

Walker & Dunlop, Inc.  
Form 10-K  
February 26, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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

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

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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Large accelerated filer    Accelerated filer    Non-accelerated filer    Smaller reporting company  
(Do not check if a  
smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$717.9 million as of the end of the Registrant's second fiscal quarter (based on the closing sale price for the common stock on the New York Stock Exchange on June 30, 2015). For purposes of this disclosure, shares of common stock held or controlled by executive officers and directors of the registrant and by persons who hold more than 5% of the outstanding shares of common stock have been treated as shares held by affiliates. However, such treatment should not be construed as an admission that any such person is an "affiliate" of the registrant. The registrant has no non-voting common equity.

As of January 31, 2016, there were 30,916,667 total shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Walker & Dunlop, Inc. with respect to its 2016 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934 on or prior to April 29, 2016 are incorporated by reference into Part III of this report.

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PART I

Forward-Looking Statements

Some of the statements in this Annual Report on Form 10-K of Walker & Dunlop, Inc. and subsidiaries (the “Company,” “Walker & Dunlop,” “we,” “us”), may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

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

- the future of the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac,” and together with Fannie Mae, the “GSEs”) and their impact on our business;
- changes to the interest rate environment and its impact on our business;
- our growth strategy;
- our projected financial condition, liquidity and results of operations;
- our ability to obtain and maintain warehouse and other loan funding arrangements;
- availability of and our ability to attract and retain qualified personnel and our ability to develop and retain relationships with borrowers, key principals, and lenders;
- degree and nature of our competition;
- the outcome of pending litigation;
- changes in governmental regulations and policies, tax laws and rates, and similar matters and the impact of such regulations, policies, and actions;
- our ability to comply with the laws, rules, and regulations applicable to us;
- trends in the commercial real estate finance market, interest rates, commercial real estate values, the credit and capital markets, or the general economy;
- general volatility of the capital markets and the market price of our common stock;
- the future funding level of 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”), including whether such funding level will be sufficient to support future firm commitment requests, and its impact on our business; and
- our commitment to make preferred equity investments as part of our overall growth strategy.

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

## Item 1. Business

### General

We are one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. We have been in business for more than 78 years; a Fannie Mae DUS lender since 1988, when the DUS program began; a HUD lender since acquiring a HUD license in 2009; and a Freddie Mac Program Plus® lender

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since 2009. We originate, sell, and service a range of multifamily and other commercial real estate finance products and broker sales of multifamily properties. Our clients are owners and developers of commercial real estate across the country. We originate and sell multifamily loans through the programs of Fannie Mae, Freddie Mac, Ginnie Mae, and HUD. We retain servicing rights and asset management responsibilities on substantially all loans that we originate for the GSE and HUD programs. We are approved as a Fannie Mae Delegated Underwriting and Servicing (“DUS”™) lender nationally, a Freddie Mac Program Plus lender in 23 states and the District of Columbia, a Freddie Mac targeted affordable housing seller/servicer, a HUD Multifamily Accelerated Processing (“MAP”) lender nationally, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. We broker and service loans for a number of life insurance companies, commercial banks, commercial mortgage backed securities (“CMBS”) issuers, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. We also originate and hold interim loans on our balance sheet and offer a proprietary CMBS platform. We offer investment sales brokerage services, with a primary focus in the southeastern United States.

Walker & Dunlop, Inc. is a holding company, and we conduct substantially all of our operations through Walker & Dunlop, LLC, our operating company. In December 2010, we completed our initial public offering. In connection with our initial public offering, we completed certain formation transactions through which Walker & Dunlop, LLC became a wholly owned subsidiary of Walker & Dunlop, Inc., a newly formed Maryland corporation.

## Our Product and Service Offerings

We originate, sell, and service a range of multifamily and other commercial real estate financing products, including Multifamily Finance, FHA Finance, Capital Markets, and Proprietary Capital. Our clients are developers and owners of real estate across the United States. We focus primarily on multifamily properties and offer a range of commercial real estate finance products to our customers, including first mortgage loans, second trust loans, supplemental financings, construction loans, mezzanine loans, and bridge/interim loans. We originate and sell loans under the programs of the GSEs and HUD. We also originate loans for our own balance sheet and loans that we intend to contribute to securitizations led by large institutional investors. We retain servicing rights and asset management responsibilities on substantially all loans made under the GSE and HUD programs and some of the loans that we place with institutional investors. Our long-established relationships with Fannie Mae, Freddie Mac, HUD, and institutional investors enable us to offer this broad range of loan products and services. We provide investment sales brokerage services to owners and developers of multifamily properties. Each of our product offerings is designed to maximize our ability to meet client needs, source capital, and grow our commercial real estate finance business.

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



## Multifamily Finance

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

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We are one of 23 lenders approved as a Freddie Mac Program Plus lender under which we originate and sell to Freddie Mac multifamily, manufactured housing communities, student housing, affordable, and seniors housing loans that satisfy Freddie Mac's underwriting and other eligibility requirements. Under the program, we submit our completed loan underwriting package to Freddie Mac and obtain Freddie Mac's commitment to purchase the loan at a specified price after closing. Freddie Mac ultimately performs its own underwriting of loans that we sell to it. Freddie Mac may choose to hold, sell, or later securitize such loans. We very rarely have any risk-sharing arrangements on loans we sell to Freddie Mac under Program Plus. We also are contracted by Freddie Mac to service all loans that we originate under its program.

On September 4, 2012, we closed the acquisition of CWCapital LLC ("CWCapital"), a wholly owned subsidiary of CW Financial Services LLC ("CW FS"), which was an affiliate of Fortress Investment Group LLC ("Fortress"), at which time the total consideration transferred was valued at approximately \$231.1 million, consisting of \$80.0 million in cash and approximately 11.6 million shares of our common stock with a fair value of \$151.1 million issued in a private placement to CW FS (the "CW Acquisition"). Upon closing of the CW Acquisition, CWCapital became an indirect wholly owned subsidiary of the Company and was renamed Walker & Dunlop Capital, LLC. Additionally, Fortress became our largest shareholder. The CW Acquisition increased our servicing portfolio by \$14.5 billion and significantly increased our origination capacity and national presence, particularly for our multifamily and FHA finance products.

Under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers in acquiring and repositioning properties. The terms of such investments are negotiated with each investment. As of December 31, 2015, we have made commitments to fund such preferred equity investments in monthly installments totaling \$42.8 million, none of which has yet been funded. We expect to fund these commitments over the next 18 to 36 months, beginning in the first quarter of 2016.

## FHA Finance

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

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

## Capital Markets

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

On September 25, 2014, we executed a purchase agreement to acquire certain assets and assume certain liabilities of Johnson Capital Group, Inc. (“Johnson Capital”). The acquisition of Johnson Capital closed on November 1, 2014 (“JC Acquisition”). The consideration transferred totaled \$23.5 million and consisted of \$17.6 million in cash and \$5.9 million of our common stock issued in a private placement. The JC Acquisition expanded our network of loan originators, provided further diversification to our origination platform, and increased our HUD servicing portfolio.

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### Proprietary Capital

We conduct our Proprietary Capital business using our own balance sheet. During 2015 and 2014, we also operated the CMBS Partnership (discussed in detail below) through a partnership agreement with an institutional investor. We made investments side by side with our partnership investor and served as the manager of the partnership. In our capacity as manager, we leveraged the invested capital to originate, hold, and service commercial real estate debt. The Proprietary Capital products we currently offer using our own balance sheet include:

### Interim Loans

We offer interim loans that provide floating-rate, interest-only debt for terms of up to three years to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing (the “Interim Program”). We finance and underwrite all loans originated through the Interim Program. During the time the loans are outstanding, we assume the full risk of loss on the loans. In addition, we service and asset-manage loans originated through the Interim Program, with the ultimate goal of providing permanent financing on the properties. These loans are classified as held for investment on our balance sheet during such time that they are outstanding. We have not experienced any delinquencies or charged off any loans originated under the Interim Program. We held 13 loans originated under the Interim Program with an aggregate \$233.4 million balance as of December 31, 2015.

### CMBS

In addition to our CMBS product offering through our Capital Markets platform, we offer CMBS executions through our own proprietary CMBS platform. At December 31, 2015, we owned a 40% interest in a partnership with an affiliate of Fortress Investment Group (the “CMBS Partnership”). The CMBS Partnership began offering financing through a CMBS platform for all commercial property types throughout the United States (the “CMBS Program”) during 2014. The property types include multifamily, hospitality, retail, office, industrial, and other commercial real estate. The CMBS Partnership expects to sell all loans originated by it into secondary securitization offerings led by large institutional investors within 120 days of origination. The loans in the CMBS Partnership are selected, funded, and underwritten by the CMBS Partnership. We perform the servicing for loans originated through the CMBS Program and receive a fee for such servicing. The CMBS Partnership assumes the full risk of loss on the loans while it holds the loans. Additionally, the CMBS Partnership may be obligated to repurchase loans it sold into a securitization if certain representations and warranties it provides in connection with such loans are breached. Neither we nor the CMBS Partnership has ever been required to repurchase a loan.

During the second quarter of 2015, we increased our ownership interest in the CMBS Partnership from 20% to 40%. During 2015 and 2014, we accounted for our ownership interest under the equity method of accounting. Effective January 1, 2016, the Company increased its ownership interest in the CMBS Partnership to 100% (the “CMBS

Partnership Transaction”), making the CMBS Partnership a wholly owned subsidiary of the Company. Consequently, the Company began to consolidate the CMBS Partnership’s balances beginning with the first quarter of 2016. Prior to the CMBS Partnership Transaction, we did not hold the loans and bore none of the direct losses that may have resulted from a borrower default after the loan was sold to a CMBS conduit.

#### Investment Sales Brokerage Services

During the second quarter of 2015, in connection with an acquisition more fully described below, we began offering investment sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties. We seek to maximize proceeds and certainty of closure for our clients through our knowledge of the commercial real estate and capital markets and our experienced transaction professionals. Our services are offered primarily in the eastern United States, with a particular focus in the Southeast. We added an investment sales brokerage team based in the Mid-Atlantic during the fourth quarter of 2015. We will seek to add other investment sales brokerage talent with the goal of expanding these brokerage services nationally.

On April 21, 2015, we completed our purchase of 75% of certain assets and the assumption of certain liabilities of Engler Financial Group, LLC (“EFG”) for an agreed-upon price of \$13.0 million payable in \$11.1 million cash and \$1.9

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million of our common stock issued in a private placement (the “EFG Acquisition”). The net assets purchased from EFG were contributed to a newly formed subsidiary, Walker & Dunlop Investment Sales, LLC (“WDIS”), through which we conduct our investment sales operations. Prior to the acquisition, EFG was an investment advisory and investment sales brokerage firm serving the multifamily market. Its primary activity was brokering investment sales of multifamily properties with a focus in the southeastern United States. The acquisition allowed us to enter the multifamily investment sales market.

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

### Direct Loan Originators and Correspondent Network

We originate loans directly through loan originators operating out of 25 offices nationwide. At December 31, 2015, we employed 104 loan originators and investment sales brokers. These individuals have deep knowledge of the commercial real estate lending business and bring with them extensive relationships with some of the largest property owners in the country. They have a thorough understanding of the financial needs and objectives of borrowers, the geographic markets in which they operate, market conditions specific to different types of commercial properties and how to structure a loan product to meet their borrowers’ needs. These loan originators collect and analyze financial and property information, assist the borrower in submitting information required to complete a loan application and, ultimately, help the borrower close the loan. Our loan originators are paid a salary and commissions based on the fees associated with the loans that they originate.

In addition to our group of loan originators, at December 31, 2015, we had correspondent agreements with 22 independently owned mortgage banking companies across the country with which we have relationships for GSE and HUD loan originations. This network of correspondents helps us extend our geographic reach into new and/or smaller markets on a cost effective basis. In addition to identifying potential borrowers and key principal(s) (the individual or individuals directing the activities of the borrowing entity), our correspondents assist us in evaluating loans, including pre-screening the borrowers, key principal(s) and properties for program eligibility, coordinating due diligence, and generally providing market intelligence. In exchange for providing these services, the correspondent earns an origination fee based on a percentage of the principal amount of the financing arranged and in some cases a fee paid out over time based on the servicing revenues earned over the life of the loan.

