders, specifically banks, mortgage REITs, and life insurance companies. All are actively pursuing transitional properties by leveraging their low cost of capital and desire for short-term, high-yield commercial real estate investments.

Finally, as we have stated, multifamily property values are at near historic highs on the back of positive fundamentals across the industry. As a result, we have recently seen increased activity within the investment sales business. We believe this activity will continue

Table of Contents

throughout the wave of loan maturities, and we will look to capitalize on that demand by expanding the investment sales platform more broadly across the United States in the coming quarters. During the three months ended March 31, 2017, our investment sales team closed $286.7 million of investment sales transactions compared to $157.0 million for the three months ended March 31, 2016.

Results of Operations

Following is a discussion of our results of operations for the three months ended March 31, 2017 and 2016. The financial results are not necessarily indicative of future results. Our quarterly results have fluctuated in the past and are expected to fluctuate in the future, reflecting the interest-rate environment, the volume of transactions, business acquisitions, regulatory actions, and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

SUPPLEMENTAL OPERATING DATA

	For the three months ended March 31,			
(dollars in thousands)	2017		2016	
Transaction Volume:				
Loan Origination Volume by Product Type				
Fannie Mae	$ 1,888,936		$ 763,244	
Freddie Mac	1,162,950		703,807	
Ginnie Mae - HUD	207,032		124,208	
Brokered (1)	1,330,298		867,491	
Interim Loans	136,550		—	
Total Loan Origination Volume	$ 4,725,766		$ 2,458,750	
Investment Sales Volume	286,730		156,950	
Total Transaction Volume	$ 5,012,496		$ 2,615,700	
Key Performance Metrics:				
Operating margin	35	%	26	%
Return on equity	28	%	13	%
Walker & Dunlop net income	$ 43,221		$ 15,458	
Adjusted EBITDA (2)	$ 50,305		$ 32,416	
Diluted EPS	$ 1.35		$ 0.50	
Key Expense Metrics (as a percentage of total revenues):				
Personnel expenses	35	%	36	%
Other operating expenses	7	%	9	%
Key Origination Metrics (as a percentage of loan origination volume):				
Origination related fees	1.08	%	0.91	%
Gains attributable to MSRs	0.96	%	0.97	%
Gains attributable to MSRs, as a percentage of Agency loan origination volume (3)	1.40	%	1.50	%

Servicing Portfolio by Product:	As of March 31, 2017	2016
Fannie Mae	$ 28,741,065	$ 23,304,910
Freddie Mac	21,426,315	18,146,813
Ginnie Mae - HUD	9,073,355	5,645,282
Brokered (1)	4,829,934	3,751,925
Interim Loans	313,355	191,822
Total Servicing Portfolio	$ 64,384,024	$ 51,040,752
Key Servicing Metric (end of period):		
Weighted-average servicing fee rate (basis points)	26.5	25.1

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

Table of Contents

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

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

FINANCIAL RESULTS

	For the three months ended March 31,				
(dollars in thousands)	2017	2016	Dollar Change	Percentage Change	
Revenues					
Gains from mortgage banking activities	$ 96,432	$ 46,323	$ 50,109	108	%
Servicing fees	41,525	31,649	9,876	31	%
Net warehouse interest income	6,620	6,731	(111)	(2)	%
Escrow earnings and other interest income	3,292	1,640	1,652	101	%
Other	10,643	7,898	2,745	35	%
Total revenues	$ 158,512	$ 94,241	$ 64,271	68	%
Expenses					
Personnel	$ 56,172	$ 34,230	$ 21,942	64	%
Amortization and depreciation	32,338	25,155	7,183	29	%
Provision (benefit) for credit losses	(132)	(409)	277	(68)	%
Interest expense on corporate debt	2,403	2,469	(66)	(3)	%
Other operating expenses	11,608	8,614	2,994	35	%
Total expenses	$ 102,389	$ 70,059	$ 32,330	46	%
Income from operations	56,123	24,182	31,941	132	%
Income tax expense	13,063	8,849	4,214	48	%
Net income before noncontrolling interests	$ 43,060	$ 15,333	$ 27,727	181	%
Less: net income (loss) from noncontrolling interests	(161)	(125)	(36)	29	%
Walker & Dunlop net income	$ 43,221	$ 15,458	$ 27,763	180	%

Overview

The increase in revenues was primarily attributable to increases in gains from mortgage banking activities and servicing fees. The increase in gains from mortgage banking activities was due to a 90% increase in the fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained (“MSR income”) and a 127% increase in origination fees period over period. The increases in MSR income and origination fee income were largely attributable to the significant increase in loan origination volume from period to period. Additionally, the mix of loan origination volume impacted MSR income, with a greater percentage of loan origination

volume coming from Fannie Mae loans during the three months ended March 31, 2017 than during the same period in 2016. Fannie Mae loans are one of our highest gain on sale margin loan products. The increase in servicing fees was mainly due to an increase in the average servicing portfolio. The increase in expenses was primarily the result of increased commission costs due to the increase in origination fees, salaries expense due to a rise in headcount, bonus expense due to our improved financial results year over year, and stock compensation expense due to a performance stock compensation plan that began in the second quarter of 2016. Headcount increased due to acquisition activity and hiring to support the growth of our business. Additionally, amortization and depreciation expense increased as the average MSR balance increased period over period.

