

Walker & Dunlop, Inc.
Form 10-Q
October 31, 2018
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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 September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

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

Bethesda, Maryland 20814

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company Emerging growth company

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

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

As of October 24, 2018, there were 31,238,670 total shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	\$ 165,062	\$ 191,218
Restricted cash	16,226	6,677
Pledged securities, at fair value	109,062	97,859
Loans held for sale, at fair value	2,134,190	951,829
Loans held for investment, net	203,824	66,510
Servicing fees and other receivables, net	49,457	41,693
Derivative assets	28,182	10,357
Mortgage servicing rights	647,188	634,756
Goodwill and other intangible assets	157,077	124,543
Other assets	57,968	82,985
Total assets	\$ 3,568,236	\$ 2,208,427
Liabilities		
Accounts payable and other liabilities	\$ 275,460	\$ 238,538
Performance deposits from borrowers	16,122	6,461
Derivative liabilities	524	1,850
Guaranty obligation, net of accumulated amortization	44,413	41,187
Allowance for risk-sharing obligations	4,663	3,783
Warehouse notes payable	2,156,999	937,769
Note payable	163,626	163,858
Total liabilities	\$ 2,661,807	\$ 1,393,446
Equity		
Preferred shares, authorized 50,000; none issued.	\$ —	\$ —
Common stock, \$0.01 par value. Authorized 200,000; issued and outstanding 30,397 shares at September 30, 2018 and 30,016 shares at December 31, 2017.	304	300
Additional paid-in capital	240,721	229,080
Accumulated other comprehensive income (loss) ("AOCI")	(71)	93
Retained earnings	660,102	579,943
Total stockholders' equity	\$ 901,056	\$ 809,416
Noncontrolling interests	5,373	5,565

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Total equity	\$ 906,429	\$ 814,981
Commitments and contingencies (NOTE 10)	—	—
Total liabilities and equity	\$ 3,568,236	\$ 2,208,427

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share data)

(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenues				
Gains from mortgage banking activities	\$ 99,170	\$ 111,304	\$ 282,916	\$ 309,912
Servicing fees	50,781	44,900	148,138	129,639
Net warehouse interest income	3,880	5,358	8,129	17,778
Escrow earnings and other interest income	11,938	5,804	28,562	13,610
Other	18,888	12,370	42,568	33,716
Total revenues	\$ 184,657	\$ 179,736	\$ 510,313	\$ 504,655
Expenses				
Personnel	\$ 79,776	\$ 78,469	\$ 206,475	\$ 198,157
Amortization and depreciation	36,739	32,343	105,863	97,541
Provision (benefit) for credit losses	519	9	842	(216)
Interest expense on corporate debt	2,429	2,555	6,951	7,401
Other operating expenses	14,535	11,664	42,662	34,871
Total expenses	\$ 133,998	\$ 125,040	\$ 362,793	\$ 337,754
Income from operations	\$ 50,659	\$ 54,696	\$ 147,520	\$ 166,901
Income tax expense	12,902	19,988	32,023	54,621
Net income before noncontrolling interests	\$ 37,757	\$ 34,708	\$ 115,497	\$ 112,280
Less: net income (loss) from noncontrolling interests	41	330	(192)	114
Walker & Dunlop net income	\$ 37,716	\$ 34,378	\$ 115,689	\$ 112,166
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains and losses on pledged available-for-sale securities	16	(2)	(164)	6
Walker & Dunlop comprehensive income	\$ 37,732	\$ 34,376	\$ 115,525	\$ 112,172
Basic earnings per share	\$ 1.24	\$ 1.14	\$ 3.83	\$ 3.74
Diluted earnings per share	\$ 1.17	\$ 1.06	\$ 3.60	\$ 3.49
Cash dividends declared per common share	\$ 0.25	\$ —	\$ 0.75	\$ —
Basic weighted average shares outstanding	30,423	30,085	30,219	30,009
Diluted weighted average shares outstanding	32,245	32,312	32,096	32,170

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	For the nine months ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income before noncontrolling interests	\$ 115,497	\$ 112,280
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	(119,313)	(140,985)
Change in the fair value of premiums and origination fees	(2,226)	4,547
Amortization and depreciation	105,863	97,541
Provision (benefit) for credit losses	842	(216)
Other operating activities, net	(1,198,121)	(1,401,593)
Net cash provided by (used in) operating activities	\$ (1,097,458)	\$ (1,328,426)
Cash flows from investing activities		
Capital expenditures	\$ (1,965)	\$ (4,638)
Purchases of pledged available-for-sale securities	(60,088)	—
Funding of preferred equity investments	(1,100)	(16,321)
Proceeds from the payoff of preferred equity investments	30,624	—
Capital invested in the Interim Program JV, net	(890)	(6,184)
Acquisitions, net of cash received	(33,102)	(15,000)
Purchase of mortgage servicing rights	(1,814)	—
Originations of loans held for investment	(225,369)	(167,680)
Principal collected on loans held for investment upon payoff	87,688	117,479
Principal collected on loans held for investment upon formation of Interim Program JV	—	119,750
Net cash provided by (used in) investing activities	\$ (206,016)	\$ 27,406
Cash flows from financing activities		
Borrowings (repayments) of warehouse notes payable, net	\$ 1,228,850	\$ 1,360,969
Borrowings of interim warehouse notes payable	50,455	128,661
Repayments of interim warehouse notes payable	(61,049)	(175,934)
Repayments of note payable	(828)	(828)
Proceeds from issuance of common stock	8,939	2,887
Repurchase of common stock	(26,712)	(28,863)
Cash dividends paid	(23,600)	—
Payment of contingent consideration	(5,150)	—

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Debt issuance costs	(2,550)	(1,689)
Secured borrowings	70,052	—
Net cash provided by (used in) financing activities	\$ 1,238,407	\$ 1,285,203
Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents (NOTE 2)	\$ (65,067)	\$ (15,817)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	286,680	211,359
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	\$ 221,613	\$ 195,542
Supplemental Disclosure of Cash Flow Information:		
Cash paid to third parties for interest	\$ 35,315	\$ 34,286
Cash paid for income taxes	37,168	38,707

See accompanying notes to condensed consolidated financial statements.

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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, 2017 (“2017 Form 10-K”). In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 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, provides multifamily investment sales brokerage services, and engages in commercial real estate investment management activities. 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 brokers, and in some cases services, loans for various life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases the Company does not fund the loan.

The Company also offers a proprietary loan program offering interim loans (the “Interim Program”). During the second quarter of 2017, the Company formed a joint venture with an affiliate of Blackstone Mortgage Trust, Inc. to originate, hold, and finance loans that meet the criteria of the Interim Program (the “Interim Program JV”). The Interim Program JV assumes full risk of loss while the loans it originates are outstanding. The Company holds a 15% ownership interest in the Interim Program JV and is responsible for sourcing, underwriting, servicing, and asset-managing the loans originated by the joint venture. During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation and subsidiaries (“JCR”), the operator of a private commercial real estate investment adviser. JCR, a wholly-owned subsidiary, is engaged in the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds. The operating results of JCR were immaterial for the three and nine months ended September 30, 2018.

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 have control over the entity or own a majority of the voting interests, the Company accounts for the investment using the equity method of accounting.

Subsequent Events—The Company has evaluated the effects of all events that have occurred subsequent to September 30, 2018. 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 September 30, 2018. No other material subsequent events have occurred that would require disclosure.

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

Contracts with Customers—Substantially all of the Company’s revenues are derived from the following sources, all of which are excluded from the accounting provisions applicable to contracts with customers: (i) financial instruments, (ii) transfers and servicing, (iii) derivative transactions, and (iv) investments in debt securities/equity-method investments. The remaining portion of revenues is not significant and derived from contracts with customers. The Company’s contracts with customers do not require significant judgment or material estimates that affect the determination of the transaction price (including the assessment of variable consideration), the allocation of the

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transaction price to performance obligations, and the determination of the timing of the satisfaction of performance obligations. Additionally, the earnings process for the Company's contracts with customers is not complicated and is generally completed in a short period of time. The Company had no contract assets or liabilities as of September 30, 2018 and December 31, 2017. The following table presents information about the Company's contracts with customers for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,		Statement of income line item Gains from mortgage banking activities
	2018	2017	2018	2017	
Description					
Certain loan origination fees	\$ 15,981	\$ 13,358	\$ 39,637	\$ 36,811	
Investment sales broker fees, investment management fees, assumption fees, application fees, and other	11,927	7,633	24,345	17,050	Other revenues
Total revenues derived from contracts with customers	\$ 27,908	\$ 20,991	\$ 63,982	\$ 53,861	

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 generally up to three years and are all multifamily loans with similar risk characteristics. As of September 30, 2018, Loans held for investment, net consisted of ten loans with an aggregate \$204.6 million of unpaid principal balance less \$0.7 million of net unamortized deferred fees and costs and \$0.1 million of allowance for loan losses. As of December 31, 2017, Loans held for investment, net consisted of five loans with an aggregate \$67.0 million of unpaid principal balance less \$0.4 million of net unamortized deferred fees and costs and \$0.1 million of allowance for loan losses.

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

None of the loans held for investment was delinquent, impaired, or on non-accrual status as of September 30, 2018 or December 31, 2017. 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. The allowances for loan losses recorded as of September 30, 2018 and December 31, 2017 were based on the Company's collective assessment of the portfolio.

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 and nine months ended September 30, 2018 and 2017:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Provision (benefit) for loan losses	\$ 4	\$ (100)	\$ 69	\$ (290)
Provision for risk-sharing obligations	515	109	773	74
Provision (benefit) for credit losses	\$ 519	\$ 9	\$ 842	\$ (216)

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 sale or 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 during the period of time the loan is outstanding. Included in Net warehouse interest income for the three and nine months ended September 30, 2018 and 2017 are the following components:

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(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Warehouse interest income - loans held for sale	\$ 16,684	\$ 15,263	\$ 36,830	\$ 36,616
Warehouse interest expense - loans held for sale	(14,389)	(11,776)	(31,945)	(27,024)
Net warehouse interest income - loans held for sale	\$ 2,295	\$ 3,487	\$ 4,885	\$ 9,592
Warehouse interest income - loans held for investment	\$ 3,169	\$ 3,213	\$ 6,238	\$ 13,205
Warehouse interest expense - loans held for investment	(1,584)	(1,342)	(2,994)	(5,019)
Net warehouse interest income - loans held for investment	\$ 1,585	\$ 1,871	\$ 3,244	\$ 8,186
Total net warehouse interest income	\$ 3,880	\$ 5,358	\$ 8,129	\$ 17,778

Income Taxes—The Company records the excess tax benefits from stock compensation as a reduction to income tax expense. The Company recorded excess tax benefits of \$0.9 million and \$0.3 million during the three months ended September 30, 2018 and 2017, respectively, and \$6.7 million and \$9.1 million during the nine months ended September 30, 2018 and 2017, respectively.

In December 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted. Tax Reform changed the rules related to the deductibility of executive compensation under the provisions of Section 162(m) of the Internal Revenue Code. Tax Reform also contains provisions for determining whether compensation agreements executed prior to Tax Reform follow the guidance prior or subsequent to Tax Reform. During the third quarter of 2018, the Treasury Department issued initial guidance for determining, among other things, whether a compensation agreement in place prior to Tax Reform follows the guidance prior or subsequent to Tax Reform.

The deductibility of certain of the Company’s compensation agreements with its executives may be impacted by the Treasury guidance upon finalization. As of September 30, 2018, the Company has provisionally recorded approximately \$2.6 million of deferred tax assets related to such compensation agreements. The Company expects the accounting for these deferred tax assets to be completed in the fourth quarter of 2018 once the Treasury guidance is finalized.

Pledged Securities, at Fair Value—Pledged securities, at fair value consisted of the following balances as of September 30, 2018 and 2017 and December 31, 2017 and 2016:

September 30,

December 31,

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(in thousands)	2018	2017	2017	2016
Pledged cash and cash equivalents:				
Restricted cash	\$ 3,434	\$ 1,969	\$ 2,201	\$ 4,358
Money market funds	36,891	91,031	86,584	78,384
Total pledged cash and cash equivalents	\$ 40,325	\$ 93,000	\$ 88,785	\$ 82,742
Agency debt securities	68,737	2,102	9,074	2,108
Total pledged securities, at fair value	\$ 109,062	\$ 95,102	\$ 97,859	\$ 84,850

The investments in Agency debt securities consist of multifamily Agency mortgage-backed securities (“Agency MBS”) and are all accounted for as available-for-sale (“AFS”) securities. The following table provides additional information related to the AFS Agency MBS as of September 30, 2018 and December 31, 2017:

Fair Value and Amortized Cost of Agency MBS (in thousands)	September 30, 2018	December 31, 2017
Fair value	\$ 68,737	\$ 9,074
Amortized cost	68,808	8,981
Total gains for securities with net gains in AOCI	43	93
Total losses for securities with net losses in AOCI	(114)	—

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As of September 30, 2018, the Company does not intend to sell any of the Agency debt securities, nor does the Company believe that it is more likely than not that it would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity.