### Underwriting and Risk Management

We use several tools to manage our Fannie Mae risk-sharing exposure. These tools include an underwriting and approval process, evaluating, and modifying our underwriting criteria given the underlying multifamily housing

market fundamentals, limiting our geographic, borrower and key principal exposures, and using modified risk-sharing under the Fannie Mae DUS program. Similar tools are used to manage our exposure to credit loss on loans originated under the Interim Program and through the CMBS Program.

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

We review the fundamental value and credit profile of the underlying property, including an analysis of regional economic trends, appraisals of the property, and reviews of historical and prospective financials. Third-party vendors are engaged for appraisals, engineering reports, environmental reports, flood certification reports, zoning reports, and credit reports. We utilize a list of approved third-party vendors for these reports. Each report is reviewed by our underwriting team for accuracy, quality, and comprehensiveness. All third-party vendors are reviewed periodically for the quality of their work and are removed from our list of approved vendors if the quality or timeliness of the reports is below our

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standards. This is particularly true for engineering and environmental reports on which we rely to make decisions regarding ongoing replacement reserves and environmental matters.

In addition, we maintain concentration limits with respect to our Fannie Mae loans. We limit geographic concentration, focusing on regional employment concentration and trends. We also limit the aggregate amount of loans subject to full risk-sharing for any one borrower. We minimize individual loan concentrations under our current credit management policy to cap the loan balance subject to full risk-sharing at \$60.0 million. Accordingly, we currently elect to use modified risk-sharing for loans of more than \$60.0 million in order to limit our maximum loss on any one loan to \$12.0 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). However, we occasionally elect to originate a loan with full risk sharing even when the loan balance is greater than \$60.0 million if we believe the loan characteristics support such an approach.

## Servicing and Asset Management

We service nearly all loans we originate for the GSEs, HUD, and our proprietary capital products and some of the loans we broker for institutional investors, primarily life insurance companies. We are an approved servicer for Fannie Mae, Freddie Mac, and HUD loans. We are a rated primary servicer with Fitch Ratings. Our servicing function includes loan servicing and asset management activities, performing or overseeing the following activities:

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

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

For most loans we service under the Fannie Mae DUS program, we are currently required to advance the principal and interest payments and tax and insurance escrow amounts for four months. We are reimbursed by Fannie Mae for these advances, which may be used to offset any losses incurred under our risk-sharing obligations once the loan is settled.



Under the HUD program, we are obligated to advance tax and insurance escrow amounts and principal and interest payments on the Ginnie Mae securities until the Ginnie Mae security is fully paid. In the event of a default on a HUD-insured loan, we can elect to assign the loan to HUD and file a mortgage insurance claim. HUD will reimburse approximately 99% of any losses of principal and interest on the loan and Ginnie Mae will reimburse substantially all of the remaining losses.

Walker & Dunlop, LLC is assigned a contract with Ginnie Mae, which Walker & Dunlop, LLC acts as a master sub-servicer of pools of loans transferred to it by Ginnie Mae for a fixed per-pool fee. As a master sub-servicer, Walker & Dunlop, LLC performs the complete range of services expected of a Ginnie Mae issuer, including default services; the servicing of current, delinquent, and defaulted loans; foreclosure services; preparation and submission of claims for FHA insurance benefits and reports to Ginnie Mae; construction loan certificates conversion services; and management oversight of projects during the term of the contract. The initial term of the contract was December 16, 2011 to December 15, 2012. The contract provides Ginnie Mae the option to extend the contract for successive one-year terms beginning on December 16 in 2012, 2013, 2014, and 2015. Ginnie Mae exercised the option to extend the contract for the 2012-2013, 2013-2014, 2014-2015, and 2015-2016 terms. Ginnie Mae has not transferred any loans to Walker & Dunlop, LLC under the contract, and we do not know if and when it might do so.

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### Our Growth Strategy

We believe we are positioned to continue growing and diversifying our business by taking advantage of opportunities in the real estate finance market.

We seek to profitably grow and diversify our business by focusing on the following areas:

- Remain a Top Five Lender in Fannie Mae and Freddie Mac Executions. We intend to further grow our GSE and HUD originations with the goal of maintaining our status as a top five lender of GSE products and becoming a top five lender of HUD products. For 2015, we ranked as the second largest Fannie Mae DUS lender, and we ranked as the fourth largest Freddie Mac Program Plus seller. Additionally, we are a top loan originator for HUD. At December 31, 2015, our origination platform had approximately 45 loan originators focused on selling GSE and HUD products, supplemented by 22 independently owned mortgage banking companies with whom we have correspondent relationships. We believe that we will have significant opportunities to continue broadening our GSE and HUD origination networks in order to maintain or grow our current market position. This expansion may include organic growth, recruitment of talented origination professionals, and potentially acquisitions of competitors with strong origination capabilities.
- Continue to Expand our Capital Markets Business. At December 31, 2015, we had 49 loan originators in 16 offices focused on capital markets transactions across the United States. We added 30 new loan originators to our Capital Markets team in November of 2014 with the acquisition of Johnson Capital, and we intend to continue to grow our Capital Markets team to strengthen our market position and borrower relationships to meet the expected increase in demand for commercial real estate debt origination and refinance activity in the coming years. We intend to continue to grow our national presence, to include additional offices focused on capital markets products and originations. Continued growth of our Capital Markets group will provide greater exposure to the overall commercial real estate market, expose us to new correspondent relationships, and provide us with institutional access to deal flow supporting our Proprietary Capital solutions.
- Continue to Develop Proprietary Sources of Capital and Expand Our Product Offerings. Since our initial public offering, we have expanded our product offerings to include bridge financing for transitional properties, a proprietary CMBS platform, and multifamily investment sales. We anticipate offering additional commercial real estate loan products and services to our clients as their financial needs evolve. We believe that we have the structuring, underwriting, servicing, credit, and asset management expertise to offer additional commercial real estate loan products; and we believe that cash on hand, together with third-party financing sources, will allow us to meet client demand for additional products that are within our areas of expertise, including multifamily and other lending for our balance sheet or for our partnerships.

### Competition

We are one of 25 approved lenders that participate in Fannie Mae's DUS program and one of 23 lenders approved as a Freddie Mac Program Plus lender. We face significant competition across our business, including, but not limited to, commercial banks, commercial real estate service providers, CMBS conduits, and insurance companies, some of

which are also investors in loans we originate. Many of these competitors enjoy advantages over us, including greater name recognition, financial resources, and access to lower-cost capital. Commercial banks may have an advantage over us in originating commercial loans if borrowers already have other lending relationships with the bank.

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

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Regulatory Requirements

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

Federal and State Regulation of Commercial Real Estate Lending Activities

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

Requirements of the GSEs and HUD (Collectively the “Agencies”)

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

## Employees

At December 31, 2015, we employed 504 full-time employees. All employees, except our executive officers, are employed by our operating subsidiary, Walker & Dunlop, LLC. Our executive officers are employees of Walker & Dunlop, Inc. None of our employees is represented by a union or subject to a collective bargaining agreement, and we have never experienced a work stoppage. We believe that our employee relations are good.

## Available Information

We file annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). These filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room located at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our principal Internet website can be found at <http://www.walkeranddunlop.com>. The content of, or otherwise accessible through, our website is not part of this Annual Report on Form 10-K. We make available free of charge on or through

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our website, access to our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such material is electronically filed, or furnished, to the SEC.

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

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

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

Item 1A. Risk Factors.

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

Risks Relating to Our Business

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

adversely affect us.

Currently, we originate a significant percentage of our loans for sale through GSE or HUD programs. We are approved as a Fannie Mae DUS lender nationwide, a Freddie Mac Program Plus lender in 23 states and the District of Columbia, a Freddie Mac targeted affordable housing seller/servicer, a HUD MAP lender nationwide, and a Ginnie Mae issuer. Our status as an approved lender affords us a number of advantages and may be terminated by the applicable GSE or HUD at any time. The loss of such status would, or changes in our relationships could, prevent us from being able to originate commercial real estate loans for sale through the particular GSE or HUD, which would materially and adversely affect us. It could also result in a loss of similar approvals from the GSEs or HUD.

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

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

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

### Conservatorships of the GSEs

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

### Housing Finance Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. In 2011, the Obama Administration released a white paper on the future of housing finance reform. The report provides that the Administration will work with the FHFA to determine the best way to responsibly reduce the GSEs' role in the market and ultimately wind down both institutions. The report identifies a number of possible policy steps for winding down the GSEs, reducing the government's role in housing finance and helping bring private capital back to the mortgage market. In August 2013, President Obama publicly discussed the Administration's housing policy priorities, including a core principle that included winding down the GSEs through a responsible transition. In January 2014, the White House issued a fact sheet reaffirming the Administration's view that housing finance reform should include ending the GSEs' business model.

### Regulatory Reform



In addition to the Administration's actions described above, the FHFA has taken a number of steps during conservatorship to restrict the GSEs' multifamily business activities. Specifically and most significantly, since 2013, the FHFA has limited the amount of new multifamily loans that may be purchased annually by the GSEs. In December 2015, the FHFA capped each GSE's 2016 multifamily loan purchases at \$31.0 billion, with exceptions for loans in "affordable" and underserved market segments.

#### Legislative Reform

Congress has also continued to consider housing finance reform. In the past few years, members of Congress introduced several bills to reform the housing finance system, including the GSEs. Several of the bills require the wind down or receivership of the GSEs within a specified period of enactment and also place certain restrictions on the GSEs' activities prior to being wound down or placed into receivership.

We expect Congress will continue to consider housing finance reform in the future, including conducting hearings and considering legislation that would alter the housing finance system, including the activities or operations of the GSEs. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. As a result, there continues to be significant uncertainty regarding the future of the GSEs.

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

Under the Fannie Mae DUS program, we originate and service multifamily loans for Fannie Mae without having to obtain Fannie Mae's prior approval for certain loans, as long as the loans meet the underwriting guidelines set forth by Fannie Mae. In return for the delegated authority to make loans and the commitment to purchase loans by Fannie Mae, we must maintain minimum collateral and generally are required to share risk of loss on loans sold through Fannie Mae. Under the full risk-sharing formula, we are required to absorb the first 5% of any losses on the unpaid principal balance of a loan at the time of loss settlement, and above 5% we are required to share the loss with Fannie Mae, with our maximum loss capped at 20% of the original unpaid principal balance of a loan. We have modified our risk-sharing obligations on some Fannie Mae DUS loans to reduce our potential loss exposure on those loans. In addition, Fannie Mae can double or triple our risk-sharing obligations if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae. As of December 31, 2015, we had pledged securities of \$70.9 million as collateral against future losses under \$19.5 billion of loans outstanding that are subject to risk-sharing obligations, as more fully described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources," which we refer to as our "at risk balance." Fannie Mae collateral requirements may change in the future. As of December 31, 2015, our allowance for risk-sharing as a percentage of the at risk balance was 0.03%, or \$5.6 million, and reflects our current estimate of our future payouts under our risk-sharing obligations. Additionally, we have a guaranty obligation of \$27.6 million as of December 31, 2015. The guaranty obligation and the allowance for risk-sharing obligations as a percentage of the at risk balance was 0.8% as of December 31, 2015. We cannot ensure that our estimate of the allowance for risk-sharing obligations will be sufficient to cover future write offs. Other factors may also affect a borrower's decision to default on a loan, such as property, cash flow, occupancy, maintenance needs, and other financing obligations. As of December 31, 2015, our 60+ days delinquency rate was 0.0% of the at risk portfolio. If loan defaults increase, actual risk-sharing obligation payments under the Fannie Mae DUS program may increase, and such defaults and payments could have a material adverse effect on our results of operations and liquidity. In addition, any failure to pay our share of losses under the Fannie Mae DUS program could result in the revocation of our license from Fannie Mae and the exercise of various remedies available to Fannie Mae under the Fannie Mae DUS program.