Revenues

Gains from Mortgage Banking Activities. The following tables provide additional information that helps explain changes in gains

Table of Contents

from mortgage banking activities period over period:

Loan Origination Volume by Product Type				
	2017		2016	
Fannie Mae	40	%	31	%
Freddie Mac	25	%	29	%
Ginnie Mae - HUD	4	%	5	%
Brokered	28	%	35	%
Interim Loans	3	%	0	%

Gains from Mortgage Banking Activities Details				
(dollars in thousands)	2017		2016	
Origination Fees	$ 50,897		$ 22,406	
Dollar Change	28,491			
Percentage Change	127	%		
MSR Income (1)	$ 45,535		$ 23,917	
Dollar Change	21,618			
Percentage Change	90	%		
Origination Fee Rate (2) (basis points)	108		91	
Basis Point Change	17			
Percentage Change	19	%		
MSR Rate (3) (basis points)	96		97	
Basis Point Change	(1)			
Percentage Change	(1)	%		

(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.
(3) MSR income as a percentage of 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 MSR income. The increase was attributable to an increase in loan origination volume and a change in the mix of loan origination volume, as our two highest-margin products, Fannie Mae and HUD, represented 44% of our overall loan origination volume in the first quarter of 2017 compared to 36% during the same period in 2016. The change in mix of loan origination volume led to the increase in the origination fee rate from 2016 to 2017 shown above. The MSR fee rate decreased slightly as adjustable-rate loan origination volume increased slightly from the first quarter of 2016 to the first quarter of 2017. The Agency MSR rate is smaller for adjustable-rate loans compared to fixed-rate loans since adjustable-rate loans have shorter expected lives. See the “Overview of Business Environment” section above for a detailed discussion of the factors driving the increase in loan origination volumes and the change in the mix of loan origination volume.

Servicing Fees. The increase was primarily attributable to an increase in the average servicing portfolio from 2016 to 2017 as shown below due to new loan originations, the purchase of mortgage servicing rights in Q2 2016, and relatively few payoffs. Additionally, the servicing portfolio’s weighted average servicing fee increased as shown below due to increases in the Fannie Mae and HUD servicing portfolios.

28

Table of Contents

Servicing Fees Details			
(dollars in thousands)	2017		2016
Average Servicing Portfolio	$ 63,488,227		$ 50,614,261
Dollar Change	12,873,966		
Percentage Change	25	%	
Average Servicing Fee (basis points)	26.3		24.9
Basis Point Change	1.4		
Percentage Change	6	%	

Net Warehouse Interest Income. The decrease was primarily related to a $1.5 million decrease in net warehouse interest income from loans held for sale, partially offset by an increase in net warehouse interest income from loans held for investment. The decrease in net warehouse interest income from loans held for sale is attributable to a decrease in the average balance outstanding of loans held for sale ("LHFS") in 2017 compared to 2016 as shown below and the decrease in net spread as shown below. The decrease in the average balance was due to a decrease in the average holding period from 2016 to 2017. The decrease in the net spread was a 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. As the yield curve continues to flatten following recent increases in short-term rates, we expect the trend in the net spread to continue.

Net Warehouse Interest Income Details			
(dollars in thousands)	2017		2016
Average LHFS Outstanding Balance	$ 1,221,505		$ 1,535,168
Dollar Change	(313,663)		
Percentage Change	(20)	%	
LHFS Net Spread (basis points)	120		135
Basis Point Change	(15)		
Percentage Change	(11)	%	
Average LHFI Outstanding Balance	$ 286,697		$ 207,674
Dollar Change	79,023		
Percentage Change	38	%	
LHFI Net Spread (basis points)	411		300
Basis Point Change	111		
Percentage Change	37	%	

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 as shown below. The increase in the average balance was due to the increase in the average servicing portfolio, particularly the significant increase in the average balance of the HUD servicing portfolio as HUD loans have the highest escrow balances of all of our products. The increase in the average earnings rate was due to the increase in short-term interest rates during 2017.

Escrow Earnings and Other Interest Income Details		
(dollars in thousands)	2017	2016
Average escrow balance	$ 1,497,207	$ 1,000,614

Dollar Change	496,593		
Percentage Change	50	%	
Escrow Earnings Rate (basis points)	88		66
Basis Point Change	22		
Percentage Change	33	%	

Expenses

Personnel. The increase was principally the result of higher loan originator commission costs, increased bonus expense, increased salaries expense, and an increase in stock compensation expense. Commission costs increased due to the increase in origination fee income. Bonus expense increased due to our improved financial results year over year. Salaries expense increased due to a rise in average headcount from 504 in 2016 to 573 in 2017 as a result of acquisitions and organic growth of the Company to support our expanding commercial real estate services operations. The increase in stock compensation expense is largely related to a performance stock compensation plan that

Table of Contents

began in the second quarter of 2016.

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

Income Tax Expense. The substantial decrease in income tax expense was related to excess tax benefits. Excess tax benefits recognized in 2016 reduced income tax expense by $0.3 million compared to $8.7 million in 2017. The reduction to income tax expense due to excess tax benefits in 2017 was substantially larger as a result of the significant increase in our stock price over the past 12 months and an increase in the number of shares that vested in 2017, reducing the effective tax rate significantly. The increase in the number of shares that vested was largely attributable to a performance share plan that vested in 2017 as we achieved each of the performance targets at or near the high end of the payout range. The performance share plan vesting was the first of its kind in the Company's history. The Company expects the reduction for income taxes related to excess tax benefits to be substantially less for the remainder of 2017.