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

Detail of Agency MBS Maturities (in thousands)	September 30, 2018	
	Fair Value	Amortized Cost
Within one year	\$ —	\$ —
After one year through five years	16,675	16,671
After five years through ten years	41,106	41,152
After ten years	10,956	10,985
Total	\$ 68,737	\$ 68,808

Statement of Cash Flows—For presentation in the Condensed Consolidated Statements of Cash Flows, the Company considers pledged cash and cash equivalents (as detailed above) to be restricted cash and restricted cash equivalents. The following table, in conjunction with the detail of Pledged securities, at fair value presented above, 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 September 30, 2018 and 2017 and December 31, 2017 and 2016.

(in thousands)	September 30,		December 31,	
	2018	2017	2017	2016
Cash and cash equivalents	\$ 165,062	\$ 85,363	\$ 191,218	\$ 118,756
Restricted cash	16,226	17,179	6,677	9,861
Pledged cash and cash equivalents	40,325	93,000	88,785	82,742
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	\$ 221,613	\$ 195,542	\$ 286,680	\$ 211,359

Recently Announced Accounting Pronouncements—In the first quarter of 2016, Accounting Standards Update 2016-02 (“ASU 2016-02”), Leases (Topic 842) was issued. 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 the accounting treatment today. ASU 2016-02 requires additional disclosures and is effective for the Company January 1, 2019. The new lease standard requires entities 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 with a cumulative-effect adjustment to retained earnings recorded at the earliest comparative period. During the third quarter of 2018, Accounting Standards Update 2018-11 (“ASU 2018-11”), Targeted Improvements to Topic 842, Leases was issued. ASU 2018-11 provides companies with the option to apply a

practical expedient that allows adoption of the provisions of ASU 2016-02 prospectively with a cumulative-effect adjustment recorded to retained earnings upon the date of adoption.

The Company intends to adopt the standard when required on January 1, 2019 and to elect the available practical expedients, including ASU 2018-11. The Company has completed its analysis of the new standard and expects to be ready in time for the adoption next year. The Company is also in the process of analyzing the disclosures that will be required for the new standard. The Company expects ASU 2016-02 to have an impact on the Consolidated Balance Sheets similar to the amount quantified in the 2017 Form 10-K when it recognizes ROU assets and the corresponding lease liabilities. The Company expects an immaterial impact on the statements of income. There will be no change to the classification of the Company's leases, which are all currently classified as operating leases.

In the second quarter of 2016, Accounting Standards Update 2016-13 ("ASU 2016-13"), Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments was issued. ASU 2016-13 ("the Standard") represents a significant change to the incurred loss model currently used to account for credit losses. The Standard requires an entity to estimate the credit losses expected over the life of the credit exposure upon initial recognition of that exposure. The expected credit losses consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Exposures with similar risk characteristics are

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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 on the balance sheet. ASU 2016-13 is applicable to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures. The Standard will modify the way the Company estimates its allowance for risk-sharing obligations and its allowance for loan losses and the way it assesses impairment on its pledged AFS securities. ASU 2016-13 requires modified retrospective application to all outstanding, in-scope instruments, with a cumulative-effect adjustment recorded to opening retained earnings as of the beginning of the period of adoption.

The Company plans on adopting ASU 2016-13 when the standard is required to be adopted, January 1, 2020. The Company is in the 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. The Company expects its allowance for risk-sharing obligations to increase when ASU 2016-13 is adopted.

In the third quarter of 2018, Accounting Standards Update 2018-13 (“ASU 2018-13”), Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement was issued. ASU 2018-13 eliminates the following disclosure requirements; (i) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy and (ii) the entity’s valuation processes for Level 3 fair value measurements. ASU 2018-13 adds, among other things, the requirement to (i) provide information about the measurement uncertainty of Level 3 fair value measurements as of the reporting date rather than a point in the future, (ii) disclose changes in unrealized gains and losses related to Level 3 measurements for the period included in other comprehensive income, and (iii) disclose for Level 3 measurements the range and weighted average of the significant unobservable inputs and the way it is calculated. ASU 2018-13 is effective for the Company on January 1, 2020 with early adoption permitted. The Company early-adopted ASU 2018-13 during the third quarter of 2018 with little impact to its disclosures as the Company has not historically had transfers between Level 1 and Level 2 of the fair value hierarchy or adjustments to its Level 3 fair value measurements due to unobservable inputs and does not have any Level 3 assets with unrealized gains and losses recorded in other comprehensive income.

In the third quarter of 2018, Accounting Standards Update 2018-15 (“ASU 2018-15”), Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract was issued. ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets. Capitalized implementation costs are amortized over the term of the hosting arrangement, and the expense related to the capitalized implementation costs is recorded in the same line in the financial statements as the cloud service cost. ASU 2018-15 is effective for the Company on January 1, 2020. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. The Company is in the process of determining the impact ASU 2018-15 will have on its financial statements and when it will adopt ASU 2018-15.

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

There have been no material changes to the accounting policies discussed in NOTE 2 of the Company’s 2017 Form 10-K.

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

NOTE 3—GAINS FROM MORTGAGE BANKING ACTIVITIES

Gains from mortgage banking activities consisted of the following activity for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Contractual loan origination related fees, gross	\$ 64,197	\$ 64,977	\$ 180,655	\$ 183,599
Co-broker fees	(4,603)	(4,454)	(17,052)	(14,672)
Fair value of expected net cash flows from servicing recognized at commitment	42,811	53,614	129,764	150,608
Fair value of expected guaranty obligation recognized at commitment	(3,235)	(2,833)	(10,451)	(9,623)
Total gains from mortgage banking activities	\$ 99,170	\$ 111,304	\$ 282,916	\$ 309,912

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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 September 30, 2018 and December 31, 2017 were \$857.0 million and \$834.5 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 September 30, 2018 is a decrease in the fair value of \$26.7 million.

The impact of a 200-basis point increase in the discount rate at September 30, 2018 is a decrease in the fair value of \$55.4 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 and nine months ended September 30, 2018 and 2017 is shown in the table below:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Beginning balance	\$ 638,914	\$ 573,159	\$ 634,756	\$ 521,930
Additions, following the sale of loan Purchases	46,107	48,174	119,588	165,748
Amortization	—	—	1,814	—
Pre-payments and write-offs	(33,157)	(30,174)	(98,119)	(88,398)
Ending balance	(4,676)	(3,250)	(10,851)	(11,371)
	\$ 647,188	\$ 587,909	\$ 647,188	\$ 587,909

The following tables summarize the components of the net carrying value of the Company’s acquired and originated MSRs as of September 30, 2018:

(in thousands)	As of September 30, 2018		
	Gross carrying value	Accumulated amortization	Net carrying value
Acquired MSRs	\$ 185,529	\$ (133,955)	\$ 51,574
Originated MSRs	884,918	(289,304)	595,614
Total	\$ 1,070,447	\$ (423,259)	\$ 647,188

As of December 31, 2017		
Gross	Accumulated	Net

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(in thousands)	carrying value	amortization	carrying value
Acquired MSRs	\$ 183,715	\$ (121,643)	\$ 62,072
Originated MSRs	820,137	(247,453)	572,684
Total	\$ 1,003,852	\$ (369,096)	\$ 634,756

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The expected amortization of MSR recorded as of September 30, 2018 is shown in the table below. Actual amortization may vary from these estimates.

(in thousands)	Originated MSR Amortization	Acquired MSR Amortization	Total MSR Amortization
Three Months Ending December 31, 2018	\$ 29,615	\$ 2,703	\$ 32,318
Year Ending December 31, 2019	\$ 110,777	\$ 10,222	\$ 120,999
2020	97,481	8,997	106,478
2021	85,245	7,644	92,889
2022	72,270	5,894	78,164
2023	60,895	5,126	66,021
Thereafter	139,331	10,988	150,319
Total	\$ 595,614	\$ 51,574	\$ 647,188

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

When a loan is sold under the Fannie Mae Delegated Underwriting and Servicing™ (“DUS”) program, the Company typically agrees to guarantee a portion of the ultimate loss incurred on the loan should the borrower fail to perform. The compensation for this risk is a component of the servicing fee on the loan. The guaranty is in force while the loan is outstanding. The Company does not provide a guaranty for any other loan product it sells or brokers.

Activity related to the guaranty obligation for the three and nine months ended September 30, 2018 and 2017 is presented in the following table:

(in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Beginning balance	\$ 42,470	\$ 36,492	\$ 41,187	\$ 32,292
Additions, following the sale of loan	4,078	3,596	9,147	11,332
Amortization	(2,057)	(1,776)	(5,814)	(5,242)
Other	(78)	(12)	(107)	(82)
Ending balance	\$ 44,413	\$ 38,300	\$ 44,413	\$ 38,300

Activity related to the allowance for risk-sharing obligations for the three and nine months ended September 30, 2018 and 2017 is shown in the following table:

(in thousands)	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Beginning balance	\$ 4,070	\$ 3,648	\$ 3,783	\$ 3,613
Provision for risk-sharing obligations	515	109	773	74
Write-offs	—	—	—	—
Other	78	12	107	82
Ending balance	\$ 4,663	\$ 3,769	\$ 4,663	\$ 3,769

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

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The Allowance for risk-sharing obligations as of September 30, 2018 is based primarily on the Company's collective assessment of the probability of loss related to the loans on the watch list as of September 30, 2018. During the third quarter of 2018, Hurricane Florence made landfall in the United States, causing substantial damage to the affected areas. Located within the affected areas are multiple properties collateralizing loans for which the Company has risk-sharing obligations. Based on its preliminary assessment of these properties, the Company believes that few, if any, of these properties incurred significant damage, and those that did have adequate insurance coverage. Additionally, the Company has not experienced an increase in late payments from risk-sharing loans collateralized by properties in the affected areas. Accordingly, based on information currently available, the natural disaster did not have a material impact on the Allowance for risk-sharing obligations as of September 30, 2018. Additionally, the Company does not believe that this natural disaster will have a material impact on its Allowance for risk-sharing obligations in the future.

As of September 30, 2018, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement was \$6.4 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 were determined to be without value at the time of settlement.

NOTE 6—SERVICING

The total unpaid principal balance of the Company's servicing portfolio was \$80.6 billion as of September 30, 2018 compared to \$74.3 billion as of December 31, 2017.

NOTE 7—WAREHOUSE NOTES PAYABLE

At September 30, 2018, to provide financing to borrowers, the Company has arranged for warehouse lines of credit. In support of the Agencies' programs, the Company has committed and uncommitted warehouse lines of credit in the amount of \$3.0 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 \$0.3 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 September 30, 2018 are shown in the table below:

(dollars in thousands)	September 30, 2018			Total Temporary facility Increase Capacity	Outstanding Balance	Interest rate 30-day LIBOR plus
	Committed Amount	Uncommitted Amount				
Agency Warehouse Facility #1	\$ 425,000	\$ 300,000	\$ —	\$ 725,000	\$ 324,772	1.30%
Agency Warehouse Facility #2	500,000	300,000	—	800,000	371,915	30-day LIBOR plus 1.20%
Agency Warehouse Facility #3	500,000	265,000	—	765,000	675,671	30-day LIBOR plus 1.25%

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Agency Warehouse Facility #4	350,000	—	—	350,000	239,084	30-day LIBOR plus 1.30%
Agency Warehouse Facility #5	30,000	—	—	30,000	18,946	30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	100,000	—	350,000	207,962	30-day LIBOR plus 1.30%
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	—	1,500,000	284,454	30-day LIBOR plus 1.15%
Total Agency Warehouse Facilities	\$ 2,055,000	\$ 2,465,000	\$ —	\$ 4,520,000	\$ 2,122,804	
Interim Warehouse Facility #1	\$ 85,000	\$ —	\$ —	\$ 85,000	\$ 10,290	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	—	100,000	24,662	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	—	—	75,000	—	30-day LIBOR plus 1.90% to 2.50%
Total Interim Warehouse Facilities	\$ 260,000	\$ —	\$ —	\$ 260,000	\$ 34,952	
Debt issuance costs	—	—	—	—	(757)	
Total warehouse facilities	\$ 2,315,000	\$ 2,465,000	\$ —	\$ 4,780,000	\$ 2,156,999	

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

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During the fourth quarter of 2018, the Company executed the first amendment to the Amended and Restated Warehousing Credit and Security Agreement related to Agency Warehouse Facility #1 that extended the maturity date to October 28, 2019 and lowered the interest rate to 30-day London Interbank Offered Rate (“LIBOR”) plus 120 basis points. No other material modifications have been made to the agreement in 2018.

During the third quarter of 2018, the Company executed the second amendment to the Second Amended and Restated Warehousing Credit and Security Agreement related to Agency Warehouse Facility #2 that extended the maturity date to September 9, 2019 and lowered the interest rate to 30-day LIBOR plus 120 basis points. No other material modifications have been made to the agreement in 2018.

During the second quarter of 2018, the Company executed the ninth amendment to the warehouse agreement related to Agency Warehouse Facility #3. The amendment extended the maturity date to April 30, 2019, increased the permanent committed borrowing capacity to \$500.0 million, and established additional uncommitted borrowing capacity of \$265.0 million. The uncommitted borrowing capacity expires on January 30, 2019. No other material modifications have been made to the agreement during 2018.