If we fail to act proactively with delinquent borrowers in an effort to avoid a default, the number of delinquent loans could increase, which could have a material adverse effect on us.

As a loan servicer, we maintain the primary contact with the borrower throughout the life of the loan and are responsible, pursuant to our servicing agreements with the GSEs, HUD and institutional investors, for asset management. We are also responsible, together with the applicable GSE, HUD, or institutional investor, for taking actions to mitigate losses. Our asset management process may be unsuccessful in identifying loans that are in danger of underperforming or defaulting or in taking appropriate action once those loans are identified. While we can recommend a loss mitigation strategy for the GSEs and HUD, decisions regarding loss mitigation are within the control of the GSEs and HUD. Previous turmoil in the real estate, credit and capital markets have made this process even more difficult and unpredictable. When loans become delinquent, we incur additional expenses in servicing and asset managing the loan and are typically required to advance principal and interest payments and tax and insurance escrow amounts. We also could be subject to a loss of our contractual servicing fee and we could suffer losses of up to 20% (or more for loans that do not meet specific underwriting criteria or default within 12 months) of the unpaid

principal balance of a Fannie Mae DUS loan with full risk-sharing. These items could have a negative impact on our cash flows and a negative effect on the net carrying value of the mortgage servicing right (MSR) on our balance sheet and could result in a charge to our earnings. As a result of the foregoing, a rise in delinquencies could have a material adverse effect on us.

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

Our results of operations and liquidity could be materially and adversely affected if the GSEs, HUD or institutional investors lower the price they are willing to pay to us for our loans or services or adversely change the material terms of their loan purchases or service arrangements with us. A number of factors determine the price we receive for our loans. With respect to Fannie Mae related originations, our loans are generally sold as Fannie Mae-insured securities to third-party investors. With respect to HUD related originations, our loans are generally sold as Ginnie Mae securities to third-

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party investors. In both cases, the price paid to us reflects, in part, the competitive market bidding process for these securities.

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

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

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

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

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

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

We require a significant amount of short-term funding capacity for loans we originate. As of December 31, 2015, we had \$3.7 billion of committed loan funding available through five commercial banks and \$450.0 million of uncommitted funding available through Fannie Mae's As Soon As Pooled ("ASAP") program. Consistent with industry practice, five of our existing warehouse facilities are short-term, requiring annual renewal. If any of our committed facilities are terminated or are not renewed or our uncommitted facilities are not honored, we may be unable to find replacement financing on favorable terms, or at all, and we might not be able to originate loans, which would have a material adverse effect on us. Additionally, as our business continues to expand, we may need additional warehouse funding capacity for loans we originate. There can be no assurance that, in the future, we will be able to obtain additional warehouse funding capacity on favorable terms, on a timely basis, or at all.

If we fail to meet or satisfy any of the financial or other covenants included in our warehouse facilities, we would be in default under one or more of these facilities and our lenders could elect to declare all amounts outstanding under the facilities to be immediately due and payable, enforce their interests against loans pledged under such facilities and restrict our ability to make additional borrowings. These facilities also contain cross-default provisions, such that if a default occurs under any of our debt agreements, generally the lenders under our other debt agreements could also declare a

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default. These restrictions may interfere with our ability to obtain financing or to engage in other business activities, which could materially and adversely affect us. There can be no assurance that we will maintain compliance with all financial and other covenants included in our warehouse facilities in the future.

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

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

We must make certain representations and warranties concerning each loan originated by us for GSE or HUD programs. The representations and warranties relate to our practices in the origination and servicing of the loans and the accuracy of the information being provided by us. For example, we are generally required to provide the following, among other, representations and warranties: we are authorized to do business and to sell or assign the loan; the loan conforms to the requirements of the GSE or HUD and certain laws and regulations; the underlying mortgage represents a valid lien on the property and there are no other liens on the property; the loan documents are valid and enforceable; taxes, assessments, insurance premiums, rents and similar other payments have been paid or escrowed; the property is insured, conforms to zoning laws and remains intact; and we do not know of any issues regarding the loan that are reasonably expected to cause the loan to be delinquent or unacceptable for investment or adversely affect its value. We are permitted to satisfy certain of these representations and warranties by furnishing a title insurance policy.

In the event of a breach of any representation or warranty concerning a loan, investors could, among other things, require us to repurchase the full amount of the loan and seek indemnification for losses from us, or, for Fannie Mae DUS loans, increase the level of risk-sharing on the loan. Our obligation to repurchase the loan is independent of our risk-sharing obligations. The GSE or HUD could require us to repurchase the loan if representations and warranties are breached, even if the loan is not in default. Because the accuracy of many such representations and warranties generally is based on our actions or on third-party reports, such as title reports and environmental reports, we may not receive similar representations and warranties from other parties that would serve as a claim against them. Even if we receive representations and warranties from third parties and have a claim against them in the event of a breach, our ability to recover on any such claim may be limited. Our ability to recover against a borrower that breaches its representations and warranties to us may be similarly limited. Our ability to recover on a claim against any party would also be dependent, in part, upon the financial condition and liquidity of such party. There can be no assurance that we, our employees or third parties will not make mistakes that would subject us to repurchase or indemnification

obligations. Any significant repurchase or indemnification obligations imposed on us could have a material adverse effect on us.

Under our interim loan program, we originate loans for our balance sheet. Balance sheet lending may increase our risk of loss, and because we are not as experienced with such loan products, we may not be successful or profitable in offering such products. We expect to offer additional new loan products to meet evolving borrower demand, including new types of loans that we originate for our balance sheet.

Under the Interim Program, we offer short-term, floating-rate loans to borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing. Such a borrower under an interim loan often has identified a transitional asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the interim loan, and we bear the risk that we may not recover some or all of the loan balance. In addition, borrowers usually use the proceeds of a long-term mortgage loan to repay an interim loan. We may therefore be dependent

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on a borrower's ability to obtain permanent financing to repay our interim loan, which could depend on market conditions and other factors. Further, interim loans may be relatively less liquid than loans against stabilized properties due to their short life, their potential unsuitability for securitization, any unstabilized nature of the underlying real estate and the difficulty of recovery in the event of a borrower's default. This lack of liquidity may significantly impede our ability to respond to adverse changes in the performance of loans in the Interim Program and may adversely affect the fair value of such loans and the proceeds from their disposition.

We fund floating rate first mortgage loans for periods of up to three years, using available cash in combination with advances under dedicated warehouse facilities. We service and asset-manage loans originated under the Interim Program and bear the sole risk of loss. Carrying loans for longer periods of time on our balance sheet exposes us to greater risks of loss than we currently face for loans that are pre-sold or placed with investors, including, without limitation, 100% exposure for defaults and impairment charges, which may adversely affect our profitability.

In the future, we expect to offer new loan products to meet evolving borrower demands, including loans that we originate for our balance sheet. We may initiate new loan product and service offerings or acquire them through acquisitions of operating businesses. Because we may not be as experienced with new loan products or services, we may require additional time and resources for offering and managing such products and services effectively or may be unsuccessful in offering such new products and services at a profit.

We have committed to make preferred equity investments that involve a greater risk of loss than our traditional real estate lending activities.

We have committed to make preferred equity investments in entities owning real estate. Such investments are subordinate to debt financing and are not secured by real estate. If the issuer of the preferred equity defaults on our investment, in most instances we would only be able to proceed against the entity that issued the equity in accordance with the terms of the investment, and not any property owned by the entity. As a result, we may not recover some or all of our invested capital, which could result in losses to the Company.

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

We are sensitive to general business, economic and market conditions and cycles, particularly in the multifamily and commercial real estate industry. These conditions include changes in short-term and long-term interest rates, inflation and deflation, fluctuations in the real estate and debt capital markets and developments in national and local economies, unemployment rates, commercial property vacancy rates, and rental rates. Any sustained period of weakness or weakening business or economic conditions in the markets in which we do business or in related markets could result in a decrease in the demand for our loans and services, which could materially harm us. In addition, the



number of borrowers who become delinquent, become subject to bankruptcy or default on their loans could increase, resulting in a decrease in the value of our MSR, higher levels of servicer advances, and loss on our Fannie Mae loans for which we share risk of loss, and could materially and adversely affect us.

We also are significantly affected by the fiscal, monetary and budgetary policies of the U.S. government and its agencies. We are particularly affected by the policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), which regulates the supply of money and credit in the United States. The Federal Reserve’s policies affect interest rates, which have a significant impact on the demand for multifamily and commercial real estate loans. Significant fluctuations in interest rates as well as protracted periods of increases or decreases in interest rates could adversely affect the operation and income of multifamily and commercial real estate properties, as well as the demand from investors for multifamily and commercial real estate debt in the secondary market. In particular, higher interest rates tend to decrease the number of loans originated. An increase in interest rates could cause refinancing of existing loans to become less attractive and qualifying for a loan to become more difficult. Budgetary policies also impact our ability to originate loans, particularly if it has a negative impact on the ability of the GSEs and HUD to do business with us. Changes in fiscal, monetary, and budgetary policies are beyond our control, are difficult to predict and could materially and adversely affect us.

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

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

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

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

Our access to the CMBS securitization market and the timing of our securitization activities and other factors may greatly affect our quarterly financial results.

We contribute conduit loans to securitizations led by various large financial institutions and, upon completion of a securitization, we will recognize certain non-interest revenues. The revenues, operating results and profitability of our CMBS Program have varied from quarter to quarter based on the frequency, volume and timing of the securitizations to which we have contributed loans. These securitization activities will be affected by a number of factors, including our CMBS Program loan origination volumes, changes in CMBS Program loan values, quality and performance during the period such loans are on our books, conditions in the securitization and credit markets generally, and the time it takes for the third-parties to complete the securitizations to which we contribute loans.

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

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

We may not be able to hire and retain qualified loan originators or grow and maintain our relationships with key loan correspondents, and if we are unable to do so, our ability to implement our business and growth strategies could be limited.

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

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skilled loan originators, or if our hiring and retention costs increase, we could be materially and adversely affected.

We also depend on our network of loan correspondents, who generate a significant portion of our loan originations. During the years ended December 31, 2015 and 2014, correspondents generated 15% and 22%, respectively, of the loans that we originated during those periods. Unlike our loan originators, correspondents are not directly employed by us but are paid a percentage of the origination fee and the ongoing servicing fee for each loan that they help originate. We only have an exclusive relationship with our correspondents with respect to GSE and HUD loan products and do not have an exclusive arrangement for any other loan products. In addition, correspondents are free to transact business with other lenders and have done so in the past and will do so in the future. Our competitors also have relationships with some of our correspondents and actively compete with us in our efforts to expand our correspondent networks. Competition for loans originated by correspondents is particularly acute when the CMBS, commercial bank, and insurance company markets are robust. We cannot guarantee that correspondents will continue to provide a strong source of originations for us. We also cannot guarantee that we will be able to maintain or develop new relationships with additional correspondents. If we cannot maintain and enhance our existing relationships and develop new relationships, particularly in geographic areas, specialties or niche markets where our loan originators are not as experienced or well-situated, our growth strategy will be significantly hampered and we would be materially and adversely affected.

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

Over the past two years, we have faced significantly increased competition from commercial banks, commercial real estate service providers, CMBS conduit lenders, and life insurance companies, some of which are also investors in loans we originate. Many of these competitors may enjoy competitive advantages over us, including:

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

Commercial banks may have an advantage over us in originating loans if borrowers already have a line of credit or construction financing with the bank. Commercial real estate service providers may have an advantage over us to the extent they also offer a larger or more comprehensive investment sales platform. We compete on the basis of quality of service, relationships, loan structure, terms, pricing and industry depth. Industry depth includes the knowledge of

local and national real estate market conditions, commercial real estate expertise, loan product expertise and the ability to analyze and manage credit risk. Our competitors seek to compete aggressively on the basis of these factors and our success depends on our ability to offer attractive loan products, provide superior service, demonstrate industry depth, maintain and capitalize on relationships with investors, borrowers and key loan correspondents and remain competitive in pricing. In addition, future changes in laws, regulations and GSE and HUD program requirements and consolidation in the commercial real estate finance market could lead to the entry of more competitors. We cannot guarantee that we will be able to compete effectively in the future, and our failure to do so would materially and adversely affect us.