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 MSRs and unrealized gains and losses from CMBS activities. Because not all companies use identical calculations, our presentation of adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, adjusted EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not reflect certain cash requirements such as tax and debt service payments. The amounts shown for adjusted EBITDA may also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges that are used to determine compliance with financial covenants.

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

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

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

Table of Contents

ADJUSTED FINANCIAL METRIC RECONCILIATION TO GAAP

	For the three months ended March 31,	
(in thousands)	2017	2016
Reconciliation of Walker & Dunlop Net Income to Adjusted EBITDA		
Walker & Dunlop Net Income	$ 43,221	$ 15,458
Income tax expense	13,063	8,849
Interest expense	2,403	2,469
Amortization and depreciation	32,338	25,155
Provision (benefit) for credit losses	(132)	(409)
Net write-offs	—	—
Stock compensation expense	4,947	3,858
Gains attributable to mortgage servicing rights (1)	(45,535)	(23,917)
Unrealized (gains) losses from proprietary CMBS mortgage banking activities	—	953
Adjusted EBITDA	$ 50,305	$ 32,416

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

The following table presents a period-to-period comparison of the components of adjusted EBITDA for the three months ended March 31, 2017 and 2016:

ADJUSTED EBITDA

	For the three months ended March 31,				
(dollars in thousands)	2017	2016	Dollar Change	Percentage Change	
Origination fees	$ 50,897	$ 23,359	$ 27,538	118	%
Servicing fees	41,525	31,649	9,876	31	%
Net warehouse interest income	6,620	6,731	(111)	(2)	%
Escrow earnings and other interest income	3,292	1,640	1,652	101	%
Other revenues	10,804	8,023	2,781	35	%
Personnel	(51,225)	(30,372)	(20,853)	69	%
Net write-offs	—	—	—	N/A	
Other operating expenses	(11,608)	(8,614)	(2,994)	35	%
Adjusted EBITDA	$ 50,305	$ 32,416	$ 17,889	55	%

See the table above for the components of the change in adjusted EBITDA period over period. The increase in origination fees was largely related to the increase in loan origination volume period over period. Servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new loan originations

and the purchase of mortgage servicing rights in the second quarter of 2016. Net warehouse interest income decreased largely due to a decrease in the average balance of loans held for sale outstanding, as well as a decrease in the net warehouse margin. 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 recent increases in short-term interest rates. Other revenues increased primarily due to an increase in assumption fee income and prepayment fee income. The increase in personnel expense was primarily due to increased commission costs due to the increase in origination fees and increased salaries expense due to a rise in headcount. Other operating expenses increased as a result of an increase in professional fees.

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

Table of Contents

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, plant, and equipment. Our cash flows from investing activities also include the funding and repayment of loans held for investment and the funding of preferred equity investments. 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, and fund a portion of loans held for investment.

We currently do not pay dividends on our common stock and have never paid a dividend.

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

The following table presents a period-to-period comparison of the significant components of cash flows for the three months ended March 31, 2017 and 2016.

SIGNIFICANT COMPONENTS OF CASH FLOWS

(dollars in thousands)	Three Months Ended March 31, 2017	2016	Dollar Change	Percentage Change	
Net cash provided by (used in) operating activities	$ 644,102	$ 1,965,257	$ (1,321,155)	(67)	%
Net cash provided by (used in) investing activities	(110,938)	38,715	(149,653)	(387)	%
Net cash provided by (used in) financing activities	(599,673)	(2,035,001)	1,435,328	(71)	%
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	146,958	183,455	(36,497)	(20)	%
Cash flows from operating activities					
Net receipt (use) of cash for loan origination activity	$ 653,654	$ 1,972,479	$ (1,318,825)	(67)	%
Net cash provided by (used in) operating activities, excluding loan origination activity	(9,552)	(7,222)	(2,330)	32	%
Cash flows from investing activities					
Funding of preferred equity investments	(4,052)	(1,291)	(2,761)	214	%
Acquisitions, net of cash received	(15,000)	—	(15,000)	N/A	

Originations of loans held for investment	$ (139,442)	$ —	$ (139,442)	N/A	
Principal collected on loans held for investment	48,400	41,548	6,852	16	%
Net payoff of (investment in) loans held for investment	$ (91,042)	$ 41,548	$ (132,590)	(319)	%
Cash flows from financing activities					
Borrowings (repayments) of warehouse notes payable, net	$ (650,492)	$ (1,999,202)	$ 1,348,710	(67)	%
Borrowings of interim warehouse notes payable	102,377	—	102,377	N/A	
Repayments of interim warehouse notes payable	(36,300)	(30,469)	(5,831)	19	%
Repurchase of common stock	(17,541)	(8,345)	(9,196)	110	%