During the fourth quarter of 2018, the Company executed the fifth amendment to the warehouse agreement related to Agency Warehouse Facility #4 that extended the maturity date to October 5, 2019 and reduced the interest rate to 30-day LIBOR plus 120 basis points. No other material modifications have been made to the agreement during 2018.

During the first quarter of 2018, the Company executed the first amendment to the warehouse credit and security agreement related to Agency Warehouse Facility #5 that extended the maturity date to July 12, 2019. The amendment also provides the Company the unilateral option to extend the agreement for one additional year. No other material modifications have been made to the agreement during 2018.

During the first quarter of 2018, the Company executed a warehousing and security agreement to establish Agency Warehouse Facility #6. The warehouse facility has a committed \$250.0 million maximum borrowing amount and is scheduled to mature on February 2, 2019. The Company can fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 130 basis points. The agreement provides \$100.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

During the third quarter of 2018, an Agency warehouse line with a \$500.0 million aggregate committed and uncommitted borrowing capacity expired according to its terms. The Company believes that the six remaining

committed and uncommitted credit facilities from national banks and the uncommitted credit facility from Fannie Mae provide the Company with sufficient borrowing capacity to conduct its Agency lending operations.

During the second quarter of 2018, the Company executed the eighth amendment to the credit and security agreement related to Interim Warehouse Facility #1 that extended the maturity date to April 30, 2019. No other material modifications have been made to the agreement during 2018.

During the second quarter of 2018, the Company executed the third amendment to the repurchase agreement related to Interim Warehouse Facility #3 that extended the maturity date to May 18, 2019 and lowered the minimum interest rate from 30-day LIBOR plus 200 basis points to 30-day LIBOR plus 190 basis points. No other material modifications have been made to the agreement during 2018.

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

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NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

Activity related to goodwill for the nine months ended September 30, 2018 and 2017 follows:

(in thousands)	Nine Months Ended	
	September 30,	
	2018	2017
Beginning balance	\$ 123,767	\$ 96,420
Additions from acquisitions	29,957	27,347
Impairment	—	—
Ending balance	\$ 153,724	\$ 123,767

The addition from acquisitions during the nine months ended September 30, 2018 shown in the table above relates to the JCR acquisition, which was completed in the second quarter of 2018. The Company has not completed the accounting for the JCR transaction as it is still waiting for certain tax information from JCR's final 2017 and partial-year 2018 tax returns to be finalized. The initial purchase price allocation contains provisional amounts related to income tax matters.

As of September 30, 2018, the Company has fully amortized all material intangible assets obtained from acquisitions prior to the JCR acquisition. As of September 30, 2018, the balance of intangible assets acquired in the JCR acquisition was \$2.6 million, which will be amortized evenly over their remaining life of approximately 4.5 years. During the nine months ended September 30, 2018, the Company paid \$5.2 million to settle the contingent consideration liability from the first of three annual earn-out periods related to a previous acquisition. No payments were made during the nine months ended September 30, 2017. The balance of contingent consideration liabilities as of September 30, 2018 and 2017 was \$9.6 million and \$13.9 million, respectively, and consisted primarily of the amount initially recorded upon acquisition in the first quarter of 2017, net of any payments made.

In October 2018, the Company executed a purchase agreement to acquire certain assets and assume certain liabilities of a mortgage banking company in the Southeast in exchange for \$20.0 million cash. The Company expects this acquisition to close in the fourth quarter of 2018. The acquisition is not expected to have a material impact on the Company's financial results.

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 MSR's 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 MSR's do not trade in an active, open market with readily observable prices. While sales of multifamily MSR's do occur on

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occasion, precise terms and conditions vary with each transaction and are not readily available. Accordingly, the estimated fair value of the Company's MSR's was developed using discounted cash flow models that calculate the present value of estimated future net servicing income. The model considers contractually specified servicing fees, prepayment assumptions, delinquency status, late charges, other ancillary revenue, costs to service, and other economic factors. The Company periodically reassesses and adjusts, when necessary, the underlying inputs and assumptions used in the model to reflect observable market conditions and assumptions that a market participant would consider in valuing an MSR asset. MSR's are carried at the lower of amortized cost or fair value.

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

- **Derivative Instruments**—The derivative positions consist of interest rate lock commitments with borrowers and forward sale agreements to the Agencies. These instruments are valued using a discounted cash flow model developed based on changes in the applicable U.S. Treasury rate and other observable market data. The value was determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company, and are classified within Level 3 of the valuation hierarchy.
 - **Loans Held for Sale**—Loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using discounted cash flow models that incorporate quoted observable inputs from market participants. Therefore, the Company classifies these loans held for sale as Level 2.
- **Pledged Securities**—Investments in cash and money market funds are valued using quoted market prices from recent trades. Therefore, the Company classifies this portion of pledged securities as Level 1. The Company determines the fair value of its AFS investments in Agency debt securities using discounted cash flows that incorporate observable inputs from market participants. Consequently, the Company classifies this portion of pledged securities as Level 2. The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2018, and December 31, 2017, 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
September 30, 2018				
Assets				
Loans held for sale	\$ —	\$ 2,134,190	\$ —	\$ 2,134,190
Pledged securities	40,325	68,737	—	109,062
Derivative assets	—	—	28,182	28,182
Total	\$ 40,325	\$ 2,202,927	\$ 28,182	\$ 2,271,434
Liabilities				
Derivative liabilities	\$ —	\$ —	\$ 524	\$ 524
Total	\$ —	\$ —	\$ 524	\$ 524
December 31, 2017				
Assets				

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Loans held for sale	\$ —	\$ 951,829	\$ —	\$ 951,829
Pledged securities	88,785	9,074	—	97,859
Derivative assets	—	—	10,357	10,357
Total	\$ 88,785	\$ 960,903	\$ 10,357	\$ 1,060,045
Liabilities				
Derivative liabilities	\$ —	\$ —	\$ 1,850	\$ 1,850
Total	\$ —	\$ —	\$ 1,850	\$ 1,850

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There were no transfers between any of the levels within the fair value hierarchy during the nine months ended September 30, 2018.

Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 60 days). A roll forward of derivative instruments is presented below for the three and nine months ended September 30, 2018 and 2017:

(in thousands)	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments			
	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Derivative assets and liabilities, net				
Beginning balance	\$ 17,963	\$ 24,491	\$ 8,507	\$ 57,428
Settlements	(89,475)	(92,117)	(263,765)	(323,662)
Realized gains recorded in earnings (1)	71,512	67,626	255,258	266,234
Unrealized gains recorded in earnings (1)	27,658	43,678	27,658	43,678
Ending balance	\$ 27,658	\$ 43,678	\$ 27,658	\$ 43,678

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

The following table presents information about significant unobservable inputs used in the recurring measurement of the fair value of the Company's Level 3 assets and liabilities as of September 30, 2018:

(in thousands)	Quantitative Information about Level 3 Measurements			
	Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	\$ 28,182	Discounted cash flow	Counterparty credit risk	—
Derivative liabilities	\$ 524	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 September 30, 2018 and December 31, 2017 are presented below:

(in thousands)	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 165,062	\$ 165,062	\$ 191,218	\$ 191,218
Restricted cash	16,226	16,226	6,677	6,677
Pledged securities	109,062	109,062	97,859	97,859

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Loans held for sale	2,134,190	2,134,190	951,829	951,829
Loans held for investment, net	203,824	204,644	66,510	66,963
Derivative assets	28,182	28,182	10,357	10,357
Total financial assets	\$ 2,656,546	\$ 2,657,366	\$ 1,324,450	\$ 1,324,903
Financial liabilities:				
Derivative liabilities	\$ 524	\$ 524	\$ 1,850	\$ 1,850
Secured borrowings	70,052	70,052	—	—
Warehouse notes payable	2,156,999	2,157,756	937,769	939,500
Note payable	163,626	165,395	163,858	166,223
Total financial liabilities	\$ 2,391,201	\$ 2,393,727	\$ 1,103,477	\$ 1,107,573

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The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is 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 cash, highly liquid investments in money market accounts invested in government securities, and investments in Agency debt securities. The investments of the money market funds typically have maturities of 90 days or less and are valued using quoted market prices from recent trades. The fair value of the Agency debt securities incorporates the contractual cash flows of the security discounted at market-rate, risk-adjusted yields.

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

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 September 30, 2018 and December 31, 2017, 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.

Secured borrowings—Consist of liabilities associated with loans transferred to a third party but accounted for as secured borrowings. The borrowing rates on the secured borrowings are based upon 30-day LIBOR plus a margin. The unpaid principal balance of secured borrowings 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).

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 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.

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

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

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

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

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

The following table presents the components of fair value and other relevant information associated with the Company's derivative instruments and loans held for sale as of September 30, 2018 and December 31, 2017.

	Fair Value Adjustment Components				Balance Sheet Location		Fair Value Adjustment To Loans Held for Sale
	Notional or Principal Amount	Estimated Gain on Sale	Interest Rate Movement	Total Fair Value Adjustment	Derivative Assets	Derivative Liabilities	
(in thousands)							
September 30, 2018							
Rate lock commitments	\$ 616,452	\$ 14,570	\$ (5,300)	\$ 9,270	\$ 9,489	\$ (219)	\$ —
Forward sale contracts	2,740,397	—	18,388	18,388	18,693	(305)	—
Loans held for sale	2,123,945	23,333	(13,088)	10,245	—	—	10,245
Total		\$ 37,903	\$ —	\$ 37,903	\$ 28,182	\$ (524)	\$ 10,245
December 31, 2017							
	\$ 241,760	\$ 7,587	\$ (678)	\$ 6,909	\$ 6,909	\$ —	\$ —

Rate lock commitments							
Forward sale contracts	1,175,192	—	1,598	1,598	3,448	(1,850)	—
Loans held for sale	933,432	19,317	(920)	18,397	—	—	18,397
Total		\$ 26,904	\$ —	\$ 26,904	\$ 10,357	\$ (1,850)	\$ 18,397

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, which are classified as

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Pledged securities, at fair value on the Condensed Consolidated Balance Sheets. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Pledged securities held in the form of money market funds holding U.S. Treasuries is discounted 5%, and Agency MBS are discounted 4% for purposes of calculating compliance with the restricted liquidity requirements. As of September 30, 2018, the Company held the majority of its pledged securities in Agency MBS. NOTE 2 provides a detail of the types of financial assets pledged to Fannie Mae to meet the restricted liquidity requirements. The majority of the loans for which the Company has risk sharing are Tier 2 loans.

The Company is in compliance with the September 30, 2018 collateral requirements as outlined above. As of September 30, 2018, reserve requirements for the DUS loan portfolio will require the Company to fund \$65.2 million in additional pledged securities over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within the at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. The Company generates sufficient cash flow from its operations to meet these capital standards and does not expect any future changes to have a material impact on its future operations; however, any future changes to collateral requirements may adversely impact the Company's available cash.

Fannie Mae has established standards for capital adequacy and reserves the right to terminate the Company's servicing authority for all or some of the portfolio if at any time it determines that the Company's financial condition is not adequate to support its obligations under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of September 30, 2018. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk sharing. At September 30, 2018, the net worth requirement was \$168.1 million, and the Company's net worth, as defined in the requirements, was \$724.1 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of September 30, 2018, the Company was required to maintain at least \$33.1 million of liquid assets to meet operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, and Ginnie Mae. As of September 30, 2018, the Company had operational liquidity, as defined in the requirements, of \$170.0 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

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 and nine months ended September 30, 2018 and 2017:

(in thousands)	For the three months ended September 30, 2018		For the nine months ended September 30, 2017	
	2018	2017	2018	2017

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Weighted average number of shares outstanding used to calculate basic earnings per share	30,423	30,085	30,219	30,009
Dilutive securities				
Unvested restricted shares and restricted share units	1,147	1,404	1,121	1,394
Stock options	675	823	756	767
Weighted average number of shares and share equivalents outstanding used to calculate diluted earnings per share	32,245	32,312	32,096	32,170

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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 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).