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

We have completed several corporate acquisitions in recent years that have expanded our pre-existing product lines and services, increased our origination capacity, and broadened our geographic coverage. We intend to pursue continued

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growth by acquiring complementary businesses, but we cannot guarantee such efforts will be successful. We do not know whether the favorable conditions that enabled our recent growth will continue.

In addition, if our growth continues, it could increase our expenses and place additional demands on our management, personnel, information systems and other resources. Sustaining our growth could require us to commit additional management, operational and financial resources to maintain appropriate operational and financial systems to adequately support expansion. There can be no assurance that we will be able to manage any growth effectively and any failure to do so could adversely affect our ability to generate revenue and control our expenses, which could materially and adversely affect us.

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

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

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

Declines in the value of the loans originated for the CMBS Program prior to their contribution to securitizations may adversely affect our earnings, and the hedging strategies we employ to mitigate the effects of the decline in the loan values may be ineffective or expose us to other risks.

We generally hold loans that we originate for the CMBS Program on our balance sheet for periods of up to 120 days prior to contributing them to third-party securitizations. During that time, the loans are subject to price declines that are caused by several factors, including interest rate and credit risks. We pursue various hedging strategies to seek to reduce our exposure to these risks. Our hedging activity varies in scope based on the level and volatility of interest rates, the types of assets held and other changing market conditions. Hedging may fail to protect or could adversely affect us because, among other things:

- interest rate and/or credit hedging can be expensive and may result in us receiving less interest income;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- due to a credit loss, prepayment or asset sale, the duration of a hedge may not match the duration of the related asset or liability;
- the credit quality of a hedging counterparty owing money in a hedging transaction may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- a hedging counterparty owing money in a hedging transaction may default on its obligation to pay.

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In addition, we may fail to recalculate, readjust and execute hedges in an efficient manner. If we fail to adequately and effectively hedge the risks associated with loans held on our balance sheet prior to us contributing them to a securitization, we may incur material losses that adversely affect our earnings.

### Risks Relating to Regulatory Matters

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

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

Regulatory authorities also require us to submit financial reports and to maintain a quality control plan for the underwriting, origination and servicing of loans. Numerous laws and regulations also impose qualification and licensing obligations on us and impose requirements and restrictions affecting, among other things: our loan originations; maximum interest rates, finance charges and other fees that we may charge; disclosures to consumers; the terms of secured transactions; collection, repossession and claims handling procedures; personnel qualifications; and other trade practices. We also are subject to inspection by the GSEs, HUD, and regulatory authorities. Our failure to comply with these requirements could lead to, among other things, the loss of a license as an approved GSE or HUD lender, the inability to gain additional approvals or licenses, the termination of contractual rights without compensation, demands for indemnification or loan repurchases, class action lawsuits and administrative enforcement actions.

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



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

We receive, maintain, and store the non-public personal information of our loan applicants. The technology and other controls and processes designed to secure our customer information and to prevent, detect, and remedy any unauthorized access to that information were designed to obtain reasonable, not absolute, assurance that such information is secure and that any unauthorized access is identified and addressed appropriately. We are not aware of any data breaches, successful hacker attacks, unauthorized access and misuse, or significant computer viruses affecting our networks that may have occurred in the past; however, our controls may not have detected, and may in the future fail to prevent or detect, unauthorized access to our borrower information. If this information is inappropriately accessed and used by a third party or an employee for illegal purposes, such as identity theft, we may be responsible to the affected applicant or borrower for any losses he or she may have incurred as a result of misappropriation. In such an instance, we may be liable to a governmental authority for fines or penalties associated with a lapse in the integrity and security of our customers' information.

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Risks Related to Our Common Stock

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

The stock markets, including the NYSE (on which our common stock is listed), have experienced significant price and volume fluctuations. As a result, the trading and market price of our common stock is likely to be similarly volatile and subject to wide fluctuations, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance. The market price of our common stock could decline substantially in response to a number of factors, including:

- our actual or anticipated financial condition, liquidity and operating performance;
- actual or anticipated changes in our business and growth strategies or the success of their implementation;
- failure to meet, or changes in, earnings estimates of stock analysts;
- publication of research reports about us, the commercial real estate finance market or the real estate industry;
- equity issuances by us, or stock resales by our stockholders, or the perception that such issuances or resales could occur;
- the passage of adverse legislation or other regulatory developments, including those from or affecting the GSEs or HUD;
- general business, economic and market conditions and cycles;
- changes in market valuations of similar companies;
- additions to or departures of our key personnel;
- actions by our stockholders;
- actual, potential or perceived accounting problems or changes in accounting principles;
- failure to satisfy the listing requirements of the NYSE;
- failure to comply with the requirements of the Sarbanes-Oxley Act;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this Annual Report on Form 10-K; and
- general market and economic conditions.

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

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

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

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Risks Related to Our Organization and Structure

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law (the “MGCL”) may have the effect of deterring a third party from making a proposal to acquire us or of impeding a change in control under circumstances that otherwise could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price of our common stock. We will be subject to the “business combination” provisions of the MGCL that, subject to limitations, prohibit certain business combinations (including a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities) between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of our then outstanding voting capital stock or an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of our then outstanding voting capital stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our board of directors and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by holders of outstanding shares of our voting capital stock; and (ii) two-thirds of the votes entitled to be cast by holders of voting capital stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder. These super-majority vote requirements do not apply if our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder.

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

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

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

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

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

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

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

Our charter and bylaws obligate us to indemnify our directors and officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. In addition, we are obligated to advance the defense costs incurred by our directors and officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist absent the current provisions in our charter and bylaws or that might exist with companies domiciled in jurisdictions other than Maryland.

Our charter contains provisions that make removal of our directors difficult, which could make it difficult for our stockholders to effect changes to our management.

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

We are a holding company with no direct operations and rely on funds received from our subsidiaries for our cash requirements.

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

payments.

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

#### Risks Related to Our Financial Statements

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

Pursuant to U.S. GAAP, we are required to use certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves and the fair value of MSRs, among other items. We make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management judgment. These and other assets and liabilities may have no direct observable price levels, making their valuation particularly subjective as they are based on significant estimation and judgment. Several of our accounting policies are critical because they require management to make difficult, subjective, and complex judgments about matters that are inherently

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uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. If assumptions or estimates underlying our financial statements are incorrect, losses may be greater than those expectations.

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

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

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

\* \* \*

Any factor described in this filing or in any of our other SEC filings could by itself, or together with other factors, adversely affect our financial results and condition. Refer to our quarterly reports on Form 10-Q filed with the SEC in 2016 for material changes to the above discussion of risk factors. There are factors not discussed above or elsewhere in this filing that could adversely affect our financial results and condition.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.



Our principal headquarters are located in Bethesda, Maryland. We currently maintain an additional 24 offices across the country. Most of our offices are small, loan production offices. The majority of our non-loan-production activity occurs in our corporate headquarters and our office in Needham, Massachusetts. We believe that our facilities are adequate for us to conduct our present business activities.

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

### Item 3. Legal Proceedings.

Capital Funding Litigation—On February 17, 2010, Capital Funding Group, Inc. (“Capital Funding”) filed a lawsuit in the Circuit Court for Montgomery County, Maryland (the “Circuit Court”) against Walker & Dunlop, LLC, our wholly owned operating subsidiary, for alleged breach of contract, unjust enrichment and unfair competition arising out of an alleged agreement that Capital Funding had with Column Guaranteed, LLC (“Column”) to refinance a large portfolio of senior healthcare facilities located throughout the United States. Capital Funding further alleged that Walker & Dunlop, LLC, as the alleged successor by merger to Column, is bound by Column’s alleged agreement with Capital Funding. On November 17, 2010, Capital Funding filed an amended complaint adding Credit Suisse Securities (USA) LLC (“Credit Suisse”) and its affiliates Column and Column Financial, Inc. as defendants. In December 2010, Column assumed the

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defense of the Company pursuant to an indemnification agreement. Capital Funding sought damages in excess of \$30.0 million on each of the three claims, and an unspecified amount of damages on a separate claim for unfair competition against Walker & Dunlop, LLC. Capital Funding also sought injunctive relief in connection with its unjust enrichment and unfair competition claims.

On July 19, 2011, the Circuit Court issued an order granting the defendants' motion to dismiss the case, without prejudice. After the initial case was dismissed without prejudice, Capital Funding filed an amended complaint. In November 2011, the Circuit Court rejected the defendants' motion to dismiss the amended complaint. Capital Funding filed a Second Amended Complaint that did not alter the claims at issue but revised their alleged damages. Defendants moved for summary judgment on all claims, including two counts of breach of contract, two counts of promissory estoppel, two counts of unjust enrichment, and two counts of unfair competition. On April 30, 2013, the Circuit Court granted the motion to dismiss as to the promissory estoppel counts and one count of unjust enrichment. The Circuit Court denied the motion as to all remaining claims.

A two-week jury trial was held in July 2013. In the course of the trial, all but two of Capital Funding's claims were dismissed. The jury awarded Capital Funding (i) a \$1.8 million judgment against all defendants on Capital Funding's breach of contract claim and (ii) a \$10.4 million judgment against Credit Suisse, Column's parent, on Capital Funding's unjust enrichment claim. Because the two claims arise from the same facts, Capital Funding agreed it may only collect on one of the judgments; following the verdict, Capital Funding "elected" to collect the \$10.4 million judgment against Credit Suisse. The defendants filed a post judgment motion to reduce or set aside the judgment. On January 31, 2014 the Circuit Court vacated the \$10.4 million unjust enrichment judgment and awarded Capital Funding the \$1.8 million breach of contract judgment. On February 10, 2014, Capital Funding filed a motion with the Circuit Court seeking a new trial. On March 13, 2014, the Circuit Court denied Capital Funding's motion for a new trial. Capital Funding filed an appeal with Maryland's Court of Special Appeals. Following briefing, the Court of Special Appeals heard oral arguments on December 10, 2014. On December 17, 2015, the Court of Special Appeals issued its opinion affirming the decision of the Circuit Court. Capital Funding did not seek reconsideration or further appeal of the decision of the Court of Special Appeals, and the time to do so has passed. Credit Suisse has paid Capital Funding the amount of the judgment entered by the Circuit Court, and the litigation has concluded.

CA Funds Group Litigation—In March 2012, our wholly owned operating subsidiary, Walker & Dunlop Investment Advisory Services, LLC ("IA Services") engaged CA Funds Group, Inc. ("CAFG") to provide, among other things, consulting services in connection with expanding our investment advisory services business. The engagement letter was supplemented in June 2012 to retain CAFG to engage in certain capital raising activities, primarily with respect to a potential commingled, open-ended Fund ("Fund"). The Fund was never launched by us. However, we independently formed a large loan bridge program (the "Bridge Program"), which is focused primarily on making floating-rate loans of \$25.0 million or more with maturities of up to three years to experienced owners of multifamily properties. CAFG filed a breach of contract action captioned CA Funds Group, Inc. v. Walker & Dunlop Investment Advisory Services, LLC and Walker & Dunlop, LLC in Illinois State Court, which was then transferred to the United States District Court for the Northern District of Illinois, Eastern Division, seeking a placement fee in the amount of \$5.1 million (plus interest and the costs of the suit) based upon the \$380.0 million allegedly obtained for the Bridge Program. We filed a motion to dismiss the complaint on January 3, 2014, CAFG filed a response to the motion on January 31, 2014, and on March 21, 2014, the Court denied our motion to dismiss the complaint. Both the Company and CAFG filed motions for summary judgment in June 2015. On January 27, 2016, the Court issued its opinion granting the Company's motion

for summary judgment, and denying CAFG's motion for summary judgment. On February 9, 2016, the Company filed a motion with the Court seeking recovery of its legal fees, pursuant to the terms of the engagement letter. On February 18, 2016, CAFG filed a notice that it will appeal the summary judgment order to the U.S. Court of Appeals for the Seventh Circuit.