Changes in cash flows from operations were driven primarily by loans acquired and sold. Such loans are held for short periods of time, generally less than 60 days, and impact cash flows presented as of a point in time. The decrease in cash flows from operations for 2017 is primarily attributable to the receipt of $653.7 million for the funding of loan originations, net of sales of loans to third parties during the three months ended March 31, 2017 compared to the receipt of $2.0 billion for the funding of loan originations, net of sales to third parties during the three months ended March 31, 2016. Excluding cash used for the origination and sale of loans, cash flows used in operations was $9.6 million during the three months ended March 31, 2017 compared to $7.2 million during the three months ended March 31, 2016. The

Table of Contents

significant components of the change included a greater reduction to net income related to gains attributable to future servicing rights of $21.6 million during the three months ended March 31, 2017 and a greater reduction to cash related to servicing fees and other receivables of $12.0 million, partially offset by an increase of $27.7 million in net income before noncontrolling interests, an increase of $7.2 million in the adjustment to net income for amortization and depreciation, and a greater increase to net income related to the change in the fair value of premiums and origination fees of $3.9 million.

The reduction in cash provided by (used in) investing activities is primarily attributable to an increase in the net investment in loans held for investment and in net cash used for acquisitions, partially offset by an increase in the cash used for the purchase of mortgage servicing rights. Net investment in loans held for investment during the three months ended March 31, 2017 was $91.0 million compared to net payoff of $41.5 million during the three months ended March 31, 2016. Of the $91.0 million of the net investment in loans held for investment during the three months ended March 31, 2017, $66.1 million was funded using interim warehouse borrowings (included in cash flows from financing activities), with the other $24.9 million funded using corporate cash. Of the $41.5 million of the net payoff of loans held for investment during the three months ended March 31, 2016, $30.5 million was funded using interim warehouse borrowings, with the remaining $11.0 million funded using corporate cash. Net cash paid for acquisitions increased by $15.0 million as the Company did not execute any acquisitions during the three months ended March 31, 2016. Cash paid to fund preferred equity investments increased by $2.8 million period to period due to the investee’s increased need for capital as the rehabilitation projects near the end of their funding phase.

The substantial change in cash provided by (used in) financing activities was primarily attributable to the significant change in net warehouse borrowings period to period and an increase in borrowings of interim warehouse notes payable, partially offset by an increase in repayments of interim warehouse notes payable and an increase in cash used to repurchase and retire shares of our common stock. The decrease in net repayments of warehouse borrowings during the three months ended March 31, 2017 was due to a smaller decrease in the unpaid principal balance of loans held for sale from December 31, 2016 to March 31, 2017. During 2017, the unpaid principal balance of loans held for sale decreased $653.7 million from their December 31, 2016 balance compared to a decrease of $1.9 billion during the same period in 2016. The change in net borrowings of interim warehouse notes payable was principally due to an increase in originations of loans held for investment, partially offset by an increase in payoffs of loans held for investment year over year. The increase in share repurchase activity was principally related to an increase in the repurchase of shares to settle employee tax obligations for restricted and performance-based share awards along with a substantial increase in the fair value of the Company’s stock, which increased the taxable compensation to employees upon vesting. No performance-based awards vested during the three months ended March 31, 2016 compared to 0.6 million shares during the three months ended March 31, 2017.

Liquidity and Capital Resources

Uses of Liquidity, Cash and Cash Equivalents

Our significant recurring cash flow requirements consist of (i) short-term liquidity necessary to fund loans held for sale; (ii) liquidity necessary to fund loans held for investment under the Interim Program; (iii) liquidity necessary to fund our preferred equity investments; (iv) working capital to support our day-to-day operations, including debt service payments, servicing advances consisting of principal and interest advances for Fannie Mae or HUD loans that become delinquent, advances on insurance and tax payments if the escrow funds are insufficient, and payments for income taxes; and (v) working capital to satisfy collateral requirements for our Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae, and our warehouse facility lenders.

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate our servicing authority for all or some of the portfolio if at any time it determines that our financial condition is not adequate to support our obligations under the DUS agreement. We are required to maintain acceptable net worth as defined in the standards, and we satisfied the requirements as of March 31, 2017. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At March 31, 2017, the minimum net worth requirement was $137.1 million and our net worth was $513.8 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of March 31, 2017, we were required to maintain at least $26.8 million of liquid assets to meet our operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, Ginnie Mae and our warehouse facility lenders. As of March 31, 2017, we had operational liquidity of $65.0 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

As noted previously, under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers to acquire and reposition properties. As of March 31, 2017, we have made commitments to fund such preferred equity investments in monthly installments totaling $42.8 million, $28.9 million of which has been funded. We expect to fund the unfunded commitment amounts by the end of 2017. We may make additional commitments to fund preferred equity investments

Table of Contents

in the future.

We currently retain all future earnings for the operation and expansion of our business and therefore do not pay cash dividends on our common stock. Since the beginning of 2014, we have repurchased 5.5 million shares of our common stock from large stockholders for an aggregate cost of $82.3 million and invested $93.3 million of cash in acquisitions and the purchase of mortgage servicing rights. During the first quarter of 2017, our Board of Directors authorized us to repurchase up to $75.0 million of our common stock over a 12-month period ending February 10, 2018. We have not repurchased any shares of our stock under this program.