(in thousands)	For the three months ended		For the nine	
	September 30,		months ended	
	2018	2017	2018	2017
Average options	—	113	—	94
Average restricted shares	1	3	3	5

NOTE 12—TOTAL EQUITY

A summary of changes in total equity is presented below:

(in thousands)	Stockholders' Equity				Retained Earnings	Noncontrolling Interests	Total Equity
	Common Shares	Stock Amount	Additional Paid-In Capital	AOCI			
Balance at December 31, 2017	30,016	\$ 300	\$ 229,080	\$ 93	\$ 579,943	\$ 5,565	\$ 814,981
Walker & Dunlop net income	—	—	—	—	115,689	—	115,689
Net income (loss) from noncontrolling interests	—	—	—	—	—	(192)	(192)
Other comprehensive income (loss), net of tax	—	—	—	(164)	—	—	(164)
Stock-based compensation - equity classified	—	—	17,488	—	—	—	17,488
Issuance of common stock in connection with equity compensation plans	913	9	8,930	—	—	—	8,939
Repurchase and retirement of common stock	(532)	(5)	(14,777)	—	(11,930)	—	(26,712)
Cash dividends paid	—	—	—	—	(23,600)	—	(23,600)
Balance at September 30, 2018	30,397	\$ 304	\$ 240,721	\$ (71)	\$ 660,102	\$ 5,373	\$ 906,429

During the first quarter of 2018, the Company repurchased, under a 2017 share repurchase program, 244 thousand shares of its common stock at a weighted average price of \$46.77 per share and immediately retired the shares,

reducing stockholders' equity by \$11.4 million. During the first quarter of 2018, the Company's Board of Directors authorized the Company to repurchase up to \$50.0 million of its common stock over a 12-month period. During 2018, the Company has repurchased 75 thousand shares of its common stock under the 2018 share repurchase program at a weighted average price of \$54.01 per share and immediately retired the shares, reducing stockholders' equity by \$4.1 million. The Company had \$45.9 million of authorized share repurchase capacity remaining as of September 30, 2018.

In 2018, the Company's Board of Directors has declared aggregate cash dividends of \$1.00 per share (\$0.25 per share for each quarter during 2018). These dividends represent the first dividend payments the Company has made since its initial public offering in December 2010. The dividends are paid to all holders of record of our restricted and unrestricted common stock and restricted stock units. The dividend for the fourth quarter of 2018 was declared in October and will be paid in December. The Company expects the dividends paid during 2018 to be an insignificant portion of the Company's net income, retained earnings, and cash and cash equivalents.

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

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

The following discussion should be read in conjunction with the historical financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q"). The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those expressed or contemplated in those forward-looking statements as a result of certain factors, including those set forth under the headings "Forward-Looking Statements" and "Risk Factors" elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017 (2017 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," "anticipates," "believes," "estimates," "predicts," or "potential" or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

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

- the future of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), including their origination capacities, and their impact on our business;
- changes to and trends in the interest rate environment and its impact on our business;
- our growth strategy;
- our projected financial condition, liquidity, and results of operations;
- our ability to obtain and maintain warehouse and other loan funding arrangements;
- our ability to make future dividend payments or repurchase shares of our common stock;
- availability of and our ability to attract and retain qualified personnel and our ability to develop and retain relationships with borrowers, key principals, and lenders;
- degree and nature of our competition;
- changes in governmental regulations and policies, tax laws and rates, and similar matters and the impact of such regulations, policies, and actions;
- our ability to comply with the laws, rules, and regulations applicable to us;
- trends in the commercial real estate finance market, commercial real estate values, the credit and capital markets, or the general economy, including demand for multifamily housing and rent growth;
- general volatility of the capital markets and the market price of our common stock; and
- other risks and uncertainties associated with our business described in our 2017 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, provide multifamily investment sales brokerage services, and engage in commercial real estate investment management activities. Our clients are owners

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and developers of multifamily and other commercial real estate across the country. We originate and sell loans through the programs of the GSEs, the Government National Mortgage Association (“Ginnie Mae”), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, “HUD;” and HUD collectively with the GSEs, the “Agencies”), with which we have long-established relationships. We are approved as a Fannie Mae Delegated Underwriting and Servicing™ (“DUS”) lender nationally, a Freddie Mac Multifamily Approved Seller/Service for Conventional Loans (“Freddie Mac seller/service”) in 25 states and the District of Columbia, a Freddie Mac Approved Seller/Service for Seniors Housing and Targeted Affordable Housing nationwide, a HUD Multifamily Accelerated Processing lender nationally, a HUD LEAN lender nationally, and a Ginnie Mae issuer. We broker, and in some cases service, loans for several life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases we do not fund the loan.

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 concurrent with rate lock. Proceeds from the sale of the loan are used to pay off the warehouse borrowing. The sale of the loan is typically completed within 60 days after the loan is closed. We retain servicing rights and asset management responsibilities on substantially all loans that we originate through the Agencies’ programs.

We recognize gains from mortgage banking activities when we commit to both originate a loan with a borrower and sell that loan to an investor. The gains from mortgage banking activities for these transactions reflect the fair value attributable to loan origination fees, premiums on the sale of loans, net of any co-broker fees, and the fair value of the expected net cash flows associated with servicing the loans, net of any guaranty obligations retained. We also recognize gains from mortgage banking activities when we receive the origination fee from a brokered loan transaction. Other sources of revenue include (i) net warehouse interest income we earn while the loan is held for sale through one of our warehouse facilities, (ii) net warehouse interest income from loans held for investment while they are outstanding, (iii) sales commissions for brokering the sale of multifamily properties, and (iv) asset management fees from our investment management activities.

We retain servicing rights on substantially all 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 relating to servicing the loans. Servicing fees, which are based on servicing fee rates set at the time an investor agrees to purchase the loan and on the unpaid principal balance of the loan, are generally paid monthly for the duration of the loan. Our Fannie Mae and Freddie Mac servicing arrangements generally provide for prepayment fees to us in the event of a voluntary prepayment. For loans serviced outside of Fannie Mae and Freddie Mac, we typically do not share in any such payments.

We are currently not exposed to unhedged interest rate risk during the loan commitment, closing, and delivery process for our Agency 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). During the second quarter of 2018, Fannie Mae increased our risk-sharing cap from \$60.0 million to \$200.0 million. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). We may request modified risk-sharing

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at the time of origination, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fully compensated for the risks of the transactions.

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 currently offer interim loans to provide floating-rate, interest-only loans for terms of generally up to three years to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing (the “Interim Program”). We underwrite, service, and asset-manage all loans executed through the Interim Program. The ultimate goal of the Interim Program is to provide permanent Agency financing on these transitional properties. The Interim Program has two distinct executions: held by a joint venture and held for investment.

During the second quarter of 2017, we formed a joint venture with an affiliate of Blackstone Mortgage Trust, Inc. to originate, hold, and finance loans that meet the criteria of the Interim Program (the “Interim Program JV” or the “joint venture”). The Interim Program JV assumes full risk of loss while the loans it originates are outstanding. We hold a 15% ownership interest in the Interim Program JV and are responsible for sourcing, underwriting, servicing, and asset-managing the loans originated by the joint venture. The joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities. Many of the interim loans originated since the formation of the joint venture have been for the Interim Program JV. During the nine months ended September 30, 2018, \$172.2 million of the \$402.7 million of interim loan originations were executed through the joint venture. As of September 30, 2018, we asset-managed \$222.7 million of interim loans on behalf of the Interim Program JV.

We originate and hold some Interim Program loans for investment, which are included on our balance sheet. During the time that these loans are outstanding, we assume the full risk of loss. Since we began originating interim loans in 2012, we have not experienced any delinquencies or charged off any Interim Program loans. As of September 30, 2018, we had ten Interim Program loans held for investment with an aggregate outstanding unpaid principal balance of \$204.6 million.

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

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 September 30, 2018, we had preferred equity investments with one borrower totaling \$12.2 million. During the fourth quarter of 2018, we collected the remaining \$12.2 million and funded an additional \$40.0 million preferred equity investment on a different property with this borrower. We expect this preferred equity investment to be repaid within the next six months.

During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation and subsidiaries (“JCR”), the operator of a private commercial real estate investment adviser focused on the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds. The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify the company by growing our investment management platform. JCR’s current assets under management (“AUM”) of \$837.8 million primarily consist of three sources: Fund III, Fund IV, and a separate account managed for a life insurance company. AUM for Fund III and Fund IV consist of both unfunded commitments and funded investments. AUM for the separate account consist entirely of funded investments. Unfunded commitments are highest during the fund raising and investment phases. The following table summarizes JCR’s AUM as of September 30, 2018:

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Components of JCR assets under management (in thousands)	Unfunded Commitments	Funded Investments	Total
Fund III	\$ 95,172	\$ 171,416	\$ 266,588
Fund IV	205,748	29,331	235,079
Separate account	—	336,127	336,127
Total assets under management	\$ 300,920	\$ 536,874	\$ 837,794

JCR receives management fees based on both unfunded commitments and funded investments. Additionally, with respect to Fund III and Fund IV, JCR receives a percentage of the return above the fund return hurdle rate specified in the fund agreements.

Basis of Presentation

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

Critical Accounting Policies

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

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

The assumptions used to estimate the fair value of MSRs at loan sale are based on internal models and are periodically compared to assumptions used by other market participants. Due to the relatively few transactions in the multifamily MSR market, we have experienced little volatility in the assumptions we use during the periods presented, including the most-significant assumption – the discount rate. Additionally, we do not expect to see much volatility in the assumptions for the foreseeable future. Management actively monitors the assumptions used and makes adjustments to

those assumptions when market conditions change or other factors indicate such adjustments are warranted. We carry originated and purchased MSR's at the lower of amortized cost or fair value and evaluate the carrying value for impairment quarterly. We test for impairment on the purchased stand-alone servicing portfolios individually and separately from our other MSR's. The MSR's from both stand-alone portfolio purchases and from loans sales are tested for impairment at the portfolio level. We have never recorded an impairment of MSR's in our history. We engage a third party to assist in determining an estimated fair value of our existing and outstanding MSR's on at least a semi-annual basis.

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

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the estimated life of the loan and presented as a component of Amortization and depreciation in the Condensed Consolidated Statements of Income.

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

Allowance for Risk-sharing Obligations. The allowance for risk-sharing obligations relates to our at risk servicing portfolio and is presented as a separate liability within the Condensed Consolidated Balance Sheets. The amount of this allowance considers our assessment of the likelihood of repayment by the borrower or key principal(s), the risk characteristics of the loan, the loan's risk rating, historical loss experience, adverse situations affecting individual loans, the estimated disposition value of the underlying collateral, and the level of risk sharing. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. We regularly monitor the allowance on all applicable loans and update loss estimates as current information is received. Provision (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 when a loan is in foreclosure, we record an allowance for that loan (a "specific reserve"). The specific reserve is based on the estimate of the property fair value less selling and property preservation costs and considers the loss-sharing requirements detailed below in the "Credit Quality and Allowance for Risk-Sharing Obligations" section. The estimate of property fair value at initial recognition of the allowance for risk-sharing obligations is based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value. The allowance for risk-sharing obligations for such loans is updated as any additional information is received until the loss is settled with Fannie Mae. The settlement with Fannie Mae is based on the actual sales price of the property less selling and property preservation costs and considers the Fannie Mae loss-sharing requirements. Loss settlement with Fannie Mae has historically concluded within 18 to 36 months after foreclosure. Historically, the initial specific reserves have not varied materially from the final settlement. We are uncertain whether such a trend will continue in the future.

In addition to the specific reserves discussed above, we also record an allowance for risk-sharing obligations related to all risk-sharing loans on our watch list ("general reserves"). Such loans are not probable of foreclosure but are probable of loss as the characteristics of these loans indicate that it is probable that these loans include some losses even though the loss cannot be attributed to a specific loan. For all other risk-sharing loans not on our watch list, we continue to

carry a guaranty obligation. We calculate the general reserves based on a migration analysis of the loans on our historical watch lists, adjusted for qualitative factors. We have not experienced significant volatility in the general reserves loss percentage, including the adjustment for qualitative factors, and do not expect to experience significant volatility in the near term.

When we place a risk-sharing loan on our watch list, we transfer the remaining unamortized balance of the guaranty obligation to the general reserves. If a risk-sharing loan is subsequently removed from our watch list due to improved financial performance, we transfer the unamortized balance of the guaranty obligation back to the guaranty obligation classification on the balance sheet and amortize the remaining unamortized balance evenly over the remaining estimated life. For each loan for which we have a risk-sharing obligation, we record one of the following liabilities associated with that loan as discussed above: guaranty obligation, general reserve, or specific reserve. Although the liability type may change over the life of the loan, at any particular point in time, only one such liability is associated with a loan for which we have a risk-sharing obligation. The Allowance for risk-sharing obligations as of September 30, 2018 is based primarily on general reserves related to the loans on the watch list as of September 30, 2018.

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Overview of Current Business Environment

The fundamentals of the commercial and multifamily real estate market remain strong. Multifamily occupancy rates and effective rents remain strong based upon robust rental market demand while delinquency rates remain at historic lows, all of which aid loan performance and loan origination volumes due to their importance to the cash flows of the underlying properties. Additionally, the headwinds facing single-family home ownership, including high valuations, rising interest rates, and low credit availability, have led to home ownership levels at or near historic lows. At the same time, new household formation continues to grow, unemployment levels remain at historic lows, and macroeconomic indicators are strong, all resulting in high demand for multifamily housing.

The Mortgage Bankers' Association ("MBA") recently reported that the amount of commercial and multifamily mortgage debt outstanding continued to grow in the second quarter of 2018, reaching \$3.3 trillion, an increase of 1.6% from the end of the first quarter of 2018. Multifamily mortgage debt outstanding rose to \$1.3 trillion as of the end of the second quarter of 2018, an increase of 1.6% from the end of the first quarter of 2018. The multifamily category with the largest growth in mortgage debt outstanding was Agency lending. The MBA also reported that commercial and multifamily loan originations during the second quarter of 2018 increased 4% from the second quarter of 2017, while multifamily loan originations grew by 17% year over year.