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.

In the normal course of business, we may be party to various other claims and litigation, none of which we believe is material.

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Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock trades on the NYSE under the symbol "WD." In connection with our initial public offering, our common stock began trading on the NYSE on December 15, 2010. There was no established public trading market for our common stock prior to that date. On February 19, 2016, the closing sales price, as reported by the NYSE, was \$21.85.

The following table sets forth the intra-day high and low sale prices for our common stock as reported by the NYSE for the periods indicated:

	2015	
	High	Low
1st Quarter	\$ 18.36	\$ 15.87
2nd Quarter	27.37	17.27
3rd Quarter	28.15	22.64
4th Quarter	33.17	25.64

	2014	
	High	Low
1st Quarter	\$ 17.50	\$ 13.51
2nd Quarter	17.07	13.87
3rd Quarter	14.99	12.82
4th Quarter	17.95	13.13

As of the close of business on February 19, 2016, there were 23 stockholders of record. We believe that the number of beneficial holders is much greater.

#### Dividend Policy

Since the completion of our initial public offering, we have not paid any dividends. We currently retain earnings, if any, to fund the development and growth of our business and, therefore, do not currently pay cash dividends. Any future determination to pay dividends on our common stock will be, subject to applicable law, at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, capital requirements, contractual agreements, any limitations on payments of dividends in any of our future financing arrangements, applicable law, and other factors our board of directors may deem relevant. Additionally, our Term Loan (defined in Item 7 below) contains direct restrictions to the amount of dividends we may pay, and our warehouse debt facilities contain minimum equity and liquidity requirements that indirectly restrict the amount of dividends we may pay.

#### Stock Performance Graph

The following chart graphs our performance in the form of a cumulative five-year total return to holders of our common stock since December 31, 2010 in comparison to the Standard and Poor's ("S&P") 500 and the S&P 600 Small Cap Financials Index for that same five-year period. We believe that the S&P 600 Small Cap Financials Index is an appropriate index to compare us with other companies in our industry and that it is a widely recognized and used index for which components and total return information are readily accessible to our security holders to assist in their understanding of our performance relative to other companies in our industry.

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The comparison below assumes \$100 was invested on December 31, 2010 in our common stock and in each of the indices shown and assumes that all dividends were reinvested. Our stock price performance shown in the following graph is not indicative of future performance or relative performance in comparison to the indices.

## Issuer Purchases of Equity Securities

Under the 2015 Equity Incentive Plan, which constitutes an amendment to and restatement of the 2010 Equity Incentive Plan, subject to the Company's approval, grantees have the option of electing to satisfy minimum tax withholding obligations at the time of vesting or exercise by allowing the Company to withhold and purchase the shares of stock otherwise issuable to the grantee. For the years ended December 31, 2015 and 2014, the Company repurchased and retired certain restricted shares at market prices, upon grantee vesting. During the first quarter of 2015, we also repurchased 3.0 million shares of our common stock at a price of \$15.60 per share, which was below the quoted price at the time, and immediately retired the shares. The following table provides information regarding common stock repurchases for the quarter and year ended December 31, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
1st Quarter	3,058,397	\$ 15.62	—	N/A
2nd Quarter	88,712	\$ 21.15	—	N/A
3rd Quarter	16,419	\$ 23.23	—	N/A
October 1-31, 2015	1,536	\$ 26.74	—	
November 1-30, 2015	5,441	\$ 29.01	—	
December 1-31, 2015	—	—	—	
4th Quarter	6,977	\$ 28.51	—	N/A
2015 Total	3,170,505		—	

## Unregistered Sale of Equity Securities

On April 21, 2015, we issued 112,671 shares of our common stock, par value \$0.01 per share, to the sole equity owners of Engler Financial Group, LLC and KM Capital, Inc. in connection with our acquisition on April 21, 2015 of the



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multifamily investment sales platform of EFG. The Company issued the shares in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 thereunder. Under the terms of the acquisition and subject to applicable securities laws, one-third of the shares will become transferable on each of the first three anniversary dates of the acquisition, beginning April 21, 2016.

Item 6. Selected Financial Data

The selected historical financial information and supplemental data as of and for the years ended December 31, 2015, 2014, 2013, 2012, and 2011 have been derived from our audited historical financial statements. The selected historical financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and



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Results of Operations,” the consolidated financial statements as of December 31, 2015 and 2014 and for the years ended December 31, 2015, 2014, and 2013, and the related notes contained elsewhere in this Annual Report on Form 10-K.

(in thousands, except per share amounts)	As of and For the Year Ended December 31,				
	2015	2014	2013	2012	2011
<b>Statement of Income Data</b>					
<b>Revenues</b>					
Gains from mortgage banking activities	\$ 290,466	\$ 221,983	\$ 203,671	\$ 186,543	\$ 102,712
Servicing fees	114,757	98,414	90,215	52,207	33,581
Net warehouse interest income, loans held for sale	14,541	11,343	6,214	4,361	4,198
Net warehouse interest income, loans held for investment	9,419	6,151	1,231	307	—
Escrow earnings and other interest income	4,473	4,526	4,008	2,965	1,474
Other	34,542	18,355	13,700	10,387	10,385
<b>Total revenues</b>	<b>\$ 468,198</b>	<b>\$ 360,772</b>	<b>\$ 319,039</b>	<b>\$ 256,770</b>	<b>\$ 152,350</b>
<b>Expenses</b>					
Personnel	\$ 184,590	\$ 149,374	\$ 133,667	\$ 109,037	\$ 51,162
Amortization and depreciation	96,193	79,367	72,876	38,673	22,444
Amortization of intangible assets	1,980	771	3,079	15,252	70
Provision for credit losses	1,644	2,206	1,322	3,140	4,724
Interest expense on corporate debt	9,918	10,311	3,743	1,649	823
Other operating expenses	38,507	34,831	37,565	33,249	16,466
<b>Total expenses</b>	<b>\$ 332,832</b>	<b>\$ 276,860</b>	<b>\$ 252,252</b>	<b>\$ 201,000</b>	<b>\$ 95,689</b>
<b>Income from operations</b>	<b>\$ 135,366</b>	<b>\$ 83,912</b>	<b>\$ 66,787</b>	<b>\$ 55,770</b>	<b>\$ 56,661</b>
Income tax expense	52,771	32,490	25,257	21,998	21,797
<b>Net income before noncontrolling interests</b>	<b>\$ 82,595</b>	<b>\$ 51,422</b>	<b>\$ 41,530</b>	<b>\$ 33,772</b>	<b>\$ 34,864</b>
Net income from noncontrolling interests	467	—	—	—	—
<b>Walker &amp; Dunlop net income</b>	<b>\$ 82,128</b>	<b>\$ 51,422</b>	<b>\$ 41,530</b>	<b>\$ 33,772</b>	<b>\$ 34,864</b>
Basic earnings per share	\$ 2.76	\$ 1.60	\$ 1.23	\$ 1.32	\$ 1.61
Diluted earnings per share	\$ 2.65	\$ 1.58	\$ 1.21	\$ 1.31	\$ 1.60
Basic weighted average shares outstanding	29,754	32,210	33,764	25,545	21,622
Diluted weighted average shares outstanding	30,949	32,624	34,336	25,845	21,748

**Balance Sheet Data**

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Cash and cash equivalents	\$ 136,988	\$ 113,354	\$ 170,563	\$ 65,027	\$ 53,817
Restricted cash and pledged securities	77,496	81,573	55,078	40,611	26,123
Mortgage servicing rights	412,348	375,907	353,024	315,524	137,079
Loans held for sale, at fair value	2,499,111	1,072,116	281,477	1,101,561	268,167
Loans held for investment, net	231,493	223,059	134,656	9,468	—
Goodwill	90,338	74,525	60,212	59,735	—
Total Assets	3,514,991	2,009,390	1,124,579	1,685,971	521,882
Warehouse notes payable	2,649,470	1,214,279	371,629	1,083,480	217,823
Note payable	164,462	169,095	170,349	79,322	23,758
Total Liabilities	3,022,642	1,575,939	721,738	1,332,795	358,230
Total Equity	\$ 492,349	\$ 433,451	\$ 402,841	\$ 353,176	\$ 163,652

Supplemental Data

Operating margin	29	%	23	%	21	%	22	%	37	%
Return on equity	19	%	13	%	11	%	14	%	24	%
Total transaction volume	\$ 17,758,748	\$ 11,367,706	\$ 8,395,037	\$ 7,102,185	\$ 4,025,917					
Servicing portfolio	\$ 50,212,264	\$ 44,031,890	\$ 38,937,027	\$ 35,169,999	\$ 16,778,285					

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

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

Business

We are one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. We originate, sell, and service a range of commercial real estate financing products to owners and developers of commercial real estate across the country and broker sales of multifamily properties primarily in the southeastern United States. We originate and sell multifamily loans through the programs of Fannie Mae, Freddie Mac, Ginnie Mae, and HUD, with which we have licenses and long-established relationships. We retain servicing rights and asset management responsibilities on nearly all loans that we originate for the GSE and HUD programs. We are approved as a Fannie Mae DUS lender nationally, a Freddie Mac Program Plus lender in 23 states and the District of Columbia, a Freddie Mac targeted affordable housing seller/servicer, a HUD MAP lender nationally, a HUD LEAN lender nationally, and a Ginnie Mae issuer. We broker and service loans for a number of life insurance companies, CMBS conduits, commercial banks, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. We also originate and hold short-term loans on our balance sheet and offer a proprietary CMBS program. Beginning in the second quarter of 2015 in connection with the EFG Acquisition, we began offering multifamily investment sales brokerage services.

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

We recognize gains from mortgage banking activities when we commit to both make a loan to a borrower and sell that loan to an investor. The gains from mortgage banking activities reflect the fair value attributable to loan origination fees, premiums on the sale of loans, net of any co-broker fees, and the fair value of the expected net cash flows associated with servicing the loans, net of any guaranty obligations retained. We also generate revenue from (i) net warehouse interest income we earn while the loan is held for sale through one of our warehouse facilities, (ii) net

warehouse interest income from loans held for investment while they are outstanding, and (iii) broker fees for brokering the sale of multifamily properties.

We retain servicing rights on substantially all of the loans we originate and sell and generate revenues from the fees we receive for servicing the loans, from the interest income on escrow deposits held on behalf of borrowers, from late charges, and from other ancillary fees. Servicing fees set at the time an investor agrees to purchase the loan are generally paid monthly for the duration of the loan, and are based on the unpaid principal balance of the loan. Our Fannie Mae and Freddie Mac servicing arrangements generally provide for prepayment penalties 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.

For our non-CMBS Program loans, we are currently not exposed to interest rate risk during the loan commitment, closing, and delivery process. The sale or placement of each loan to an investor is negotiated prior to establishing the coupon rate for the loan. We also seek to mitigate the risk of a loan not closing. We have agreements in place with the GSEs and HUD that specify the cost of a failed loan delivery in the event we fail to deliver the loan to the investor. To protect us against such fees, we require a deposit from the borrower at rate lock that is typically more than the potential fee. The deposit is returned to the borrower only once the loan is closed. Any potential loss from a catastrophic change in

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the property condition while the loan is held for sale using warehouse facility financing is mitigated through property insurance equal to replacement cost. We are also protected contractually from an investor's failure to purchase the loan. We have experienced an immaterial number of failed deliveries in our history and have incurred immaterial losses on such failed deliveries.