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

Restricted Cash and Pledged Securities

Restricted cash consists primarily of good faith deposits held on behalf of borrowers between the time we enter into a loan commitment with the borrower and the investor purchases the loan. We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. We are required to secure this obligation by assigning collateral to Fannie Mae. We meet this obligation by assigning pledged securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires collateral for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Collateral held in the form of money market funds holding U.S. Treasuries is discounted 5% for purposes of calculating compliance with the collateral requirements. As of March 31, 2017, we held substantially all of our restricted liquidity in money market funds holding U.S. Treasuries in the aggregate amount of $83.3 million. Additionally, substantially all of the loans for which we have risk sharing are Tier 2 loans. We fund any growth in our Fannie Mae required operational liquidity and collateral requirements from our working capital.

We are in compliance with the March 31, 2017 collateral requirements as outlined above. As of March 31, 2017, reserve requirements for the DUS loan portfolio will require us to fund $61.0 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any future changes to have a material impact on our future operations; however, any future changes to collateral requirements may adversely impact our available cash.

Under the provisions of the DUS agreement, we must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. We satisfied these requirements as of March 31, 2017.

Sources of Liquidity: Warehouse Facilities

The following table provides information related to our warehouse facilities as of March 31, 2017.

	March 31, 2017		
(dollars in thousands)	Maximum	Outstanding	
Facility	Amount	Balance	Interest rate
Agency warehouse facility #1	$ 425,000	$ 130,719	30-day LIBOR plus 1.40%

Agency warehouse facility #2	650,000	562,583	30-day LIBOR plus 1.40%
Agency warehouse facility #3	280,000	90,358	30-day LIBOR plus 1.35%
Agency warehouse facility #4	350,000	214,116	30-day LIBOR plus 1.40%
Agency warehouse facility #5	30,000	20,348	30-day LIBOR plus 1.80%
Fannie Mae repurchase agreement, uncommitted line and open maturity	1,500,000	180,378	30-day LIBOR plus 1.15%
Total agency warehouse facilities	$ 3,235,000	$ 1,198,502	
Interim warehouse facility #1	$ 85,000	$ 36,916	30-day LIBOR plus 1.90%
Interim warehouse facility #2	200,000	113,272	30-day LIBOR plus 2.00%
Interim warehouse facility #3	75,000	59,006	30-day LIBOR plus 2.00% to 2.50%
Total interim warehouse facilities	$ 360,000	$ 209,194	
Total warehouse facilities	$ 3,595,000	$ 1,407,696	

Table of Contents

Agency Warehouse Facilities

At March 31, 2017, to provide financing to borrowers under the GSE and HUD programs, we have five warehouse lines of credit in the amount of $1.7 billion with certain national banks and a $1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). Four of these facilities are revolving commitments we expect to renew annually (consistent with industry practice), one we expect to renew every 18 months, and the other facility is provided on an uncommitted basis without a specific maturity date. Our ability to originate mortgage loans intended to be sold under a GSE or HUD execution depends upon our ability to secure and maintain these types of short-term financing on acceptable terms.

Agency Warehouse Facility #1:

We have a warehousing credit and security agreement with a national bank for a $425.0 million committed warehouse line that is scheduled to mature on October 30, 2017. The warehousing credit and security agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at the 30-day London Interbank Offered Rate ("LIBOR") plus 140 basis points. No material modifications have been made to the agreement during 2017.

Agency Warehouse Facility #2:

We have a $650.0 million committed warehouse agreement with a syndicate of national banks that is scheduled to mature on June 21, 2017. The committed warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 140 basis points. No material modifications have been made to the agreement during 2017.

Agency Warehouse Facility #3:

We have a $280.0 million committed warehouse credit and security agreement with a national bank. The committed warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 135 basis points. During the second quarter of 2017, we executed a short-term extension that extended the maturity date to May 30, 2017 and reduced the interest rate to the 30-day LIBOR plus 125 basis points. Prior to the expiration of the extension, we expect to execute an amendment to extend the maturity date for a one-year period with increased capacity and the same interest rate as the extension. No other material modifications have been made to the agreement during 2017.

Agency Warehouse Facility #4:

We have a $350.0 million committed warehouse agreement with a national bank that is scheduled to mature on October 27, 2017. The committed warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac,

HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 140 basis points. No material modifications have been made to the agreement during 2017.

Agency Warehouse Facility #5:

We have a $30.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature in January 2018. The committed warehouse facility provides us with the ability to fund defaulted HUD and FHA loans. The borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 180 basis points. No material modifications have been made to the agreement during 2017.

Uncommitted Agency Warehouse Facility:

We have a $1.5 billion uncommitted facility with Fannie Mae under its ASAP funding program. After approval of certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the loan balance, and borrowings under this program bear interest at 30-day LIBOR plus 115 basis points, with a minimum 30-day LIBOR rate of 35 basis points. There is no expiration date for this facility. No changes have been made to the uncommitted facility during 2017. The uncommitted facility has no specific negative or financial covenants.

Table of Contents

Interim Warehouse Facilities

To assist in funding loans held for investment under the Interim Program, we have three warehouse facilities with certain national banks in the aggregate amount of $0.4 billion as of March 31, 2017 ("Interim Warehouse Facilities"). Consistent with industry practice, two of these facilities are revolving commitments we expect to renew annually and one is a revolving commitment we expect to renew every two years. Our ability to originate loans held for investment depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

Interim Warehouse Facility #1:

We have an $85.0 million committed warehouse line agreement that provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company and bear interest at 30-day LIBOR plus 190 basis points. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2017, we executed the seventh amendment to the credit and security agreement that extended the maturity date to April 30, 2018. No other material modifications have been made to the agreement during 2017.

Interim Warehouse Facility #2:

We have a $200.0 million committed warehouse line agreement that is scheduled to mature on December 13, 2017. The agreement provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. All borrowings bear interest at 30-day LIBOR plus 200 basis points. The lender retains a first priority security interest in all mortgages funded by such advances on a cross-collateralized basis. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. No material modifications have been made to the agreement during 2017.

Interim Warehouse Facility #3:

We have a $75.0 million repurchase agreement that provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. The borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 200 basis points to 250 basis points ("the spread"). The spread varies according to the type of asset the borrowing finances. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2017, we exercised our option to extend the maturity date to May 19, 2018. No other material modifications have been made to the agreement during 2017.

The Agency and Interim Warehouse Facility agreements above contain cross-default provisions, such that if a default occurs under any of those debt agreements, generally the lenders under our other Agency and Interim debt agreements could also declare a default. We were in compliance with all covenants as of March 31, 2017.

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

Debt Obligations

We have a senior secured term loan credit agreement (the “Term Loan Agreement”). The Term Loan Agreement provides for a $175.0 million term loan that was issued at a discount of 1.0% (the “Term Loan”). At any time, we may also elect to request the establishment of one or more incremental term loan commitments to make up to three additional term loans (any such additional term loan, an “Incremental Term Loan”) in an aggregate principal amount for all such Incremental Term Loans not to exceed $60.0 million.

We are obligated to repay the aggregate outstanding principal amount of the Term Loan in consecutive quarterly installments equal to $0.3 million on the last business day of each quarter. The Term Loan also requires other prepayments in certain circumstances pursuant to the terms of the Term Loan Agreement. The final principal installment of the Term Loan is required to be paid in full on December 20, 2020 (or, if earlier, the date of acceleration of the Term Loan pursuant to the terms of the Term Loan Agreement) and will be in an amount equal to the aggregate outstanding principal of the Term Loan on such date (together with all accrued interest thereon).

Table of Contents

At our election, the Term Loan will bear interest at either (i) the "Base Rate" plus an applicable margin or (ii) the London Interbank Offered Rate ("LIBOR Rate") plus an applicable margin, subject to adjustment if an event of default under the Term Loan Agreement has occurred and is continuing with a minimum LIBOR Rate of 1.0%. The "Base Rate" means the highest of (a) the administrative agent's "prime rate," (b) the federal funds rate plus 0.50% and (c) LIBOR for an interest period of one month plus 1%. In each case, the applicable margin is determined by our Consolidated Corporate Leverage Ratio (as defined in the Term Loan Agreement). If such Consolidated Corporate Leverage Ratio is greater than 2.50 to 1.00, the applicable margin will be 4.50% for LIBOR Rate loans and 3.50% for Base Rate loans, and if such Consolidated Corporate Leverage Ratio is less than or equal to 2.50 to 1.00, the applicable margin will be 4.25% for LIBOR Rate loans and 3.25% for Base Rate loans. The applicable margin is 4.25% for LIBOR Rate loans and 3.25% for Base Rate loans as of March 31, 2017.

Our obligations under the Term Loan Agreement are guaranteed by Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC, Walker & Dunlop Capital, LLC, and W&D BE, Inc., each of which is a direct or indirect wholly owned subsidiary of the Company (together with the Company, the "Loan Parties"), pursuant to a Guarantee and Collateral Agreement entered into on December 20, 2013 among the Loan Parties and the Agent. As of March 31, 2017, the outstanding principal balance of the Term Loan was $167.1 million.

The Term Loan and the warehouse facilities are senior obligations of the Company. The Term Loan Agreement contains affirmative and negative covenants, including financial covenants. As of March 31, 2017, we were in compliance with all such covenants.

Credit Quality and Allowance for Risk-Sharing Obligations

The following tables set forth certain information useful in evaluating our credit performance.

(dollars in thousands)	March 31, 2017	2016
Key Credit Metrics		
Risk-sharing servicing portfolio:		
Fannie Mae Full Risk	$ 21,465,009	$ 17,642,364
Fannie Mae Modified Risk	7,035,879	4,905,037
Freddie Mac Modified Risk	53,359	53,498
GNMA - HUD Full Risk	4,391	4,547
Total risk-sharing servicing portfolio	$ 28,558,638	$ 22,605,446
Non risk-sharing servicing portfolio:		
Fannie Mae No Risk	$ 240,177	$ 757,509
Freddie Mac No Risk	21,372,956	18,093,315
GNMA - HUD No Risk	9,068,964	5,640,735
Brokered	4,829,934	3,751,925
Total non risk-sharing servicing portfolio	$ 35,512,031	$ 28,243,484
Total loans serviced for others	$ 64,070,669	$ 50,848,930