The increase in rental housing demand and gaps in housing production have led to continued steady rising rents in multifamily properties in most markets. The positive performance has boosted the value of many multifamily properties towards the high end of historical ranges. According to RealPage, a provider of commercial real estate data and analytics, rent growth from the third quarter of 2017 to the third quarter of 2018 was 2.9%, higher than the 2.5% year-over-year growth in the second quarter of 2018 and a reversal of a recent trend of slowing rent growth. RealPage also reported that new multifamily housing construction completed during the third quarter of 2018 was 83,000 units, much lower than the quarterly demand of 107,000 units. The annualized construction completions have been 300,000 units or greater since the end of 2016. In spite of the significant new construction completions, the multifamily housing market has been able to absorb the new units as evidenced by a decrease in the vacancy rate of 40 basis points from 4.6% at the end of the second quarter of 2018 to 4.2% at the end of the third quarter of 2018. We believe that the market demand for multifamily housing in the upcoming quarters will continue to absorb most of the capacity created by new construction and that vacancy rates will remain near historic lows, continuing to make multifamily properties an attractive investment option.

In addition to the improved property fundamentals, for the last several years, the U.S. commercial and multifamily mortgage market has experienced historically low cost of borrowing, which has further encouraged capital investment into commercial real estate. As borrowers have sought to take advantage of the interest rate environment and improved property fundamentals, the number of investors and amount of capital available to lend have increased. All of these factors have benefited our total transaction volumes over the past several years, especially in 2017, which was a record. Competition for lending on commercial and multifamily real estate among commercial real estate services firms, banks, life insurance companies, and the GSEs remains fierce.

The Federal Reserve raised its targeted Fed Funds Rate by 75 basis points during the first nine months of 2018 and 175 basis points during the past two years. We have not experienced a pronounced or sustained decline in origination volume or seen a direct reduction in profitability solely as a result of the increases in the Fed Funds Rate as (i) long-term mortgage interest rates have remained at relatively low levels due to a flattened yield curve throughout most of the past two years, (ii) there remains a significant number of capital market participants that are investing in commercial real estate and multifamily properties, and (iii) investor spreads have tightened. Real Capital Analytics, a commercial real estate data analytics company, recently reported that as of the end of the second quarter of 2018, in spite of recent interest-rate increases, multifamily cap rates remained well below 6%. We cannot be certain that these trends will continue as the number, timing, and magnitude of any future increases by the Federal Reserve, taken together with previous interest rate increases and combined with other macroeconomic and market factors, may have a different effect on the commercial real estate market and on us.

We expect to see continued strength in the multifamily market for the foreseeable future due to the underlying fundamentals of the multifamily market as labor markets are strong, home ownership remains challenging for many households, and demand increases from new household formation.

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”) 2018 GSE Scorecard (“2018 Scorecard”) established Fannie Mae’s and Freddie Mac’s 2018 loan origination caps at \$35.0 billion each for market-rate apartments (“2018 Caps”), down slightly from \$36.5 billion each in 2017. Affordable housing loans and manufactured housing rental community loans continue to be excluded from the 2018 Caps. Additionally, the definition of the affordable housing loan exclusion continues to encompass affordable housing in high- and very-high cost markets and to allow for an exclusion from the 2018 Caps for the pro-rata portion of any loan on a multifamily property that

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includes affordable housing units. The 2018 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 2018 Caps upward should the market be larger than expected in 2018. The 2018 Scorecard also provides exclusions for loans to properties located in underserved markets including rural, small multifamily, and senior assisted living and for loans to finance multifamily properties that invest in energy or water efficiency improvements.

The GSEs reported a combined loan origination volume of \$90.7 billion during the first nine months of 2018 compared to \$92.6 billion during the first nine months of 2017, a decrease of 2%. Fannie Mae's volume decreased 6% from the first nine months of 2017 to the first nine months of 2018. Additionally, during the third quarter of 2017, we originated a \$1.9 billion portfolio of GSE loans with no comparable activity in 2018, which significantly impacted the year-over-year GSE loan origination volume. Excluding the large transaction in the third quarter of 2017, our GSE loan origination volume increased slightly year over year. The GSEs reported a combined loan origination volume of \$36.1 billion during the third quarter of 2018 compared to \$35.2 billion during the third quarter of 2017, an increase of 3%. We expect the GSEs to maintain their historical market share in a multifamily market that is projected by Freddie Mac to be \$305.0 billion in 2018. We believe our market leadership positions us to be a significant lender with the GSEs for the foreseeable future. Our originations with the GSEs are some of our most profitable executions as they provide significant non-cash gains from MSR's and cash revenue streams in the future. A decline in our GSE originations would negatively impact our financial results as our non-cash revenues would decrease disproportionately with loan origination volume and future servicing fee revenue would be constrained or decline. A new director of the FHFA will be appointed in early 2019; we do not know whether the FHFA will impose stricter limitations on GSE multifamily production volume beyond 2018.

We continue to significantly grow our capital markets platform to gain greater access to capital, deal flow, and borrower relationships. The apparent appetite for debt funding within the broader commercial real estate market, along with additions of brokered loan originators over the past several years, has resulted in significant growth in our brokered originations as evidenced by the 30% year-over-year increase in third quarter brokered loan originations and the 11% increase year to date. Our outlook for our capital markets platform is positive as we expect continued growth in commercial real estate and multifamily markets in the near future.

Although our HUD loan origination volume decreased 25% from the third quarter of 2017 to the third quarter of 2018 and 11% year to date, HUD remains a strong source of capital for new construction loans and healthcare facilities. We expect that HUD will continue to be a meaningful supplier of capital to our borrowers. We continue to seek to add resources and scale to our HUD lending platform, particularly in the area of construction lending, seniors housing, and skilled nursing, where HUD remains an important provider of capital.

Many of our borrowers continue to seek higher returns by identifying and acquiring the transitional properties that the Interim Program is designed to address. We entered into the Interim Program JV to both increase the overall capital available to transitional properties and dramatically expand our capacity to originate Interim Program loans. The demand for transitional lending has brought increased competition from lenders, specifically banks, mortgage REITs, and life insurance companies. All are actively pursuing transitional properties by leveraging their low cost of capital and desire for short-term, floating-rate, high-yield commercial real estate investments. We originated \$402.7 million

of interim loans during the first nine months of 2018 compared to \$189.6 million during the first nine months of 2017, and \$185.8 million during the third quarter of 2018 compared to \$26.4 million during the third quarter of 2017. Included within the origination volume for the nine months ended September 30, 2018 is a loan portfolio of \$93.5 million, 90% of which we sold to our Interim Program JV partner through a secured borrowing transaction in the third quarter of 2018.

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 saw increased activity within our multifamily-focused investment sales business during the first nine months of 2018. The overall growth in the multifamily market, along with the additions we have made to our investment sales team over the past year, resulted in an 8% increase in our investment sales volume from the first nine months of 2017 to the first nine months of 2018. We continue our efforts to expand our investment sales platform more broadly across the United States and to increase the size of our investment sales team to capture what we believe will be strong multifamily investment sales activity over the coming years.

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Results of Operations

Following is a discussion of our results of operations for the three and nine months ended September 30, 2018 and 2017. The financial results are not necessarily indicative of future results. Our quarterly results have fluctuated in the past and are expected to fluctuate in the future, reflecting the interest-rate environment, the volume of transactions, business acquisitions, regulatory actions, industry trends, and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

SUPPLEMENTAL OPERATING DATA

(dollars in thousands)	For the three months ended		For the nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Transaction Volume:				
Loan Origination Volume by Product Type				
Fannie Mae	\$ 1,697,165	\$ 1,389,451	\$ 5,207,211	\$ 5,467,228
Freddie Mac	2,225,089	4,040,985	4,861,557	6,315,369
Ginnie Mae - HUD	197,428	263,714	780,554	874,727
Brokered (1)	2,464,244	1,893,047	5,738,651	5,172,263
Interim Loans	185,765	26,375	402,683	189,562
Total Loan Origination Volume	\$ 6,769,691	\$ 7,613,572	\$ 16,990,656	\$ 18,019,149
Investment Sales Volume	882,100	935,960	1,703,420	1,574,515
Total Transaction Volume	\$ 7,651,791	\$ 8,549,532	\$ 18,694,076	\$ 19,593,664
Key Performance Metrics:				
Operating margin	27	% 30	% 29	% 33
Return on equity	17	20	18	23
Walker & Dunlop net income	\$ 37,716	\$ 34,378	\$ 115,689	\$ 112,166
Adjusted EBITDA (2)	58,323	45,000	160,442	146,293
Diluted EPS	1.17	1.06	3.60	3.49
Key Expense Metrics (as a percentage of total revenues):				
Personnel expenses	43	% 44	% 40	% 39
Other operating expenses	8	6	8	7
Key Revenue Metrics (as a percentage of loan origination volume):				
Origination related fees	0.88	% 0.79	% 0.96	% 0.94
Gains attributable to MSR's	0.58	0.67	0.70	0.78
Gains attributable to MSR's, as a percentage of Agency loan origination volume (3)	0.96	0.89	1.10	1.11

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SUPPLEMENTAL OPERATING DATA – continued

(dollars in thousands)	As of September 30,	
Managed Portfolio:	2018	2017
Servicing Portfolio by Product Type		
Fannie Mae	\$ 34,737,863	\$ 30,005,596
Freddie Mac	29,084,202	25,930,819
Ginnie Mae - HUD	9,775,743	8,878,899
Brokered (4)	6,823,286	5,170,479
Interim Loans	134,592	152,764
Total Servicing Portfolio	\$ 80,555,686	\$ 70,138,557
Assets under management	1,060,543	146,125
Total Managed Portfolio	\$ 81,616,229	\$ 70,284,682
Key Servicing Portfolio Metrics (end of period):		
Weighted-average servicing fee rate (basis points)	25.0	25.7
Weighted-average remaining servicing portfolio term (years)	9.8	9.9

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- (1) Brokered transactions for life insurance companies, commercial mortgage backed securities, commercial banks, the JCR separate account, and other capital sources.
 - (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.
 - (4) Brokered loans serviced for life insurance companies, commercial mortgage backed securities, commercial banks, and other capital sources.
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The following tables present a period-to-period comparison of our financial results for the three and nine months ended September 30, 2018 and 2017.

FINANCIAL RESULTS – THREE MONTHS

(dollars in thousands)	For the three months ended		Dollar Change	Percentage Change	
	September 30, 2018	2017			
Revenues					
Gains from mortgage banking activities	\$ 99,170	\$ 111,304	\$ (12,134)	(11)	%
Servicing fees	50,781	44,900	5,881	13	
Net warehouse interest income	3,880	5,358	(1,478)	(28)	
Escrow earnings and other interest income	11,938	5,804	6,134	106	
Investment sales broker fees	5,901	5,812	89	2	
Other	12,987	6,558	6,429	98	
Total revenues	\$ 184,657	\$ 179,736	\$ 4,921	3	
Expenses					
Personnel	\$ 79,776	\$ 78,469	\$ 1,307	2	%

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Amortization and depreciation	36,739	32,343	4,396	14
Provision for credit losses	519	9	510	5,667
Interest expense on corporate debt	2,429	2,555	(126)	(5)
Other operating expenses	14,535	11,664	2,871	25
Total expenses	\$ 133,998	\$ 125,040	\$ 8,958	7
Income from operations	\$ 50,659	\$ 54,696	\$ (4,037)	(7)
Income tax expense	12,902	19,988	(7,086)	(35)
Net income before noncontrolling interests	\$ 37,757	\$ 34,708	\$ 3,049	9
Less: net income (loss) from noncontrolling interests	41	330	(289)	(88)
Walker & Dunlop net income	\$ 37,716	\$ 34,378	\$ 3,338	10

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FINANCIAL RESULTS – NINE MONTHS

(dollars in thousands)	For the nine months ended September 30,		Dollar Change	Percentage Change	
	2018	2017			
Revenues					
Gains from mortgage banking activities	\$ 282,916	\$ 309,912	\$ (26,996)	(9)	%
Servicing fees	148,138	129,639	18,499	14	
Net warehouse interest income	8,129	17,778	(9,649)	(54)	
Escrow earnings and other interest income	28,562	13,610	14,952	110	
Investment sales broker fees	11,790	9,648	2,142	22	
Other	30,778	24,068	6,710	28	
Total revenues	\$ 510,313	\$ 504,655	\$ 5,658	1	
Expenses					
Personnel	\$ 206,475	\$ 198,157	\$ 8,318	4	%
Amortization and depreciation	105,863	97,541	8,322	9	
Provision (benefit) for credit losses	842	(216)	1,058	(490)	
Interest expense on corporate debt	6,951	7,401	(450)	(6)	
Other operating expenses	42,662	34,871	7,791	22	
Total expenses	\$ 362,793	\$ 337,754	\$ 25,039	7	
Income from operations	\$ 147,520	\$ 166,901	\$ (19,381)	(12)	
Income tax expense	32,023	54,621	(22,598)	(41)	
Net income before noncontrolling interests	\$ 115,497	\$ 112,280	\$ 3,217	3	
Less: net income (loss) from noncontrolling interests	(192)	114	(306)	(268)	
Walker & Dunlop net income	\$ 115,689	\$ 112,166	\$ 3,523	3	

Overview

For the three months ended September 30, 2018, the increase in total revenues was primarily attributable to increases in servicing fees, escrow earnings and other interest income, and other revenues, partially offset by decreases in gains from mortgage banking activities and net warehouse interest income. The increase in servicing fees was largely related to an increase in the average servicing portfolio outstanding, the increase in escrow earnings and other interest income was related to increases in both the average escrow balance and earnings rate, and the increase in other revenues was related to an increase in investment management fees. The decrease in net warehouse interest income was due to a decrease in the average balance of and net interest spread on loans held for sale outstanding. The increase in total expenses was primarily the result of an increase in personnel expense and other operating expenses due primarily to an increase in the average headcount and increased amortization and depreciation expense as the average MSR balance increased period over period.