We have risk-sharing obligations on substantially all loans we originate under the Fannie Mae DUS program. When a Fannie Mae DUS loan is subject to full risk-sharing, we absorb losses on the first 5% of the unpaid principal balance of a loan at the time of loss settlement, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the original unpaid principal balance of the loan (subject to doubling or tripling if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). We may, however, request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above. We occasionally request modified risk-sharing based on the size of the loan. We may also request modified risk-sharing on large transactions if we do not believe that we are being fully compensated for the risks of the transactions or to manage overall risk levels. Our current credit management policy is to cap each loan balance subject to full risk-sharing at \$60 million. Accordingly, we generally elect to use modified risk-sharing for loans of more than \$60 million in order to limit our maximum loss exposure on any one loan to \$12 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). However, we may on occasion elect to originate a loan with full risk sharing even when the loan balance is greater than \$60 million if we believe the loan characteristics support such an approach.

Our servicing fees for risk-sharing loans include compensation for the risk-sharing obligations and are larger than the servicing fees we 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.

Walker & Dunlop, Inc. is a holding company, and we conduct substantially all of our operations through Walker & Dunlop, LLC, our operating company. On September 25, 2014, we executed a purchase agreement to acquire certain assets and assume certain liabilities of Johnson Capital. The JC Acquisition closed on November 1, 2014. The consideration transferred totaled \$23.5 million and consisted of \$17.6 million in cash and \$5.9 million of our common stock issued in a private placement. The JC Acquisition expanded the Company's network of loan originators, provided further diversification to its origination platform, and increased its HUD servicing portfolio.

Our Interim Program offers floating-rate, interest-only loans for terms of up to three years to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing. We underwrite all loans originated through the Interim Program. During the time that they are outstanding, we assume the full risk of loss on the loans. In addition, we service and asset-manage loans originated through the Interim Program, with the ultimate goal of providing permanent financing on the properties. These loans are classified as held for investment on our balance sheet during such time that they are outstanding. We have not experienced any delinquencies or charged off any loans originated under the Interim Program. We held 13 loans originated under the Interim Program with an aggregate \$233.4 million balance as of December 31, 2015.

At December 31, 2015, we owned a 40% interest in a partnership with a large institutional investor that offers financing through a CMBS platform for all commercial property types throughout the United States. The CMBS Partnership expects to sell all loans originated by it into secondary securitization offerings within 120 days of origination. The loans in the CMBS Partnership are selected, funded, and underwritten by the CMBS Partnership. We receive a fee for servicing the loans. The CMBS Partnership assumes the full risk of loss on the loans while it holds the loans. During the second quarter of 2015, we increased our ownership interest in the CMBS Partnership from 20% to 40%. The increase in ownership percentage has not had a material impact on our financial results.

During 2015 and 2014, we accounted for our ownership interest in the CMBS partnership under the equity method of accounting. The CMBS Partnership originated \$309.5 million of loans through the CMBS Program and contributed loans to three third-party securitizations during 2015 and originated \$116.1 million of loans through the CMBS Program and contributed loans to two third-party securitizations during 2014. Effective January 1, 2016, the Company increased its ownership interest in the CMBS Partnership to 100%, making the CMBS Partnership a wholly owned subsidiary of the

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Company. Consequently, the Company began to consolidate the CMBS Partnership's balances beginning with the first quarter of 2016.

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 December 31, 2015, we have made commitments to fund such preferred equity investments in monthly installments totaling \$42.8 million, none of which has been funded. We expect to fund these commitments over the next 18 to 36 months, beginning in the first quarter of 2016.

During the second quarter of 2015, in connection with the acquisition of 75% of certain assets and assumption of certain liabilities of EFG, we began providing multifamily investment sales brokerage services through a newly formed subsidiary, WDIS. The initial focus of the investment sales brokerage services is the eastern United States. We plan to expand these brokerage services nationally. We consolidate the activities of WDIS and present the portion of WDIS that we do not control as Noncontrolling interests in the Consolidated Balance Sheets and Net income from noncontrolling interests in the Consolidated Statements of Income.

As of December 31, 2015, our servicing portfolio was \$50.2 billion, up 14% from December 31, 2014, making it the 8th largest commercial/multifamily primary and master servicing portfolio in the nation according to the Mortgage Bankers' Association's 2015 year-end survey (the "Survey"). Our servicing portfolio includes \$22.9 billion of loans serviced for Fannie Mae and \$17.8 billion for Freddie Mac, making us the 3rd largest primary and master servicer of Fannie Mae loans and the 6th largest of Freddie Mac loans in the nation according to the Survey. Also included in our servicing portfolio is \$5.7 billion of HUD loans, the 7th largest HUD primary and master servicing portfolio in the nation according to the Survey.

Due to our own organic growth and the increased loan-origination capacity from acquisitions, our loan origination volume increased 43%, from a total of \$11.4 billion during 2014 to a total of \$16.2 billion during 2015. Fannie Mae recently announced that we ranked as its 2nd largest DUS lender in 2015, by loan deliveries, and Freddie Mac recently announced that we ranked as its 4th largest Program Plus seller in 2015, by loan deliveries.

## Basis of Presentation

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

## Critical Accounting Policies

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

Mortgage Servicing Rights (“MSRs”). MSRs are recorded at fair value upon loan sale. The fair value 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 were between 10-15% and varied based on the loan type. The life of the underlying loan is estimated giving consideration to the prepayment provisions in the loan. Our model assumes full prepayment of the loan at or near the point where the prepayment provisions have expired. We only recognize MSRs for GSE and HUD originations. We do not recognize MSRs for brokered or CMBS Program transactions since we do not originate and sell the loan.

The assumptions used to estimate the fair value of MSRs at loan sale are based on internal models and are compared to assumptions used by other market participants periodically. Due to the relatively few transactions in the multifamily



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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 MSRs at the lower of amortized cost or fair value and evaluate the carrying value for impairment on a portfolio basis quarterly. We engage a third party to assist in determining an estimated fair value of our MSRs on 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. The MSR is amortized into expense over the estimated life of the loan and presented as a component of Amortization and depreciation in the Consolidated Statements of Income. The MSR is amortized using the interest method over the period that servicing income is expected to be received.

Allowance for Risk-sharing Obligations and Allowance for Loan Losses. The allowance for risk-sharing obligations relates to our at risk servicing portfolio and is presented as a separate liability within the Consolidated Balance Sheets. The allowance for loan losses relates to our loans held for investment from our Interim Program and is included as a component of Loans held for investment, net within the Consolidated Balance Sheets. The amount of each of these allowances considers our assessment of the likelihood of repayment by the borrower or key principal(s), the risk characteristics of the loan, the loan’s risk rating, historical loss experience, adverse situations affecting individual loans, the estimated disposition value of the underlying collateral, and the level of risk sharing, which for loans held for investment is 100%. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. We regularly monitor each allowance on all applicable loans and update loss estimates as current information is received. Provision for credit losses in the Consolidated Statements of Income reflects the income statement impact of changes to both the allowance for risk-sharing obligations and allowance for loan losses.

We perform a quarterly evaluation of all of our risk-sharing loans to determine whether a loss is probable. Our process for identifying which risk-sharing loans may be probable of loss consists of an assessment of several qualitative and quantitative factors including payment status, property financial performance, local real estate market conditions, loan to value ratio, debt service coverage ratio, and property condition. When we believe a loan is probable of foreclosure or in foreclosure, we record an allowance for that loan (a “specific reserve”). The specific reserve is based on the estimate of the property fair value less selling and property preservation costs and considers the loss-sharing requirements detailed below in the “Credit Quality and Allowance for Risk-Sharing Obligations” section. The estimate of property fair value at initial recognition of the allowance for risk-sharing obligations is based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value. The allowance for risk-sharing obligations for such loans is updated as any additional information is received until the loss is settled with Fannie Mae. The settlement with Fannie Mae is based on the actual sales price of the property and selling and property preservation costs and considers the Fannie Mae

loss-sharing requirements. Historically, the initial specific reserves have not varied significantly from the final settlement. We are uncertain whether such a trend will continue in the future.

In addition to the specific reserves discussed above, we also record an allowance for risk-sharing obligations related to risk-sharing loans on our watch list (“general reserves”). Such loans are not probable of foreclosure but are probable of loss as the characteristics of these loans indicate that it is probable that these loans include some losses even though the loss cannot be attributed to a specific loan. For all other risk-sharing loans not on our watch list, we continue to carry a guaranty obligation. We calculate the general reserves based on a migration analysis of the loans on our historical watch lists, adjusted for qualitative factors. When we place a risk-sharing loan on our watch list, we cease to amortize the guaranty obligation and transfer the remaining unamortized balance of the guaranty obligation to the general reserves. If a risk-sharing loan is subsequently removed from our watch list due to improved financial performance, we transfer the unamortized balance of the guaranty obligation back to the guaranty obligation classification on the balance sheet and amortize the remaining unamortized balance evenly over the remaining estimated life.

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

## Overview of Current Business Environment

The fundamentals of the commercial and multifamily real estate market are strong. Multifamily occupancy rates and effective rents continue to increase based upon strengthening rental market demand while delinquency rates remain at historic lows, all of which aid loan performance due to their importance to the cash flows of the underlying properties. Most other commercial real estate asset classes have experienced similar performance in underlying fundamentals. The positive performance has boosted the value of many commercial and multifamily properties towards the high end of historical ranges.

In addition to the improved property fundamentals, for the last several years, the U.S. commercial and multifamily mortgage market has experienced historically low interest rates, leading many borrowers to seek refinancing prior to the scheduled maturity date of their loans. As borrowers have sought to take advantage of the interest rate environment and improved property fundamentals, the number of lenders and amount of capital available to lend have increased dramatically. According to the Mortgage Bankers Association, commercial and multifamily loan maturities were expected to increase dramatically from 2015 through the end of 2017, as the loans originated at the height of the CMBS market begin maturing a decade later. All of these factors have benefited our origination volumes over the past several quarters and, in particular, in 2015, as evidenced by the 43% year-over-year growth in loan origination volume from 2014 to 2015. Competition among banks, life insurance companies, and the GSEs remains fierce.

During the fourth quarter of 2015, the Federal Reserve raised its targeted Fed Funds Rate by 25 basis points. The increase was long anticipated and is the first of what is expected to be several similar rate hikes during 2016. We do not anticipate a significant decline in origination volume or profitability as a result of the increase as interest rates remain at historically low levels. However, we cannot be certain that such a trend will continue as the number, timing, and magnitude of additional increases by the Federal Reserve, combined with other macroeconomic factors, may have a different effect on the commercial real estate market.

We are a market leading originator with Fannie Mae and Freddie Mac, and the GSEs remain the most significant providers of capital to the multifamily market. The Federal Housing Finance Agency (“FHFA”) 2016 GSE Scorecard (“2016 Scorecard”) established Fannie Mae’s and Freddie Mac’s loan origination caps at \$31.0 billion each for market-rate apartments, (“2016 Caps”), an increase of \$1.0 billion each from the 2015 loan origination caps. Affordable housing loans, loans to small multifamily properties, and manufactured housing rental community loans continue to be excluded from the 2016 Caps. Additionally, the definition of the affordable loan exclusion continues to encompass affordable housing in high- and very-high cost markets and to allow for an exclusion from the 2016 Caps for the pro-rata portion of any loan on a multifamily property that includes affordable units. The 2016 Scorecard provides the FHFA the flexibility to review the estimated size of the multifamily loan origination market on a quarterly basis and proactively adjust the 2016 Caps upward should the market be larger than expected in 2016. The 2016 Scorecard also provides exclusions for loans to properties located in underserved markets including rural, small multifamily, and senior assisted living and for loans to finance energy or water efficiency improvements. The expanded liquidity should enable the GSEs to maintain their historical market share in a multifamily market that is projected by the Mortgage Bankers Association to be in excess of

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\$225.0 billion in 2016. Our originations with the GSEs are some of our most profitable executions as they provide significant non-cash gains from mortgage servicing rights. A decline in our GSE originations would negatively impact our financial results as our non-cash revenues would decrease disproportionately with loan origination volume and future servicing fee revenue would be constrained or decline. We do not know whether the FHFA will impose stricter limitations on GSE multifamily production volume beyond 2016.