Interim loans (full risk) servicing portfolio	313,355		191,822	
Total servicing portfolio unpaid principal balance	$ 64,384,024		$ 51,040,752	
At risk servicing portfolio (1)	$ 25,187,219		$ 20,066,881	
Maximum exposure to at risk portfolio (2)	5,183,874		4,165,215	
60+ day delinquencies, within at risk portfolio	—		—	
At risk loan balances associated with allowance for risk-sharing obligations	$ —		$ 16,884	
60+ day delinquencies as a percentage of the at risk portfolio	0.00	%	0.00	%
Allowance for risk-sharing as a percentage of the at risk portfolio	0.01	%	0.03	%
Allowance for risk-sharing as a percentage of the specifically identified at risk balances	N/A		30.50	%
Allowance for risk-sharing as a percentage of maximum exposure	0.07	%	0.12	%
Allowance for risk-sharing and guaranty obligation as a percentage of maximum exposure	0.75	%	0.81	%

Table of Contents

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

For example, a $15 million loan with 50% risk-sharing has the same potential risk exposure as a $7.5 million loan with full DUS risk sharing. Accordingly, if the $15 million loan with 50% risk-sharing were to default, we would view the overall loss as a percentage of the at risk balance, or $7.5 million, to ensure comparability between all risk-sharing obligations. To date, substantially all of the risk-sharing obligations that we have settled have been from full risk-sharing loans.

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

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

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

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

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

We may request modified risk-sharing based on such factors as the size of the loan, market conditions and loan pricing. Our current credit management policy is to cap the loan balance subject to full risk-sharing at $60.0 million. Accordingly, we currently elect to use modified risk-sharing for loans of more than $60.0 million in order to limit our maximum loss on any loan to $12.0 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). However, we occasionally elect to originate a loan with full risk sharing even when the loan balance is greater than $60.0 million if we believe the loan characteristics support such an approach.

A provision for risk-sharing obligations is recorded, and the allowance for risk-sharing obligations is increased, when it is probable that we have incurred risk-sharing obligations. We regularly monitor the credit quality of all loans for which we have a risk-sharing obligation. Loans with indicators of underperforming credit are placed on watch lists, assigned a numerical risk rating based on our assessment of the relative credit weakness, and subjected to additional evaluation or loss mitigation. Indicators of underperforming credit include poor financial performance, poor physical condition, and delinquency.

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

As of March 31, 2017 and 2016, none of our at risk balances was more than 60 days delinquent. For both the three months ended

Table of Contents

March 31, 2017 and March 31, 2016, the provision for risk-sharing obligations was a net benefit of $0.2 million. During the third quarter of 2016, we settled with Fannie Mae the loss sharing amounts related to the last three remaining previously defaulted at risk loans. As a result of these loss settlements, the Allowance for risk-sharing obligations as of March 31, 2017 is based entirely on our collective assessment of the probability of loss related to the loans on the watch list as of March 31, 2017.

As of March 31, 2017 and 2016, our allowance for risk-sharing obligations was $3.5 million and $5.1 million, respectively, or 1 and 3 basis points of the at risk balance as of March 31, 2017 and 2016. Our risk-sharing obligation with Fannie Mae requires, in the event of delinquency or default, that we advance principal and interest payments to Fannie Mae on behalf of the borrower. Advances made by us are used to reduce the proceeds required to settle any ultimate loss incurred. As of March 31, 2017, we had advanced $0 of principal and interest payments on the loans associated with our $3.5 million allowance. As of March 31, 2016, we had advanced $0.1 million of principal and interest payments on the loans associated with our $5.1 million allowance at that time.

We have never been required to repurchase a loan.

Off-Balance Sheet Arrangements

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

New/Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

For loans held for sale to Fannie Mae, Freddie Mac, and HUD, we are not currently exposed to unhedged interest rate risk during the loan commitment, closing, and delivery processes. The sale or placement of each loan to an investor is negotiated prior to closing on the loan with the borrower, and the sale or placement is typically effectuated within 60 days of closing. The coupon rate for the loan is set after we have established the interest rate with the investor.

Some of our assets and liabilities are subject to changes in interest rates. Earnings from escrows are generally based on LIBOR. 30-day LIBOR as of March 31, 2017 and 2016 was 98 basis points and 44 basis points, respectively. A 100-basis point increase in the 30-day LIBOR would increase our annual earnings by approximately $13.8 million based on our escrow balance as of March 31, 2017 compared to $10.2 million based on our escrow balance as of March 31, 2016. A decrease in 30-day LIBOR to zero would decrease our annual earnings by approximately $12.7 million based on the escrow balance as of March 31, 2017 compared to $4.2 million based on our escrow balance as of March 31, 2016. A portion of these changes in earnings as a result of a 100-basis point increase in the 30-day LIBOR would be delayed several months due to the negotiated nature of some of our escrow arrangements.

The borrowing cost of our warehouse facilities used to fund loans held for sale and loans held for investment is based on LIBOR. The interest income on our loans held for investment is based on LIBOR. The LIBOR reset date for loans held for investment is the same date as the LIBOR reset date for the corresponding warehouse facility. A 100-basis point increase in 30-day LIBOR would decrease our annual net warehouse interest income by approximately $2.6 million based on our outstanding warehouse balance as of March 31, 2017 compared to $1.2 million based on our outstanding warehouse balance as of March 31, 2016. A decrease in 30-day LIBOR to zero would increase our annual earnings by approximately $2.5 million based on our outstanding warehouse balance as of March 31, 2017 compared to $0.5 million as of March 31, 2016.

All of our corporate debt is based on 30-day LIBOR, with a floor of 100 basis points. A 100-basis point increase in 30-day LIBOR

Table of Contents

would decrease our annual earnings by approximately $1.6 million based on our outstanding corporate debt as of March 31, 2017, compared to $0.7 million as of March 31, 2016. A decrease in 30-day LIBOR to zero would not have an impact on our 2017 or 2016 annual earnings because of the LIBOR floor.

Market Value Risk

The fair value of our MSRs is subject to market risk. A 100-basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of our MSRs by approximately $22.1 million as of March 31, 2017, compared to $16.3 million as of March 31, 2016. Our Fannie Mae and Freddie Mac servicing arrangements provide for make-whole payments in the event of a voluntary prepayment prior to the expiration of the prepayment protection period. Our servicing contracts with institutional investors and HUD do not require payment of a make-whole amount. As of March 31, 2017, 86% of the servicing fees are protected from the risk of prepayment through make-whole requirements compared to 88% as of March 31, 2016; given this significant level of prepayment protection, we do not hedge our servicing portfolio for prepayment risk.

Item 4. Controls and Procedures

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

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

There have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We have included in Part I, Item 1A of our 2016 Form 10-K descriptions of certain risks and uncertainties that could affect our business, future performance, or financial condition (the “Risk Factors”). There have been no material changes from the disclosures provided in the 2016 Form 10-K with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company’s stock.

Table of Contents

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

Issuer Purchases of Equity Securities

Under the 2015 Equity Incentive Plan, subject to the Company's approval, grantees have the option of electing to satisfy tax withholding obligations at the time of vesting or exercise by allowing us to withhold and purchase at the prevailing market price the shares of stock otherwise issuable to the grantee. During the quarter ended March 31, 2017, we purchased 440 thousand shares to satisfy grantee tax withholding obligations on share-vesting events. Additionally, we announced a share repurchase program in the first quarter of 2017. The repurchase program authorized by our Board of Directors permits us to repurchase up to $75.0 million of shares of our common stock over a 12-month period ending February 10, 2018. The Company had $75.0 million of authorized share repurchase capacity remaining as of March 31, 2017. The following table provides information regarding common stock repurchases for the quarter ended March 31, 2017:

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
January 1-31, 2017	850	$ 31.20	—	$ 65,840,546
February 1-28, 2017	412,330	39.82	—	75,000,000
March 1-31, 2017	26,413	41.34	—	75,000,000
Total	439,593	$ 39.89	—	$ 75,000,000

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

2.1 Contribution Agreement, dated as of October 29, 2010, by and among Mallory Walker, Howard W. Smith, William M. Walker, Taylor Walker, Richard C. Warner, Donna Mighty, Michael Yavinsky, Edward B. Hermes,

Deborah A. Wilson and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)

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

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

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

Table of Contents

3.1		Articles of Amendment and Restatement of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
3.2		Amended and Restated Bylaws of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 21, 2017)
4.1		Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)
4.2		Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 20, 2010)
4.3		Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 27, 2010)
4.4		Piggy Back Registration Rights Agreement, dated June 7, 2012, by and among Column Guaranteed, LLC, William M. Walker, Mallory Walker, Howard W. Smith, III, Deborah A. Wilson, Richard C. Warner, CW Financial Services LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012)
4.5		Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Mallory Walker, William M. Walker, Richard Warner, Deborah Wilson, Richard M. Lucas, and Howard W. Smith, III, and CW Financial Services LLC (incorporated by reference to Annex C of the Company's proxy statement filed on July 26, 2012)
4.6		Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, Column Guaranteed, LLC and CW Financial Services LLC (incorporated by reference to Annex D of the Company's proxy statement filed on July 26, 2012)
10.1	†*	Non-Executive Director Compensation Rates
10.2	†*	Indemnification Agreement, dated February 28, 2017, by and between Walker & Dunlop, Inc. and Michael J. Warren
10.3	*	Tenth Amendment to Amended and Restated Warehousing Credit and Security Agreement, dated as of March 27, 2017, by and among Walker & Dunlop, LLC
31.1	*	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of Walker & Dunlop, Inc.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	**	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	*	XBRL Instance Document
101.2	*	XBRL Taxonomy Extension Schema Document
101.3	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.4	*	XBRL Taxonomy Extension Definition Linkbase Document
101.5	*	XBRL Taxonomy Extension Label Linkbase Document
101.6	*	XBRL Taxonomy Extension Presentation Linkbase Document

†: Denotes a management contract or compensation plan, contract, or arrangement.

*: Filed herewith.

**: Furnished herewith.

Table of Contents

SIGNATURES

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

Date: May 3, 2017	By:	/s/ William M. Walker William M. Walker Chairman and Chief Executive Officer
Date: May 3, 2017	By:	/s/ Stephen P. Theobald Stephen P. Theobald Executive Vice President, Chief Financial Officer and Treasurer

Table of Contents

Exhibit Index

2.1		Contribution Agreement, dated as of October 29, 2010, by and among Mallory Walker, Howard W. Smith, William M. Walker, Taylor Walker, Richard C. Warner, Donna Mighty, Michael Yavinsky, Edward B. Hermes, Deborah A. Wilson and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
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31.1	*	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of Walker & Dunlop, Inc.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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