For the nine months ended September 30, 2018, the small increase in total revenues was largely driven by increases in servicing fees related to an increase in our average servicing portfolio, escrow earnings and other interest income resulting from an increase in escrow balances and the escrow earnings rate, and other revenues primarily from an increase in investment management fees as we acquired JCR Capital in the second quarter of 2018. Largely offsetting these increases were decreases in gains from mortgage banking activities due primarily to a decrease in Fannie Mae servicing fees and net warehouse interest income from a lower average balance of loans held for investment and a lower net interest spread on loans held for sale. The increase in total expenses was due primarily to increases in personnel expense mostly due to an increase in salaries expense resulting from a rise in average headcount year over year, amortization and depreciation costs due to an increase in the average balance of MSRs outstanding year over year, and other operating expenses.

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Revenues

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

	Loan Origination Volume by Product Type							
	For the three months ended September 30, 2018				For the nine months ended September 30, 2017			
	2018	%	2017	%	2018	%	2017	%
Fannie Mae	25	%	18	%	31	%	30	%
Freddie Mac	33		53		29		35	
Ginnie Mae - HUD	3		3		5		5	
Brokered	36		26		33		29	
Interim Loans	3		-		2		1	

	Gains from Mortgage Banking Activities Detail			
	For the three months ended September 30, 2018		For the nine months ended September 30, 2017	
(dollars in thousands)	2018	2017	2018	2017
Origination Fees	\$ 59,594	\$ 60,523	\$ 163,603	\$ 168,927
Dollar Change	\$ (929)		\$ (5,324)	
Percentage Change	(2)	%	(3)	%
MSR Income (1)	\$ 39,576	\$ 50,781	\$ 119,313	\$ 140,985
Dollar Change	\$ (11,205)		\$ (21,672)	
Percentage Change	(22)	%	(15)	%
Origination Fee Rate (2) (basis points)	88	79	96	94
Basis Point Change	9		2	
Percentage Change	11	%	2	%
MSR Rate (3) (basis points)	58	67	70	78
Basis Point Change	(9)		(8)	
Percentage Change	(13)	%	(10)	%
Agency MSR Rate (4) (basis points)	96	89	110	111
Basis Point Change	7		(1)	
Percentage Change	8	%	(1)	%

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- (1) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained.
- (2) Origination fees as a percentage of total loan origination volume.
- (3) MSR income as a percentage of total loan origination volume.
- (4) MSR income as a percentage of Agency loan origination volume.

Gains from mortgage banking activities reflect the fair value of loan origination fees, the fair value of loan premiums, net of any co-broker fees, and the fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained (“MSR income”). The decreases in MSR income and MSR rate for the three and nine months ended September 30, 2018 are related primarily to year-over-year decreases of 28% and 9% in the weighted-average servicing fee rate on new Fannie Mae loan originations for the three and nine months ended September 30, 2018, respectively. The decreases in the weighted-average servicing fee rate were due principally to increased competition for new loans, which, when combined with the rising-interest-rate environment, has resulted in tighter credit spreads. Tighter credit spreads impact our Fannie Mae servicing fees because we take a first loss position on substantially all of our Fannie Mae loan originations and we are compensated for that risk of loss through our servicing fee. Additionally, the declines in loan origination volumes year over year contributed to the decreases in MSR income for both the three and nine months ended September 30, 2018.

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

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Servicing Fees. The increases for both the three and nine months ended September 30, 2018 were primarily attributable to increases in the average servicing portfolio from 2017 to 2018 as shown below due to new loan originations and relatively few payoffs, partially offset by slight decreases in the servicing portfolio's weighted-average servicing fee rate as shown below. The decreases in the weighted-average servicing fee were the result of year-over-year decreases in the weighted-average servicing rates on new Fannie Mae loan originations for both the three and nine months ended September 30, 2018.

(dollars in thousands)	Servicing Fees Details			
	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Average Servicing Portfolio	\$ 79,228,522	\$ 67,685,503	\$ 77,210,188	\$ 65,438,795
Dollar Change	\$ 11,543,019		\$ 11,771,393	
Percentage Change	17	%	18	%
Average Servicing Fee (basis points)	25.2	26.3	25.4	26.3
Basis Point Change	(1.1)		(0.9)	
Percentage Change	(4)	%	(3)	%

Net Warehouse Interest Income. The decrease for the nine months ended September 30, 2018 was related to decreases in net warehouse interest income from loans held for investment ("LHFI") and from loans held for sale ("LHFS"). The decrease in net warehouse interest income from LHFI was largely the result of a decrease in the average outstanding balance as shown below. The decrease in net warehouse interest income from loans held for sale was largely the result of a significant decrease in the net spread as shown below, partially offset by a small increase in the average balance. The decrease in the net spread was the result of a greater increase in the short-term interest rates on which our borrowings are based than in the long-term interest rates on which the majority of our loans held for sale are based.

If the yield curve continues to flatten following future increases in short-term rates, a tightening of the net spread may continue. If we originate the majority of our interim loans through the Interim Program JV, net warehouse interest income from LHFI will continue to be lower than prior periods. Such a decrease in net warehouse interest income from LHFI would be partially offset by our portion of the net income generated by the Interim Program JV.

(dollars in thousands)	Net Warehouse Interest Income Details			
	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Average LHFS Outstanding Balance	\$ 1,511,273	\$ 1,633,976	\$ 1,180,822	\$ 1,289,861
Dollar Change	\$ (122,703)		\$ (109,039)	
Percentage Change	(8)	%	(8)	%
LHFS Net Spread (basis points)	61	85	55	99
Basis Point Change	(24)		(44)	
Percentage Change	(28)	%	(44)	%
Average LHFI Outstanding Balance	\$ 114,231	\$ 192,244	\$ 88,122	\$ 254,421
Dollar Change	\$ (78,013)		\$ (166,299)	
Percentage Change	(41)	%	(65)	%
LHFI Net Spread (basis points)	555	389	491	429
Basis Point Change	166		62	

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Percentage Change

43 %

14 %

Escrow Earnings and Other Interest Income. The increases for both the three and nine months ended September 30, 2018 were due to increases in both the average balance of escrow accounts and the average earnings rates year over year. The increases in the average balance were due to increases in the average servicing portfolio. The increases in the average earnings rate were due to increases in short-term interest rates, upon which our earnings rates are based, over the past 12 months as discussed above in the “Overview of Current Business Environment” section.

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Other Revenues. The increase for the three months ended September 30, 2018 is primarily related to increases in investment management fees due to the acquisition of JCR as more fully discussed in the “Business” section above and in prepayment fees as more of the loans in our servicing portfolio paid off during the three months ended September 30, 2018 than for the same period in 2017. For the nine months ended September 30, 2018, the increase is principally related to an increase in investment management fees due to the acquisition of JCR.

Expenses

Personnel. The increase for the three months ended September 30, 2018 was due primarily to an increase in stock compensation expense as a result of increased expense from performance-based awards. Due to the Company’s financial outperformance the last several years, during 2018 we recorded expense related to three long-term equity incentive plans compared to only two during 2017.

The increase for the nine months ended September 30, 2018 was primarily the result of increases in salaries and benefits and other personnel costs due to acquisitions and hiring to support our growth, resulting in an increase in the average headcount from 591 in 2017 to 658 in 2018 and stock compensation expense for the same reasons discussed above for the three-month period, partially offset by a decrease in the accrual for subjective bonuses as the Company’s growth in profitability metrics has been lower in 2018 than in 2017.

Amortization and Depreciation. For both the three and nine months ended September 30, 2018, the increases were primarily attributable to loan origination activity and the resulting growth in the average MSR balance during the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017. Over the past 12 months, we have added \$59.3 million of MSRs, net of amortization and write offs due to prepayment.

Other Operating Expenses. For both the three and nine months ended September 30, 2018, the increases in other operating expenses primarily stem from increased (i) office and travel costs due to the increase in average headcount year over year, (ii) legal expenses in connection with our acquisition of JCR, and (iii) recruiting fees as we have increased our hiring efforts related to loan originators and investment sales brokers.

Income Tax Expense. The decreases for both the three and nine months ended September 30, 2018 were largely related to the enactment of the Tax Cuts and Jobs Act (“tax reform”) in December 2017. Tax reform significantly reduced the statutory Federal income tax rate from 35% to 21%. The reduction in the statutory tax rate led to a decrease in our estimated annual effective tax rate from 38.2% for the three and nine months ended September 30, 2017 to 26.2% for the three and nine months ended September 30, 2018. In addition, excess tax benefits increased from \$0.3 million during 2017 to \$0.9 million during 2018, further reducing income tax expense for the three months ended September 30, 2018. The increase in the excess tax benefits was driven primarily by an increase in the number of options exercised, partially offset by the decrease in the Federal statutory tax rate. For the nine months ended September 30, 2018, the decrease in income tax expense related to the estimated annual effective tax rate was partially offset by a decrease in excess tax benefits from \$9.1 million during 2017 to \$6.7 million during 2018. The decrease in the excess tax benefits was driven primarily by a reduction in the number of performance-based shares that vested and the decrease in the statutory tax rate.

The effective tax rate for the three months ended September 30, 2018 was 25.5% compared to 36.5% for the three months ended September 30, 2017. The effective tax rate for the nine months ended September 30, 2018 was 21.7% compared to 32.7% for the nine months ended September 30, 2017. We do not expect to have significant excess tax benefits during the remainder of 2018 and expect our annual estimated effective tax rate to not differ significantly from the 26.2% rate estimated for the three and nine months ended September 30, 2018.

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. 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

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calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges that are used to determine compliance with financial covenants.

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

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

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

ADJUSTED FINANCIAL METRIC RECONCILIATION TO GAAP

(in thousands)	For the three months ended		For the nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Reconciliation of Walker & Dunlop Net Income to Adjusted EBITDA				
Walker & Dunlop Net Income	\$ 37,716	\$ 34,378	\$ 115,689	\$ 112,166
Income tax expense	12,902	19,988	32,023	54,621
Interest expense on corporate debt	2,429	2,555	6,951	7,401
Amortization and depreciation	36,739	32,343	105,863	97,541
Provision (benefit) for credit losses	519	9	842	(216)
Net write-offs	—	—	—	—
Stock compensation expense	7,594	6,508	18,387	15,765
Gains attributable to mortgage servicing rights (1)	(39,576)	(50,781)	(119,313)	(140,985)
Adjusted EBITDA	\$ 58,323	\$ 45,000	\$ 160,442	\$ 146,293

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

The following tables present a period-to-period comparison of the components of adjusted EBITDA for the three and nine months ended September 30, 2018 and 2017.

ADJUSTED EBITDA – THREE MONTHS

(dollars in thousands)	For the three months ended		Dollar Change	Percentage Change	
	September 30, 2018	2017			%
Origination fees	\$ 59,594	\$ 60,523	\$ (929)	(2)	%
Servicing fees	50,781	44,900	5,881	13	
Net warehouse interest income	3,880	5,358	(1,478)	(28)	

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Escrow earnings and other interest income	11,938	5,804	6,134	106
Other revenues	18,847	12,040	6,807	57
Personnel	(72,182)	(71,961)	(221)	0
Net write-offs	—	—	—	N/A
Other operating expenses	(14,535)	(11,664)	(2,871)	25
Adjusted EBITDA	\$ 58,323	\$ 45,000	\$ 13,323	30

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ADJUSTED EBITDA – NINE MONTHS

(dollars in thousands)	For the nine months ended		Dollar Change	Percentage Change	
	September 30, 2018	2017			
Origination fees	\$ 163,603	\$ 168,927	\$ (5,324)	(3)	%
Servicing fees	148,138	129,639	18,499	14	
Net warehouse interest income	8,129	17,778	(9,649)	(54)	
Escrow earnings and other interest income	28,562	13,610	14,952	110	
Other revenues	42,760	33,602	9,158	27	
Personnel	(188,088)	(182,392)	(5,696)	3	
Net write-offs	—	—	—	N/A	
Other operating expenses	(42,662)	(34,871)	(7,791)	22	
Adjusted EBITDA	\$ 160,442	\$ 146,293	\$ 14,149	10	

See the tables above for the components of the change in adjusted EBITDA for the three and nine months ended September 30, 2018. For the three months ended September 30, 2018, servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new loan originations. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate following the increases in short-term interest rates over the past year. Other revenues increased primarily due to increases in prepayment fees and investment management fees. Other operating expenses increased largely due to increased occupancy and travel costs due to the larger average headcount year over year and increased professional fees due to the JCR acquisition and our hiring efforts.