We have significantly grown our capital markets platform since going public to take advantage of the anticipated wave of loan maturities that began in 2015. The commercial debt origination market grew substantially from 2014 to 2015. The apparent appetite for debt funding within the broader commercial real estate market, coupled with our acquisition of Johnson Capital Group, Inc. in late 2014, has resulted in significant growth in our brokered originations in 2015, as evidenced by the 51% year-over-year growth in brokered origination volumes from 2014 to 2015. With non-bank commercial and multifamily loan maturities expected to grow again in 2016, our outlook for our capital markets platform is positive.

In addition to banks and life insurance companies, there has been a recent increase in CMBS financing for loans to commercial and multifamily properties. The peak of the CMBS market was between 2005 and 2007, and after its collapse in 2008, CMBS originations were close to zero. However, in recent years, the demand for commercial and multifamily bonds has increased and we have experienced increased competition from an ever-growing CMBS mortgage origination market. According to Wells Fargo Securities, non-agency CMBS issuance totaled \$94.6 billion in 2015, up 6.3% from 2014 as the first wave of CMBS refinancing began. The increased demand for CMBS bonds backed by commercial and multifamily mortgages and the expected wave of refinancing activity this year and over the next two years led us to form the CMBS Partnership in 2014 and increase our ownership of the CMBS Partnership to 40% in 2015 and 100% in early 2016. We brokered \$89.5 million of the \$116.1 million of loans originated by the CMBS Partnership in 2014, and the CMBS Partnership participated in two third-party securitizations in 2014, contributing \$116.1 million of assets to the securitizations. During 2015, we brokered \$185.0 million of the \$309.5 million of loans originated by the CMBS Partnership, and the CMBS Partnership participated in three third-party securitizations, contributing \$279.8 million of assets to the securitizations. Recent volatility in the capital markets resulted in spreads widening and lower demand for CMBS investments in the fourth quarter of 2015. This volatility has continued into early 2016 and could impact overall volumes of CMBS lending in 2016.

The positive market dynamics that have benefitted the GSEs and broader capital markets have had the opposite effect on HUD's multifamily business. As the economy has recovered and bank and CMBS capital has re-entered the market, borrowers have shied away from the long lead times required to secure a HUD loan. As a result, we originated \$592.0 million of loans with HUD during 2015, down 16% from 2014. We expect that HUD will continue to be a meaningful supplier of capital to our borrowers in counter-cyclical markets. We remain committed to the HUD multifamily business, adding resources and scale to the platform, particularly in the area of seniors housing and skilled nursing, where HUD remains a dominant provider of capital in the current business environment.

With property values for many fully leased commercial and multifamily assets at their highest point in recent years with near historic lows in capitalization rates and greatly improved property fundamentals, it has been difficult for borrowers to generate desired returns. As a result, many of our borrowers are seeking higher returns by identifying and

acquiring the transitional properties that the Interim Program is designed to address. The growth in transitional lending was evident in 2015, as the average balance of our interim loan portfolio was \$281.6 million compared to \$188.6 million in 2014. We originated \$185.1 million of interim loans during 2015 and remain optimistic about this market for the foreseeable future. The demand for transitional lending has brought increased competition from lenders, specifically banks, life insurance companies, and, more recently, the GSEs. All are actively pursuing transitional properties by leveraging their low cost of capital and desire for short-term, high-yield commercial real estate investments.

Finally, in the second quarter of 2015, we expanded our offerings to our customers by acquiring a controlling interest in a partnership that offers multifamily investment sales brokerage services. The partnership operates primarily in the eastern United States. As we have stated, multifamily property values are at near historic highs on the back of positive fundamentals across the industry. As a result, we have recently seen increased activity within the investment sales business. We believe this activity will continue throughout the wave of loan maturities, and we will look to capitalize on that demand by expanding the investment sales partnership more broadly across the United States in the coming quarters. During the first eight months of operations, our investment sales partnership closed \$1.5 billion of business.

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Factors That May Impact Our Operating Results

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

- **Performance of Multifamily and Other Commercial Real Estate Related Markets.** Our business is dependent on the general demand for, and value of, commercial real estate and related services, which are sensitive to economic conditions and the continued existence of the GSEs. Demand for multifamily and other commercial real estate generally increases during stronger economic environments, resulting in increased property values, transaction volumes, and loan origination volumes. During weaker economic environments, multifamily and other commercial real estate may experience higher property vacancies, lower demand and reduced values. These conditions can result in lower property transaction volumes and loan originations, as well as an increased level of servicer advances and losses from our Fannie Mae DUS risk-sharing obligations and our interim lending programs.
- **The Level of Losses from Fannie Mae Risk-Sharing Obligations and from Loans Held for Investment.** Under the Fannie Mae DUS program, we share risk of loss on most loans we sell to Fannie Mae. In the majority of cases, we absorb the first 5% of any losses on the loan's unpaid principal balance at the time of loss settlement, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the loan's unpaid principal balance on the origination date. As a result, a rise in defaults could have a material adverse effect on us. Additionally, we bear 100% of the risk of loss on loans held for investment. We have not experienced any losses, delinquencies, or defaults related to the loans held for investment. Defaults and other deteriorations in credit quality in our loans held for investment could materially adversely impact us.
- **The Price of Loans in the Secondary Market.** Our profitability is determined in part by the price we are paid for the loans we originate. A component of our origination related revenues is the premium we recognize on the sale of a loan. Stronger investor demand typically results in larger premiums while weaker demand results in little to no premium.
- **Market for Servicing Commercial Real Estate Loans.** Servicing fee rates for new loans are set at the time we enter into a loan sale commitment based on origination fees, competition, prepayment rates, and any risk-sharing obligations we undertake. Historically, we have only experienced much variation in the servicing fee rate we receive for Fannie Mae loans. Changes in servicing fee rates impact the value of our MSR's and future servicing revenues, which could impact our profit margins and operating results over time.
- **The Percentage of Adjustable Rate Loans Originated.** The adjustable rate mortgage loans ("ARMs") we originate typically have less stringent prepayment protection features than fixed rate mortgage loans ("FRMs"), resulting in a shorter expected life for ARMs than FRMs. The shorter expected life for ARMs results in smaller MSR's recorded than for FRMs. Absent an increase in originations, an increase in the proportion of our loans originated that are ARMs could adversely impact the gains from mortgage banking activities we record.

Revenues

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

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

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

MSRs are recorded at fair value the day we sell a loan. The fair value is based on estimates of expected net cash flows associated with the servicing rights. The estimated net cash flows are discounted at a rate that reflects the credit and liquidity risk of the MSR over the estimated life of the loan.

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

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

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

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

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

**Net Warehouse Interest Income, Loans Held for Investment.** Similar to loans held for sale, we earn net interest income on loans held for investment during the period they are outstanding. We earn interest income on the loan, which is funded partially by an investment of our cash and through one of our interim warehouse credit facilities. The loans originated for investment are typically interest-only, variable-rate loans of terms up to three years. The warehouse credit facilities are variable rate. The interest rate reset date is typically the same for the loans and the credit facility. Related interest expense from the warehouse loan funding is netted in our financial statements against interest income. Net warehouse interest income related to loans held for investment varies based on the period of time the loans are outstanding, the size of the average balance of the loans held for investment, and the net interest spread between the loan coupon rate and the cost of warehouse financing.

**Escrow Earnings and Other Interest Income.** We earn interest income on property level escrow deposits in our servicing portfolio, generally based on a fixed placement fee negotiated with the financial institutions that hold the escrow deposits. Escrow earnings reflect interest income net of interest paid to the borrower, if required, which generally equals

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a money market rate.

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

## Costs and Expenses

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

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

Amortization of Intangible Assets. Amortization of intangible assets is principally related to the amortization of the mortgage pipeline and investment sales pipeline intangible assets recognized in connection with acquisitions. For the years presented, the amortization relates primarily to the mortgage pipeline intangible asset recognized in conjunction with an acquisition in 2012 and the EFG Acquisition. We recognize amortization related to the mortgage pipeline intangible asset when a loan included in the mortgage pipeline intangible asset is rate locked or is probable of not rate locking. We recognize amortization related to the investment sales pipeline intangible asset when a transaction included in the intangible asset is closed or probable of not closing.

Provision for Credit Losses. The provision for credit losses consists of two components: the provision associated with our risk-sharing loans and the provision associated with our loans held for investment. The provision for credit losses associated with risk-sharing loans is established at the loan level when the borrower has defaulted on the loan or is probable of defaulting on the loan or collectively for loans that are not probable of default but on a watch list. This provision is in addition to the guaranty obligation that is recognized when the loan is sold. The provision for credit losses associated with our loans held for investment is established collectively for loans that are not impaired and individually for loans that are impaired. Our estimates of property fair value are based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value.

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

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

**Income Tax Expense.** The Company is a C-corporation subject to both federal and state corporate tax. As of December 31, 2015, our combined effective federal and state tax rate was approximately 38.4% compared to approximately 38.3% as of December 31, 2014.

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## Results of Operations

Following is a discussion of our results of operations for the years ended December 31, 2015, 2014, and 2013. The financial results are not necessarily indicative of future results. Our annual results have fluctuated in the past and are expected to fluctuate in the future, reflecting the interest-rate environment, the volume of transactions, business acquisitions, regulatory actions, and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

## SUPPLEMENTAL OPERATING DATA

(in thousands; except per share data)	For the year ended December 31,					
	2015		2014		2013	
Transaction Volume:						
Loan Origination Volume by Product Type						
Fannie Mae	\$ 5,012,790		\$ 4,000,278		\$ 2,762,595	
Freddie Mac	6,326,471		3,626,276		1,709,781	
Ginnie Mae - HUD	592,026		704,496		1,137,513	
Brokered (1)	3,937,309		2,607,346		2,593,128	
Interim Loans	185,075		339,802		192,020	
CMBS (2)	184,998		89,508		—	
Total Loan Origination Volume	\$ 16,238,669		\$ 11,367,706		\$ 8,395,037	
Investment Sales Volume	1,520,079		—		—	
Total Transaction Volume	\$ 17,758,748		\$ 11,367,706		\$ 8,395,037	
Key Performance Metrics:						
Operating margin	29	%	23	%	21	%
Return on equity	19	%	13	%	11	%
Walker & Dunlop net income	\$ 82,128		\$ 51,422		\$ 41,530	
Adjusted EBITDA (3)	\$ 124,279		\$ 84,804		\$ 56,783	
Diluted EPS	\$ 2.65		\$ 1.58		\$ 1.21	
Key Expense Metrics (as a percentage of total revenues):						
Personnel expenses	39	%	41	%	42	%
Other operating expenses	8	%	10	%	12	%
Key Origination Metrics (as a percentage of loan origination volume):						
Origination related fees	0.97	%	1.10	%	1.33	%
Gains attributable to MSR's	0.82	%	0.85	%	1.10	%
Gains attributable to MSR's, as a percentage of GSE and HUD origination volume (4)	1.12	%	1.16	%	1.64	%

Servicing Portfolio by Product:	As of December 31,		
	2015	2014	2013
Fannie Mae	\$ 22,915,088	\$ 20,521,425	\$ 19,352,880
Freddie Mac	17,810,007	12,916,705	10,271,732
Ginnie Mae - HUD	5,657,809	5,828,981	5,044,193
Brokered (1)	3,171,675	4,423,396	4,132,602
Interim Loans	233,370	225,318	135,620
CMBS (5)	424,315	116,065	—
Total Servicing Portfolio	\$ 50,212,264	\$ 44,031,890	\$ 38,937,027

Key Servicing Metric (end of period):

Weighted-average servicing fee rate	0.25	%	0.24	%	0.24	%
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(1) Brokered transactions for commercial mortgage backed securities, life insurance companies, and commercial banks.

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- (2) Brokered transactions for the CMBS Partnership. For the years ended December 31, 2015, 2014, and 2013, the CMBS Partnership's loan originations totaled \$309.5 million, \$116.1 million, and \$0, respectively.
- (3) This is a non-GAAP financial measure. For more information on adjusted EBITDA, refer to the section below titled "Non-GAAP Financial Measures."
- (4) 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 GSE and HUD volume. No MSR's are recorded for "brokered" transactions or Interim Program and CMBS Program originations.
- (5) All loans originated by the CMBS Partnership, whether brokered by us or not, are serviced by us.

## Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

The following table presents a period-to-period comparison of our financial results for the years ended December 31, 2015 and 2014.

## FINANCIAL RESULTS

(dollars in thousands)	For the year ended December 31,		Dollar	Percentage	
	2015	2014	Change	Change	
<b>Revenues</b>					
Gains from mortgage banking activities	\$ 290,466	\$ 221,983	\$ 68,483	31	%
Servicing fees	114,757	98,414	16,343	17	%
Net warehouse interest income, loans held for sale	14,541	11,343	3,198	28	%
Net warehouse interest income, loans held for investment	9,419	6,151	3,268	53	%
Escrow earnings and other interest income	4,473	4,526	(53)	(1)	%
Other	34,542	18,355	16,187	88	%
<b>Total revenues</b>	<b>\$ 468,198</b>	<b>\$ 360,772</b>	<b>\$ 107,426</b>	<b>30</b>	<b>%</b>
<b>Expenses</b>					
Personnel	\$ 184,590	\$ 149,374	\$ 35,216	24	%
Amortization and depreciation	96,193	79,367	16,826	21	%
Amortization of intangible assets	1,980	771	1,209	157	%
Provision for credit losses	1,644	2,206	(562)	(25)	%
Interest expense on corporate debt	9,918	10,311	(393)	(4)	%
Other operating expenses	38,507	34,831	3,676	11	%
<b>Total expenses</b>	<b>\$ 332,832</b>	<b>\$ 276,860</b>	<b>\$ 55,972</b>	<b>20</b>	<b>%</b>

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Income from operations before income taxes	135,366	83,912	51,454	61	%
Income tax expense	52,771	32,490	20,281	62	%
Net income before noncontrolling interests	\$ 82,595	\$ 51,422	\$ 31,173	61	%
Net income from noncontrolling interests	467	—	467	N/A	
Walker & Dunlop net income	\$ 82,128	\$ 51,422	\$ 30,706	60	%

Overview

The increase in revenues was primarily attributable to increases in gains from mortgage banking activities, servicing fees, and other revenues. The increase in gains from mortgage banking activities was largely due to the significant increase in loan origination volume from 2014 to 2015. The growth in loan origination volume is more fully discussed above in the Overview of Business Environment section. The increase in servicing fees was due to an increase in the average servicing portfolio. The increase in other revenues was primarily attributable to increases in prepayment fees and investment sales revenues. The increase in expenses was principally the result of higher personnel and amortization and depreciation expenses. Personnel expense increased due to higher commission costs from the increased loan origination volume, increased bonus expense due to our improved financial results year over year, higher salaries expense due to a rise in headcount, and larger stock compensation expense. Headcount increased due to acquisitions and hiring to support the growth of the Company. Amortization and depreciation expense increased as a result of a rise in net write-offs of MSR balances due to prepayment and amortization expense related to our MSR balances as the average MSR balance increased from 2014 to 2015.



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## Revenues

**Gains from Mortgage Banking Activities.** Gains from mortgage banking activities reflect the fair value of loan origination fees, the fair value of loan premiums, net of any co-broker fees, and the fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained (“MSR income”). The increase was primarily the result of the significant increase in loan origination volume, partially offset by a 12% decrease in origination fees as a percentage of loan origination volume (“origination fee rate”) and a slight decrease in MSR income as a percentage of loan origination volume (“MSR rate”). Loan origination volume increased to \$16.2 billion in 2015 from \$11.4 billion in 2014, a 43% increase. See the “Overview of Business Environment” section above for a detailed discussion of the factors driving the increase in loan origination volume.

The decrease in the origination fee rate was largely attributable to an increase in adjustable-rate loan origination volume, which increased from \$1.5 billion in 2014 to \$4.7 billion in 2015, a 213% increase. We receive lower origination fees for adjustable-rate loans than fixed-rate loans. The increase in adjustable-rate loan volume was due to a change in borrower demand for this product. The slight decrease in the MSR rate was primarily the result of the aforementioned increase in adjustable-rate loan origination volume year over year, partially offset by an increase in the weighted average servicing fee of new GSE loan origination volume. The MSR rate is smaller for adjustable-rate loans compared to fixed-rate loans since adjustable-rate loans have shorter expected lives.

**Servicing Fees.** The increase was primarily attributable to an increase in the servicing portfolio due to new loan originations. The average servicing portfolio during the year ended December 31, 2015 was \$47.1 billion compared to \$40.4 billion during the year ended December 31, 2014. Additionally, the servicing portfolio’s weighted average servicing fee increased from 24 basis points at December 21, 2014 to 25 basis points at December 31, 2015.

**Net Warehouse Interest Income, loans held for sale.** The increase is primarily attributable to a \$499.1 million, or 77%, increase in the average daily outstanding warehouse balance due to the aforementioned increase in loan origination volume, partially offset by a 28% decrease in the net spread. The decrease in the net spread is largely a result of the aforementioned increase in adjustable-rate loan origination volume in 2015 compared to 2014 as we earn a lower spread on adjustable-rate loans than fixed-rate loans. The components of net warehouse interest income from loans held for sale are:

(in thousands)	For the year ended December 31,	
	2015	2014
Warehouse interest income - loans held for sale	\$ 37,675	\$ 24,615
Warehouse interest expense - loans held for sale	(23,134)	(13,272)

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Net warehouse interest income - loans held for sale      \$ 14,541      \$ 11,343

Net Warehouse Interest Income, Loans Held for Investment. The increase was primarily due to a larger average balance outstanding during 2015 than 2014, from \$188.6 million during 2014 to \$281.6 million during 2015. The components of net warehouse interest income from loans held for investment are:

(in thousands)	For the year ended	
	December 31,	
	2015	2014
Warehouse interest income - loans held for investment	\$ 15,456	\$ 11,092
Warehouse interest expense - loans held for investment	(6,037)	(4,941)
Net warehouse interest income - loans held for investment	\$ 9,419	\$ 6,151

Other. The increase was primarily attributable to increases in prepayment fees and investment sales revenues. Prepayment fees increased \$5.7 million as borrowers took advantage of the continued low interest rate environment to refinance their loans early or sell the underlying properties. Investment sales revenues increased \$9.3 million as we began offering investment sales brokerage services during the second quarter of 2015.

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Expenses

Personnel. The increase was principally the result of higher loan originator commission costs due to higher loan origination volumes from 2014 to 2015, increased bonus expense due to our improved financial results year over year, increased salaries expense due to an increase in average headcount as a result of two acquisitions completed since the third quarter of 2014, and an increase in stock compensation expense. The increase in stock compensation expense is the result of performance-based restricted stock awards that vest upon achievement of Company performance targets. Given the Company's performance during 2014, we concluded that achievement of one of the two performance targets was probable at the lowest level and recognized stock compensation expense. Given the Company's improved performance during 2015, we concluded that achievement of both performance targets was probable, with achievement of one of the performance targets probable at its highest level, resulting in greater stock compensation expense related to the performance-based restricted stock awards in 2015 than 2014.

Amortization and Depreciation. The increase was primarily attributable to loan origination activity and the resulting growth in the capitalization of MSR's from 2014 to 2015. Also included in amortization and depreciation are write-offs of MSR's resulting from the prepayment of the underlying loan prior to its scheduled maturity. During 2015, write-offs of MSR's increased \$5.5 million from the prior year to \$16.8 million as borrowers took advantage of the continued low interest rate environment to refinance their loans early or sell the underlying properties.

Other Operating Expenses. The increase was primarily attributable to increases in travel and entertainment expenses and office expenses. These expenses increased as a result of the aforementioned increase in average headcount.

Income Tax Expense. The increase in income tax expense was primarily due to the increase in income from operations.

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Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

The following table presents a period-to-period comparison of our financial results for the years ended December 31, 2014 and 2013.

## FINANCIAL RESULTS

(dollars in thousands)	For the year ended		Dollar Change	Percentage Change	
	December 31, 2014	2013			
Revenues					
Gains from mortgage banking activities	\$ 221,983	\$ 203,671	\$ 18,312	9	%
Servicing fees	98,414	90,215	8,199	9	%
Net warehouse interest income, loans held for sale	11,343	6,214	5,129	83	%
Net warehouse interest income, loans held for investment	6,151	1,231	4,920	400	%
Escrow earnings and other interest income	4,526	4,008	518	13	%
Other	18,355	13,700	4,655	34	%
Total revenues	\$ 360,772	\$ 319,039	\$ 41,733	13	%
Expenses					
Personnel	\$ 149,374	\$ 133,667	\$ 15,707	12	%
Amortization and depreciation	79,367	72,876	6,491	9	%
Amortization of intangible assets	771	3,079	(2,308)	(75)	%
Provision for credit losses	2,206	1,322	884	67	%
Interest expense on corporate debt	10,311	3,743	6,568	175	%
Other operating expenses	34,831	37,565	(2,734)	(7)	%
Total expenses	\$ 276,860	\$ 252,252	\$ 24,608	10	%
Income from operations before income taxes	83,912	66,787	17,125	26	%
Income tax expense	32,490	25,257	7,233	29	%
Net income before noncontrolling interests	\$ 51,422	\$ 41,530	\$ 9,892	24	%
Net income from noncontrolling interests	—	—	—	N/A	
Walker & Dunlop net income	\$ 51,422	\$ 41,530	\$ 9,892	24	%

## Overview

The increase in revenues was largely the result of increases in servicing fees, net warehouse interest income, and gains from mortgage banking activities. Servicing fees increased due to an increase in the average servicing portfolio from \$37.6 billion during 2013 to \$40.4 billion during 2014. The increase in net warehouse interest income was due

primarily to a 37% increase in the average daily balance of loans held for sale and a 202% increase in the average balance of loans held for investment. The increase in gains from mortgage banking activities is primarily the result of a significant increase in loan origination volume from 2013 to 2014. The growth in expenses was primarily attributable to increased commission costs due to increased loan origination volumes and increased bonus expense due to our improved financial performance year over year, partially offset by lower salaries and benefit expenses due to a cost reduction effort implemented in late 2013, which reduced headcount. Additionally, interest expense on corporate debt increased primarily due to an increase in the average balance of corporate debt outstanding and due to an increase in the interest rate paid period over period.

## Revenues

**Gains from Mortgage Banking Activities.** Gains from mortgage banking activities reflect the loan origination fees, premiums or losses from the sale of loans, net of any co-broker fees, and the fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained (“MSR income”). The increase was largely the result of a 35% increase in loan origination volume, partially offset by a decrease in origination fees as a percentage of loan origination volumes (“origination fee rate”) and a decrease in MSR income as a percentage of loan origination volume (“MSR rate”). The decreases in the MSR rate and the origination fee rate were the result of (i) the increased competition for multifamily and commercial real estate loan originations as discussed more fully above in the

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Overview of Current Business Environment section (ii) a small increase in lower margin loan originations as a percentage of total loan origination volumes, and (iii) a large increase in adjustable rate loan origination volume as a percentage of loan origination volume.

Servicing Fees. The increase was primarily attributable to a 7% increase in the average servicing portfolio to \$40.4 billion during 2014 from \$37.6 billion during 2013 due to loan origination volumes exceeding the amount of loan maturities, payoffs, and amortization during the year.

Net Warehouse Interest Income, loans held for sale. The increase is primarily attributable to a 14% increase in the net warehouse margin and a 37% increase in the average daily outstanding warehouse balance. The components of net warehouse interest income from loans held for sale are:

(in thousands)	For the year ended	
	December 31,	
	2014	2013
Warehouse interest income - loans held for sale	\$ 24,615	\$ 17,576
Warehouse interest expense - loans held for sale	(13,272)	(11,362)
Net warehouse interest income - loans held for sale	\$ 11,343	\$ 6,214

Net Warehouse Interest Income, loans held for investment. The increase was primarily due to a larger average balance outstanding during 2014 than 2013, from \$62.5 million during 2013 to \$188.6 million during 2014. The components of net warehouse interest income from loans held for investment are: