

From a Regional Mortgage Company Started in 1937, Under the Direction of its Third Generation of Walkers, Walker & Dunlop, Inc. has Completed its IPO and Grown into the Nation's 11th Largest Commercial Real Estate Lender

**Financial
Multifamily Lender
(WD:NYSE)**

Walker & Dunlop, Inc.

**7501 Wisconsin Avenue
Suite 1200E
Bethesda, MD 20814
Phone: 301-215-5500**



**William M. Walker
Chairman, President &
Chief Executive Officer**

BIO:

William "Willy" Walker is chairman, president and chief executive officer of Walker & Dunlop. Mr. Walker joined Walker & Dunlop in 2003 from TeleTech, a global business process outsourcing (BPO) company. At TeleTech, Mr. Walker held several senior management positions including president of the company's European and Latin American divisions. Mr. Walker joined TeleTech from Newbridge Latin America where he was responsible for private equity transactions in the aviation, water and apparel industries. Mr. Walker is also chairman of the board of the District of Columbia Water and Sewer Authority (DC Water) and chairman of the board of Transcom, SA, a global outsourcing company listed on the Stockholm stock exchange.

Company Profile:

Through its subsidiary Walker & Dunlop, LLC, Walker & Dunlop, Inc. (NYSE: WD) is one of the leading providers of commercial real estate financial services in the United States, and went public on the New York Stock Exchange in December 2010. Walker & Dunlop is the 11th largest commercial real estate lender in the United States specializing in financing commercial real estate for owners and developers across the country. Capital for this financing comes from large institutions such as Fannie Mae, Freddie Mac, life insurance companies, commercial banks, CMBS lenders, pension funds, and the US Department of Housing and Urban Development (HUD).

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com**

CEOCFO: Mr. Walker, what was the early vision for Walker & Dunlop, how has it developed with you as CEO and where are you today?

Mr. Walker: Walker & Dunlop was started in 1937 by my grandfather and great uncle; so the company has been around for quite some time and well before I was even born. The company evolved from being a single-family mortgage company into being a commercial mortgage company in the 1950's and 1960's. My father joined the company in the early 1960's and ran the company for his entire career. I had done a number of things prior to joining Walker & Dunlop including investment banking, private equity investing, and running the Latin American and European divisions of a

global corporation. I never thought I would join the family business; however, in 2003 when I was contemplating a career move while living in London, I said to my father, "I think I can help you at W&D", and he responded; "I believe you can, I just did not think you wanted to". So I joined Walker & Dunlop at the end of 2003.

When I came to Walker & Dunlop, we were a regional real estate finance firm that sourced loans from across the United States through relationships with mortgage banking firms. At that time we were only a Fannie Mae DUS lender; we did not have a license to originate multifamily loans for Freddie Mac or HUD. Between 2004-2007 the real estate finance market - for all practical purposes - was on steroids. Given the huge deal volumes and huge amounts of capital going into commercial real estate at that time, it was not terribly difficult to grow the firm, given the overall market dynamics. In that kind of a market, a rising tide lifts all boats, so we did very well. However, because there was so much other capital from Wall Street, commercial banks, and life insurance companies, our core business with Fannie Mae was not very competitive. Although we successfully originated significant loan volumes with Fannie Mae, doing so in this competitive market was a huge accomplishment.

When I came to Walker & Dunlop there were three things that I really wanted to accomplish. One was to get my father liquidity for the equity that he built up in the firm as well as make sure that the investors who invested

in Walker & Dunlop received solid returns. Second, I wanted to transform Walker & Dunlop from being a family company to being an institutional company. Lastly, I wanted Walker & Dunlop to become a very large national lender. Fortunately, we have accomplished all of that in seven years. My father and his investors got out of the business with exceptional returns. We took the company public and fully transformed it from a family company to being institutionally owned. And finally, we scaled the business from being the 45th largest commercial real estate lender in the U.S. in 2007 to being the 11th largest commercial real estate lender in the U.S. in 2010. We now have eight offices across the country with over 170 employees. With the capital that we raised through the IPO, we are growing aggressively and are well positioned for strong growth going forward.

CEOCFO: What happens regularly at the firm, and what are the overall challenges?

Mr. Walker: We work with the owners of commercial real estate properties, such as an apartment building, an office building, a retail mall or a hotel. They have an asset they need to finance which could mean they have a loan with a bank or a life insurance company. If it is an apartment building, they may have a loan with Fannie Mae or Freddie Mac. The loan is typically a ten-year loan, so every ten years that loan has to be refinanced. At this time the owner will go out to the world and say, "I need the best and most competitive financing on this property". In order to get the best and most competitive financing they will call up a firm like Walker & Dunlop.

We have loan originators across the country that meet every single day with owners of commercial properties. We talk to them about what the asset looks like and what the fundamentals of the asset are. We underwrite the asset to see whether it is something that we might want to lend on and put together a quote on what the rate will be and how many dollars we will lend

on that asset. If the owner likes the package then we move forward; we rate-lock the deal and eventually sell the loan to a buyer of the security.

Once we close the deal, we deposit the loan into our warehouse lines and sell the security and the loan to an investor. However, we do remain in the role as servicer and as asset manager of most loans; our servicing portfolio was \$14.9 billion at March 31, 2011, with over 1,600 assets across the United States. Walker & Dunlop has experienced asset management and servicing groups that spend a lot of time visiting properties and meeting with the owners of the properties. Throughout the life of that loan Walker & Dunlop is the asset manager and servicer; then, once the loan comes up for refinancing, we will go back to the owner and repeat the whole process.

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CEOCFO: What has changed for you in your approach and criteria?

Mr. Walker: During the go-go years of 2004-2007 when there was so much capital available, we were very disciplined. We did not do loans that had too many dollars going out or a rate that was too low. This discipline enabled us to get through the downturn extremely well. Between 2008-2010, in the height of the financial crisis, Walker & Dunlop had greater than 30% operating margins. I do not know of any company in the mortgage finance business that maintained greater than 30% operating margins for each of the down years. We were able to achieve this because we had very focused and conservative underwriting criteria during the good times and we had access to capital from Fannie Mae, Freddie Mac and HUD during the bad times. That access to capital was hugely important, not only to Walker & Dunlop, but to

the entire apartment finance industry. Our track record therefore allowed us to get through the downturn and raise capital in our IPO in 2010. We are now growing fast, hiring new people, partnering with other companies, and expanding the products and services that we offer to our clients.

CEOCFO: Is Walker & Dunlop a well-recognized name?

Mr. Walker: Say I gave you a sheet of paper that listed the top 20 commercial real estate lenders in the United States and you took that sheet to your cousin who was a high school math teacher. Your cousin would likely know 19 of the 20 names on that sheet since our competition is Wells Fargo, Deutsche Bank, PNC, Bank of America, Met Life, New York Life, etc. Then there is little old Walker & Dunlop right in the middle of the list. Do our customers know

who we are? Certainly. Do people in the real estate world know who we are? Probably. But is our brand as strong as the people we compete with every day? Not a chance! I will say that since going public the added exposure that being a public company brings us is almost unquantifiable. The Wash-

ington Post has done a number of stories on Walker & Dunlop over the years, which are in their business section. Lots of people in the Washington area read those articles and they may have been picked up by four or five other media outlets. But for comparison purposes, when we announced our first quarter earnings as a public company, they were picked up by 1,307 media outlets. The incremental exposure that we get from being a publicly traded company is huge. At the same time, we are never ever going to have a brand like Wells Fargo or Bank of America; everybody in the country knows those brands. We have to work effectively to take advantage of being a niche player in our market, target marketing and getting our name out there in a very effective way. I think being a public company helps along those lines.

CEOCFO: You mentioned additional services for your clients, what might

you be providing that you are not providing now?

Mr. Walker: We are a first trust lender, so we provide the first trust mortgage on properties. At this point, the economy is in the midst of the great de-levering. If you think about the crisis, it was caused because there was too much leverage in the entire U.S. economy. No one was immune; everybody saw their individual finances as well as corporate finances go through a big de-levering process. However, borrowers today need more than just a first trust mortgage; they need mezzanine financing to add another component to the financing. They might need an equity partner because they cannot get enough debt to be able to refinance their property. We are in the process of putting together additional products and services that we can sell through our origination sales force that help our customers at this time in the cycle to be able to finance their properties effectively.

CEOCFO: As far as your geographic expansion, are there particular areas that you would like to be in?

Mr. Walker: Not necessarily. We have eight offices across the country. Being in New York, Washington, Atlanta, Chicago, Dallas, New Orleans, Los Angeles, and San Francisco allows us to pretty much cover the entire country from these offices.

CEOCFO: What is the financial picture for Walker & Dunlop?

Mr. Walker: It is great: We had a very strong first quarter and we have a business model that is wonderfully profitable. We announced 37% pretax and 23% net income margins in the first quarter of 2011. We manage our business very closely to be able to achieve those margins. Our competitors are inside of large financial services institutions, making it impossible to look at their financials like you can look at Walker & Dunlop's financials. However, I would be very surprised if our direct competitors in our industry are as profitable as we are. This comes from day to day management focused on revenues and costs – it's honestly not a lot more complicated than that.

CEOCFO: What about the alliance with Cushman & Wakefield?

Mr. Walker: When we were on the IPO road show and people asked us what we would do with our proceeds from the IPO, one of the areas that we talked about was expanding into the investment sales arena. Some of our competitors do a very effective job of tying their investment sales business (purchase and sale of assets) with their financing business. Therefore, we considered whether we should buy a company in the investment sales business, build an investment sales business by hiring people, or partner with another firm. As we looked at the three options, we determined we could get into the market more quickly, and with less risk, through a partnership. In addition, the opportunity for us to work with Cushman & Wakefield was unique and powerful. It is my great hope that the Cushman & Wakefield partnership provides us with a significant amount of new deal flow over the coming months and years.

CEOCFO: Would you prefer to have a greater variety as you do some of the other commercial, or is it opportunistic?

Mr. Walker: Multifamily has been a tremendous asset class and it has clearly weathered the downturn better than any other commercial asset class. Because multifamily is the only asset class that Walker & Dunlop has taken credit risk on, we have been very privileged to only have credit exposure to multifamily. With that said, as we continue to scale the company, a by-product of our growth will be for Walker & Dunlop to do more originations on other asset classes as well as start taking credit risk on those loans. How we do that, when we do that, and to what degree of risk we take are all very important questions. We need to ensure that we are taking steps in an appropriate, calculated manner and that our investors understand why we are doing it.

CEOCFO: What is the outlook for Freddie and Fannie?

Mr. Walker: We follow it very closely, but to be perfectly honest with you, I cannot tell what is going to happen. I do not think anything will happen until

after the 2012 elections; it will be very interesting to see what happens depending on whether President Obama is re-elected or if we have a Republican president. If you think about the debt ceiling today, it almost shut down the Federal Government this year because they were trying to cut \$39 billion out of their annual budget. Fannie Mae and Freddie Mac are a \$5 trillion decision; the idea that Congress can get their arms around this issue and can come up with a cohesive, coordinated plan for Fannie Mae and Freddie Mac in any short period of time is something I question. However, my biggest concern right now is not legislative reform but the number of highly talented people who are leaving Fannie Mae and Freddie Mac. Capitol Hill seems to be oblivious to the fact that Fannie Mae and Freddie Mac both have extremely capable management teams and extremely capable professionals. But these people are leaving! It would be a real shame if Congress did not figure out a viable plan for Fannie Mae and Freddie Mac quickly, and therefore allow these enterprises to remain competitive, well managed enterprises rather than turning into bureaucratic, government-run entities. Letting Fannie and Freddie "die on the vine" would hurt the economy, and most importantly, hurt the taxpayers who have bailed them out. Somebody on Capitol Hill has got to recognize this.

CEOCFO: In closing, why should potential investors look at Walker and Dunlop today?

Mr. Walker: We have a tremendous business and exceptional people. We have been very conscientious in how we take risk and where we take risk, and that has been shown over the entire company's history and most specifically during the downturn from 2008 until 2010. We have an exceptional management team that is young, motivated and very focused. We have a CEO and COO who together own almost 20% of the company, so our interests are directly tied to other shareholders' interests. We have a huge growth opportunity ahead of us -- the entire commercial real estate finance industry is a \$3.2 trillion industry, which is mostly 10-

year paper, which means \$320 billion is financed every year. Walker & Dunlop originated \$3.2 billion of loans

in 2010, so we were roughly 1% of the market. And finally, we feel that we have the people, the capital and the

opportunity to grow our market share in a highly profitable, well managed manner.

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