For the nine months ended September 30, 2018, servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new loan originations. Net warehouse interest income decreased largely as a result of a decline in the average balance of loans held for investment and a decrease in the net interest margin on loans held for sale due to a flattening yield curve. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate following the increases in short-term interest rates over the past year. Other revenues increased primarily due to an increase in investment management fees. The increase in personnel expense was primarily due to increased salaries, benefits, and other personnel expense due to a rise in headcount, partially offset by a decrease in subjective bonus expense. Other operating expenses increased largely due to increased occupancy and travel costs due to the larger average headcount year over year and increased professional fees due to the JCR acquisition and our hiring efforts.

Financial Condition

Cash Flows from Operating Activities

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

Cash Flows from Investing Activities

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

Cash Flows from Financing Activities

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

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Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

The following table presents a period-to-period comparison of the significant components of cash flows for the nine months ended September 30, 2018 and 2017.

SIGNIFICANT COMPONENTS OF CASH FLOWS

(dollars in thousands)	For the nine months ended		Dollar Change	Percentage Change	
	September 30, 2018	2017			
Net cash provided by (used in) operating activities	\$ (1,097,458)	\$ (1,328,426)	\$ 230,968	(17)	%
Net cash provided by (used in) investing activities	(206,016)	27,406	(233,422)	(852)	
Net cash provided by (used in) financing activities	1,238,407	1,285,203	(46,796)	(4)	
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	221,613	195,542	26,071	13	
Cash flows from operating activities					
Net receipt (use) of cash for loan origination activity	\$ (1,190,513)	\$ (1,421,977)	\$ 231,464	(16)	%
Net cash provided by (used in) operating activities, excluding loan origination activity	93,055	93,551	(496)	(1)	
Cash flows from investing activities					
Purchases of pledged available-for-sale securities	\$ (60,088)	\$ —	\$ (60,088)	N/A	%
Funding of preferred equity investments	(1,100)	(16,321)	15,221	(93)	
Proceeds from the payoff of preferred equity investments	30,624	—	30,624	N/A	
Capital invested in the Interim Program JV, net	(890)	(6,184)	5,294	(86)	
Acquisitions, net of cash received	(33,102)	(15,000)	(18,102)	121	
Principal collected on loans held for investment upon formation of Interim Program JV	—	119,750	(119,750)	(100)	
Originations of loans held for investment	(225,369)	(167,680)	(57,689)	34	
Total principal collected on loans held for investment	87,688	117,479	(29,791)	(25)	
Net payoff of (investment in) loans held for investment	\$ (137,681)	\$ (50,201)	\$ (87,480)	174	%
Cash flows from financing activities					
	\$ 1,228,850	\$ 1,360,969	\$ (132,119)	(10)	%

Borrowings (repayments) of warehouse notes payable, net				
Borrowings of interim warehouse notes payable	50,455	128,661	(78,206)	(61)
Repayments of interim warehouse notes payable	(61,049)	(175,934)	114,885	(65)
Repurchase of common stock	(26,712)	(28,863)	2,151	(7)
Cash dividends paid	(23,600)	—	(23,600)	N/A
Proceeds from issuance of common stock	8,939	2,887	6,052	210
Payment of contingent consideration	(5,150)	—	(5,150)	N/A
Secured borrowings	70,052	—	70,052	N/A

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 increase in cash flows from operations is primarily attributable to the use of \$1.2 billion for the funding of loan originations, net of sales of loans to third parties during the first nine months of 2018 compared to the use of \$1.4 billion for the funding of loan originations, net of sales to third parties during the first nine months of 2017. Excluding cash used for the origination and sale of loans, net cash provided by operations was \$93.1 million during the first nine months of 2018 compared to net cash provided by operations of \$93.6 million during the first nine months of 2017.

The change in cash provided by (used in) investing activities is primarily attributable to increases in (i) the net investment in LHFI, (ii) purchases of pledged AFS securities, and (iii) cash used for acquisitions and a decrease in principal collected on LHFI upon formation

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of the Interim Program JV, partially offset by decreases in the funding of preferred equity investments and net capital invested in the Interim Program JV and an increase in the payoff of preferred equity investments.

The net investment in loans held for investment during the first nine months of 2018 was \$137.7 million compared to net investment of \$50.2 million during the first nine months of 2017. Of the \$137.7 million of the net investment in LHFI during 2018, \$148.3 million was funded using corporate cash, with an additional \$10.6 million of interim warehouse borrowings (included in cash flows from financing activities) repaid during 2018. Of the \$50.2 million of the net investment in LHFI during 2017, \$97.5 million was funded using corporate cash, with an additional \$47.3 million of interim warehouse borrowings repaid during 2017. The increase in purchases of pledged AFS securities is due to a Company initiative to invest pledged collateral in AFS securities that began at the end of the fourth quarter of 2017. The increase in cash used for acquisitions is due principally to the difference in the size of the acquired company and the inclusion of contingent consideration (non-cash consideration) for the acquisition consummated in 2017 but not the acquisition of JCR in 2018. The decrease in principal collected on LHFI upon formation of the Interim Program JV is due to the unique nature of the transaction in 2017, with no comparable activity in 2018.

The decrease in funding of preferred equity investments is due to our reaching the full commitment amount in the first quarter of 2018. The decrease in net capital invested in the Interim Program JV is due to a smaller increase in the outstanding balance of loans in the Interim Program JV during 2018 than 2017. The increase in the payoff of preferred equity investments is related to the refinancing of many of the properties collateralizing the investments during the third quarter of 2018.

The change in cash provided by (used in) financing activities was primarily attributable to the change in net warehouse borrowings period to period and an increase in cash used to pay dividends, partially offset by a decrease in net repayments of interim warehouse notes payable and an increase in secured borrowings. The change in net borrowings (repayments) of warehouse borrowings during the first nine months of 2018 was due to a smaller increase in the unpaid principal balance of loans held for sale funded by Agency Warehouse Facilities (as defined below) from December 31, 2017 to September 30, 2018 than from December 31, 2016 to September 30, 2017. During 2018, the unpaid principal balance of loans held for sale funded by Agency Warehouse Facilities increased \$1.2 billion from their December 31, 2017 balance compared to an increase of \$1.4 billion during the same period in 2017. Substantially all of the loans held for sale at the end of each period were funded with warehouse borrowings, with some loans held for sale funded with corporate cash. During the first quarter of 2018, we paid the first cash dividend in our history as a public company and have continued to pay cash dividends since.

The change in net repayments of interim warehouse notes payable was principally due to the Company's fully funding more loans in 2018 than in 2017. Most of this funding is expected to be short term. We typically fund a large portion of loans held for investment with interim warehouse borrowings. The secured borrowings in 2018 were the result of a unique transaction in 2018, with no comparable activity in 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 pay cash dividends; (iv) liquidity necessary to fund our portion of the equity necessary for the operations of the Interim Program JV; (v) working capital to support our day-to-day operations, including debt service payments and payments for salaries, commissions, and income taxes; and (vi) working capital to satisfy collateral requirements for our Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae, and our warehouse facility lenders.

Fannie Mae has established standards for capital adequacy and reserves the right to terminate our servicing authority for all or some of the portfolio if at any time it determines that our financial condition is not adequate to support our obligations under the DUS agreement. We are required to maintain acceptable net worth as defined in the standards, and we satisfied the September 30, 2018 requirements. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At September 30, 2018, the net worth requirement was \$168.1 million and our net worth, as defined in the requirements, was \$724.1 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of September 30, 2018, we were required to maintain at least \$33.1 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 September 30, 2018, we had operational liquidity, as defined in the requirements, of \$170.0 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. The terms of such investments are negotiated with each investment. As of September 30, 2018, we have \$12.2 million of such investments outstanding. During the fourth quarter of 2018, we

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collected the remaining \$12.2 million and funded an additional \$40.0 million preferred equity investment on a different property with the same sponsor. We expect this preferred equity investment to be repaid within the next six months.

Prior to 2018, we retained all earnings for the operation and expansion of our business and therefore did not pay cash dividends on our common stock. However, we paid a cash dividend of \$0.25 per share for each of the first three quarters of 2018, and in October 2018, our Board of Directors declared a cash dividend of \$0.25 per share for the fourth quarter of 2018. We expect to continue to make regular quarterly dividend payments for the foreseeable future. Over the past three years, we have repurchased 1.1 million shares of our common stock under share repurchase programs for a cost of \$40.6 million, invested \$115.3 million of cash in acquisitions and the purchase of MSRs, funded \$82.8 million of preferred equity investments, and paid cash dividends of \$23.6 million. On occasion, we may use cash to fully fund loans held for investment or loans held for sale instead of using our warehouse line. As of September 30, 2018, we used corporate cash to fully fund loans held for investment with an unpaid principal balance of \$79.3 million. We continually seek opportunities to execute additional acquisitions and purchases of MSRs and complete such acquisitions if the economics of these acquisitions are favorable. In February 2018, our Board of Directors approved a new stock repurchase program that permits the repurchase of up to \$50.0 million of shares of our common stock over a 12-month period beginning on February 9, 2018. As of September 30, 2018, we repurchased 75 thousand shares under the 2018 repurchase program for an aggregate cost of \$4.1 million. and had \$45.9 million of remaining capacity under that program.

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

Restricted Cash and Pledged Securities

Restricted cash consists primarily of good faith deposits held on behalf of borrowers between the time we enter into a loan commitment with the borrower and the investor purchases the loan. We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. We are required to secure this obligation by assigning collateral to Fannie Mae. We meet this obligation by assigning pledged securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires collateral for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Collateral held in the form of money market funds holding U.S. Treasuries is discounted 5%, and Agency mortgage-backed securities (“Agency MBS”) are discounted 4% for purposes of calculating compliance with the collateral requirements. As of September 30, 2018, we held money market funds holding U.S. Treasuries in the aggregate amount of \$36.9 million and Agency MBS with an aggregate fair value of \$68.7 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 September 30, 2018 collateral requirements as outlined above. As of September 30, 2018, reserve requirements for the DUS loan portfolio will require us to fund \$65.2 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at risk portfolio. As noted previously, during the second quarter of 2018, Fannie Mae increased our risk-sharing cap from \$60.0 million to \$200.0 million. This increase in the risk-sharing cap will result in a relatively greater level of restricted liquidity required in the future for risk-sharing loans between \$60.0 million and \$200.0 million. 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 September 30, 2018.

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Sources of Liquidity: Warehouse Facilities

The following table provides information related to our warehouse facilities as of September 30, 2018.

(dollars in thousands) Facility	September 30, 2018			Total Facility Capacity	Outstanding Balance	Interest rate
	Committed Amount	Uncommitted Amount	Temporary Increase			
Agency Warehouse Facility #1	\$ 425,000	\$ 300,000	\$ —	\$ 725,000	\$ 324,772	30-day LIBOR plus 1.30%
Agency Warehouse Facility #2	500,000	300,000	—	800,000	371,915	30-day LIBOR plus 1.20%
Agency Warehouse Facility #3	500,000	265,000	—	765,000	675,671	30-day LIBOR plus 1.25%
Agency Warehouse Facility #4	350,000	—	—	350,000	239,084	30-day LIBOR plus 1.30%
Agency Warehouse Facility #5	30,000	—	—	30,000	18,946	30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	100,000	—	350,000	207,962	30-day LIBOR plus 1.30%
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	—	1,500,000	284,454	30-day LIBOR plus 1.15%
Total Agency Warehouse Facilities	\$ 2,055,000	\$ 2,465,000	\$ —	\$ 4,520,000	\$ 2,122,804	
Interim Warehouse Facility #1	\$ 85,000	\$ —	\$ —	\$ 85,000	\$ 10,290	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	—	100,000	24,662	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	—	—	75,000	—	30-day LIBOR plus 1.90% to 2.50%
Total Interim Warehouse Facilities	\$ 260,000	\$ —	\$ —	\$ 260,000	\$ 34,952	
Total warehouse facilities	\$ 2,315,000	\$ 2,465,000	\$ —	\$ 4,780,000	\$ 2,157,756	

Agency Warehouse Facilities

At September 30, 2018, to provide financing to borrowers under the Agencies' programs, we have six committed and uncommitted warehouse lines of credit in the amount of \$3.0 billion with certain national banks and a \$1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). Five of these facilities are revolving commitments we expect to renew annually (consistent with industry practice), and the other facility is provided on an uncommitted basis without a specific maturity date. Our ability to originate mortgage loans intended to be sold under an Agency execution depends upon our ability to secure and maintain these types of short-term financing agreements on acceptable terms.

During the third quarter of 2018, an Agency warehouse line with a \$500.0 million aggregate committed and uncommitted borrowing capacity expired according to its terms. We believe that the six remaining committed and uncommitted credit facilities from national banks and the uncommitted credit facility from Fannie Mae provide the Company with sufficient borrowing capacity to conduct its Agency lending operations.

Agency Warehouse Facility #1

We have a warehousing credit and security agreement with a national bank for a \$425.0 million committed warehouse line that is scheduled to mature on October 28, 2019. The agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance and borrowings under this line bear interest at the 30-day London Interbank Offered Rate ("LIBOR") plus 120 basis points. In addition to the committed borrowing capacity, the agreement provides \$300.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the fourth quarter of 2018, we executed the first amendment to the Amended and Restated Warehousing Credit and Security Agreement that extended the maturity date to October 28, 2019 and lowered the interest rate to 30-day LIBOR plus 120 basis points. No other material modifications have been made to the agreement in 2018.

Agency Warehouse Facility #2

We have a warehousing credit and security agreement with a national bank for a \$500.0 million committed warehouse line that is scheduled to mature on September 9, 2019. The warehousing credit and security agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at the 30-day LIBOR plus 120 basis points. In addition to the committed borrowing capacity, the agreement provides \$300.0 million of uncommitted

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borrowing capacity that bears interest at the same rate as the committed facility. During the third quarter of 2018, we executed the second amendment to the Second Amended and Restated Warehousing Credit and Security Agreement that extended the maturity date to September 9, 2019 and lowered the interest rate to 30-day LIBOR plus 120 basis points. No other material modifications have been made to the agreement in 2018.

Agency Warehouse Facility #3

We have a warehousing credit and security agreement with a national bank for a \$500.0 million committed warehouse line that is scheduled to mature on April 30, 2019. 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 125 basis points. In addition to the committed borrowing capacity, the agreement provides \$265.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2018, we executed the ninth amendment to the warehouse agreement that extended the maturity date to April 30, 2019, increased the permanent committed borrowing capacity to \$500.0 million, and established additional uncommitted borrowing capacity of \$265.0 million. The uncommitted borrowing capacity expires on January 30, 2019. No other material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #4

We have a warehousing credit and security agreement with a national bank for a \$350.0 million committed warehouse line that is scheduled to mature on October 5, 2019. The warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 120 basis points. During the fourth quarter of 2018, we executed the fifth amendment to the warehouse agreement that extended the maturity date to October 5, 2019 and reduced the interest rate to 30-day LIBOR plus 120 basis points. No other material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #5

We have a \$30.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on July 12, 2019. The committed warehouse facility provides us with the ability to fund defaulted HUD and FHA loans. The borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 180 basis points. During the first quarter of 2018, we executed the first amendment to the warehouse credit and security agreement that extended the maturity date to July 12, 2019. The amendment also provides the Company the unilateral option to extend the agreement for one additional year. No other material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #6

During the first quarter of 2018, we executed a warehousing and security agreement to establish Agency Warehouse Facility #6. The warehouse facility has a committed \$250.0 million maximum borrowing amount and is scheduled to mature on February 2, 2019. We can fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of LIBOR plus 130 basis points. The agreement provides \$100.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

Uncommitted Agency Warehouse Facility

We have a \$1.5 billion uncommitted facility with Fannie Mae under its As Soon As Pooled 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 2018. The uncommitted facility has no specific negative or financial covenants.

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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 \$260.0 million as of September 30, 2018 (“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 is scheduled to mature on April 30, 2019. The facility provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company and bear interest at 30-day LIBOR plus 190 basis points. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2018, we executed the eighth amendment to the credit and security agreement that extended the maturity date to April 30, 2019. No other material modifications have been made to the agreement during 2018.

Interim Warehouse Facility #2

We have a \$100.0 million committed warehouse line agreement that is scheduled to mature on December 13, 2019. The agreement provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. All borrowings bear interest at 30-day LIBOR plus 200 basis points. The lender retains a first priority security interest in all mortgages funded by such advances on a cross-collateralized basis. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. No material modifications have been made to the agreement during 2018.

Interim Warehouse Facility #3

We have a \$75.0 million repurchase agreement that is scheduled to mature on May 18, 2019. The agreement provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. The borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 190 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 2018, we executed the third amendment to the repurchase agreement that extended the maturity date to May 18, 2019 and lowered the minimum interest rate from 30-day LIBOR plus 200 basis points to 30-day LIBOR plus 190 basis points. No other material modifications have been made to the agreement during 2018.

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 September 30, 2018.

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

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(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).

At our election, the Term Loan will bear interest at either (i) the “Base Rate” plus an applicable margin or (ii) the 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%. The applicable margin is 3.00% for LIBOR Rate loans and 2.00% for Base Rate loans as of September 30, 2018.

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 September 30, 2018, the outstanding principal balance of the Term Loan was \$165.4 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 September 30, 2018, we were in compliance with all such covenants.

Credit Quality and Allowance for Risk-Sharing Obligations

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

(dollars in thousands)	September 30, 2018	2017
Key Credit Metrics		
Risk-sharing servicing portfolio:		
Fannie Mae Full Risk	\$ 27,432,284	\$ 22,966,583
Fannie Mae Modified Risk	7,234,366	6,858,310
Freddie Mac Modified Risk	53,074	53,217
Total risk-sharing servicing portfolio	\$ 34,719,724	\$ 29,878,110
Non-risk-sharing servicing portfolio:		
Fannie Mae No Risk	\$ 71,213	\$ 180,703
Freddie Mac No Risk	29,031,128	25,877,602
GNMA - HUD No Risk	9,775,743	8,878,899
Brokered	6,823,286	5,170,479
Total non-risk-sharing servicing portfolio	\$ 45,701,370	\$ 40,107,683
Total loans serviced for others	\$ 80,421,094	\$ 69,985,793
Interim loans (full risk) servicing portfolio	134,592	152,764

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Total servicing portfolio unpaid principal balance	\$ 80,555,686		\$ 70,138,557	
Interim Program JV Managed Loans (1)	\$ 222,749		\$ 146,125	
At risk servicing portfolio (2)	\$ 31,152,864		\$ 26,556,339	
Maximum exposure to at risk portfolio (3)	6,406,925		5,420,386	
60+ day delinquencies, within at risk portfolio (4)	11,103		5,962	
Specifically identified at risk loan balances associated with allowance for risk-sharing obligations	11,103		5,962	
60+ day delinquencies as a percentage of the at risk portfolio	0.04	%	0.02	%
Allowance for risk-sharing as a percentage of the at risk portfolio	0.01		0.01	
Allowance for risk-sharing as a percentage of the specifically identified at risk loan balances	42.00		63.22	
Allowance for risk-sharing as a percentage of maximum exposure	0.07		0.07	
Allowance for risk-sharing and guaranty obligation as a percentage of maximum exposure	0.77		0.78	

(1) We indirectly share in a portion of the risk of loss associated with these assets through our 15% equity ownership in the Interim Program JV. These assets are included as assets under management in the Supplemental Operating Data table above.

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

Accordingly, we have presented the key statistics as a percentage of the at risk portfolio.

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

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

(4) Includes loans that are not 60+ days delinquent but have defaulted as of both September 30, 2018 and 2017.

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

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

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

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

Our full risk-sharing cap is currently set at \$200.0 million for all future loan originations, up from \$60.0 million as of March 31, 2018. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). We may request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fully compensated for the risks of the transactions.

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

when it is probable that a risk-sharing loan will foreclose or has foreclosed, a general reserve is recorded for other risk-sharing loans on the watch list, and a guaranty obligation is recorded for risk-sharing loans that are not on the watch list.

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

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For the nine months ended September 30, 2018 and 2017 the provision for risk-sharing obligations was \$773 thousand and \$74 thousand, respectively. As there were only two defaulted loans in the at risk servicing portfolio as of September 30, 2018, the Allowance for risk-sharing obligations as of September 30, 2018 was based primarily on our collective assessment of the probability of loss related to the loans on the watch list as of September 30, 2018. As there was only one defaulted loan in the at risk servicing portfolio as of September 30, 2017, the Allowance for risk-sharing obligations as of September 30, 2017 was based primarily on our collective assessment of the probability of loss related to the loans on the watch list as of September 30, 2017.

We have never been required to repurchase a loan.

Off-Balance Sheet Arrangements

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

New/Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

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

Some of our assets and liabilities are subject to changes in interest rates. Earnings from escrows are generally based on LIBOR. 30-day LIBOR as of September 30, 2018 and 2017 was 226 basis points and 123 basis points, respectively. The following table shows the impact on our annual escrow earnings due to a 100-basis point increase and decrease in 30-day LIBOR based on our escrow balances outstanding at each period end. A portion of these changes in earnings as a result of a 100-basis point increase in the 30-day LIBOR would be delayed several months due to the negotiated nature of some of our escrow arrangements.

	As of September 30,	
	2018	2017
Change in annual escrow earnings due to (in thousands):		
100 basis point increase in 30-day LIBOR	\$ 21,636	\$ 17,856
100 basis point decrease in 30-day LIBOR	(21,636)	(17,856)

The borrowing cost of our warehouse facilities used to fund loans held for sale and loans held for investment is based on LIBOR. The interest income on our loans held for investment is based on LIBOR. The LIBOR reset date for loans

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

Change in annual net warehouse interest income due to (in thousands):	As of September 30,	
	2018	2017
100 basis point increase in 30-day LIBOR	\$ (10,472)	\$ (9,765)
100 basis point decrease in 30-day LIBOR	10,472	9,765

All of our corporate debt is based on 30-day LIBOR, with a 30-day LIBOR floor of 100 basis points. The following table shows the

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impact on our annual income from operations due to a 100-basis point increase and decrease in 30-day LIBOR based on our note payable balance outstanding at each period end.

Change in annual earnings due to (in thousands):	As of September 30,	
	2018	2017
100 basis point increase in 30-day LIBOR	\$ (1,654)	\$ (1,665)
100 basis point decrease in 30-day LIBOR (1)	1,654	383

(1) The decrease in 2017 was 23 basis points due to the 30-day LIBOR floor.

Market Value Risk

The fair value of our MSR's 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 MSR's by approximately \$26.7 million as of September 30, 2018, compared to \$24.6 million as of September 30, 2017. 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 both September 30, 2018 and 2017, 87% of the servicing fees are protected from the risk of prepayment through make-whole requirements; given this significant level of prepayment protection, we do not hedge our servicing portfolio for prepayment risk.

Item 4. Controls and Procedures

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

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

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2018 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 2017 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 2017 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.

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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 September 30, 2018, we purchased 22 thousand shares to satisfy grantee tax withholding obligations on share-vesting events. Additionally, we announced a share repurchase program in the first quarter of 2018. The repurchase program authorized by our Board of Directors permits us to repurchase up to \$50.0 million of shares of our common stock over a 12-month period ending February 9, 2019. During the quarter ended September 30, 2018, we repurchased 75 thousand shares under the 2018 share repurchase program. We had \$45.9 million of authorized share repurchase capacity remaining as of September 30, 2018. The following table provides information regarding common stock repurchases for the quarter ended September 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2018	18,986	\$ 55.65	—	\$ 50,000,000
August 1-31, 2018	29,994	53.88	29,994	48,384,033
September 1-30, 2018	47,710	54.12	45,000	45,949,479
Total	96,690	\$ 54.35	74,994	\$ 45,949,479

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

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

- Deborah A. Wilson and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
- 2.2 Contribution Agreement, dated as of October 29, 2010, between Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.2 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
- 2.3 Amendment No. 1 to Contribution Agreement, dated as of December 13, 2010, by and between Walker & Dunlop, Inc. and Column Guaranteed LLC (incorporated by reference to Exhibit 2.3 to Amendment No. 6 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 13, 2010)
- 2.4 Purchase Agreement, dated June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, CW Financial Services LLC and CWCapital LLC (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A filed on June 15, 2012)
- 3.1 Articles of Amendment and Restatement of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
- 3.2 Amended and Restated Bylaws of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 21, 2017)
- 4.1 Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)

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4.2	<u>Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 27, 2010)</u>
4.3	<u>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)</u>
4.4	<u>Piggy-Back Registration Rights Agreement, dated June 7, 2012, by and among Column Guaranteed, LLC, William M. Walker, Mallory Walker, Howard W. Smith, III, Deborah A. Wilson, Richard C. Warner, CW Financial Services LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 filed on August 9, 2012)</u>
4.5	<u>Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, Mallory Walker, William M. Walker, Richard Warner, Deborah Wilson, Richard M. Lucas, and Howard W. Smith, III, and CW Financial Services LLC (incorporated by reference to Annex C of the Company's proxy statement filed on July 26, 2012)</u>
4.6	<u>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)</u>
10.1	<u>Second Amendment to Second Amended and Restated Warehousing Credit and Security Agreement, dated as of September 10, 2018, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2018)</u>
31.1	* <u>Certification of Walker & Dunlop, Inc.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	* <u>Certification of Walker & Dunlop, Inc.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32	** <u>Certification of Walker & Dunlop, Inc.'s Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
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.

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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: October 31, 2018

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

Date: October 31, 2018

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