
WALKER & DUNLOP

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, 2019

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)

7501 Wisconsin Avenue, Suite 1200E

Bethesda, Maryland

(Address of principal executive offices)

80-0629925

(I.R.S. Employer Identification No.)

20814

(Zip Code)

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 Par Value Per Share	WD	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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer
Emerging Growth Company

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

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

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately \$1.0 billion as of the end of the Registrant's second fiscal quarter (based on the closing price for the common stock on the New York Stock Exchange on June 30, 2019). The Registrant has no non-voting common equity.

As of January 31, 2020, there were 30,948,270 total shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Walker & Dunlop, Inc. with respect to its 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934 on or prior to April 30, 2020 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,” or “us”), may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, projections, plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

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

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

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

Item 1. Business

General

We are one of the leading commercial real estate services and finance companies in the United States, with a primary focus on multifamily lending, debt brokerage, and property sales. We have been in business for more than 80 years; a Fannie Mae Delegated Underwriting and Servicing™ (“DUS”) lender since 1988, when the DUS program began; a lender with the Government National Mortgage Association (“Ginnie Mae”) and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, “HUD”) since acquiring a HUD license in 2009; and a Freddie Mac Multifamily approved seller/servicer for Conventional Loans since 2009. We originate, sell, and service a range of multifamily and other commercial real estate financing products, provide multifamily property sales brokerage services, and engage in commercial real estate investment management activities. Our clients are owners and developers of multifamily properties and other commercial real estate across the country, some of whom are the largest owners and developers in the industry. We originate and sell multifamily loans through the programs of Fannie Mae, Freddie Mac, and HUD (collectively, the “Agencies”). We retain servicing rights and asset management responsibilities on substantially all loans that we originate for the Agencies’ programs. We are approved as a Fannie Mae DUS lender nationally, an approved Freddie Mac Multifamily Optigo® Seller/Servicer (Freddie Mac Optigo Seller/Servicer) nationally for Conventional, Seniors Housing, and Targeted Affordable Housing, a HUD Multifamily Accelerated Processing (“MAP”) lender nationally, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. We broker, and occasionally service, loans for several life insurance companies, commercial banks, commercial mortgage backed securities (“CMBS”) issuers, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. We also underwrite, service, and asset-manage interim loans. Most of these interim loans are closed through a joint venture. Those interim loans not closed by the joint venture are originated by us and held for investment and included on our balance sheet.

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

Our Product and Service Offerings

Our product offerings include a range of multifamily and other commercial real estate financing products, including Agency Lending, Debt Brokerage, Principal Lending and Investing, and Property Sales. We offer a broad range of commercial real estate finance products to our customers, including first mortgage, second trust, supplemental, construction, mezzanine, preferred equity, small-balance, and bridge/interim loans. Our long-established relationships with the Agencies and institutional investors enable us to offer this broad range of loan products and services. We provide property sales services to owners and developers of multifamily properties and commercial real estate investment management services for various investors. Through a joint venture, we also provide multifamily property appraisals. Each of our product offerings is designed to maximize our ability to meet client needs, source capital, and grow our commercial real estate finance business.

The sale of each loan through the Agencies’ programs is negotiated prior to rate locking the loan with the borrower. For loans originated pursuant to the Fannie Mae DUS program, we generally are required to share the risk of loss, with our maximum loss capped at 20% of the loan amount at origination, except for rare instances when we negotiate a cap at 30% for loans with unique attributes. At December 31, 2019, we have had only one such experience. In addition to our risk-sharing obligations, we may be obligated to repurchase loans that are originated for the Agencies’ programs if certain representations and warranties that we provide in connection with such originations are breached. We have never been required to repurchase a loan. We have established a strong credit culture over decades of originating loans through the DUS program and are committed to disciplined risk management from the initial underwriting stage through loan payoff.

Agency Lending

We are one of 25 approved lenders that participate in Fannie Mae’s DUS program for multifamily, manufactured housing communities, student housing, affordable housing, and certain seniors housing properties. Under the Fannie Mae DUS program, Fannie Mae has delegated to us responsibility for ensuring that the loans we originate under the Fannie Mae DUS program satisfy the underwriting and other eligibility requirements established by Fannie Mae. In exchange for

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this delegation of authority, we share risk for a portion of the losses that may result from a borrower's default. For more information regarding our risk-sharing agreements with Fannie Mae, see “Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Credit Quality and Allowance for Risk-Sharing Obligations” below. Most of the Fannie Mae loans that we originate are sold in the form of a Fannie Mae-guaranteed security to third-party investors. Fannie Mae contracts us to service and asset-manage all loans that we originate under the Fannie Mae DUS program.

We are one of 23 lenders approved as a Freddie Mac Optigo Seller/Servicer, where we originate and sell to Freddie Mac multifamily, manufactured housing communities, student housing, affordable housing, and seniors housing loans that satisfy Freddie Mac's underwriting and other eligibility requirements. Under Freddie Mac's programs, we submit our completed loan underwriting package to Freddie Mac and obtain its commitment to purchase the loan at a specified price after closing. Freddie Mac ultimately performs its own underwriting of loans that we sell to it. Freddie Mac may choose to hold, sell, or later securitize such loans. We very rarely have any risk-sharing arrangements on loans we sell to Freddie Mac under its program. Freddie Mac contracts us to service and asset-manage all loans that we originate under its program. During 2018, Freddie Mac designated us as one of a select few lenders that is an approved Freddie Mac Optigo Seller/Servicer of conventional, targeted affordable, and seniors housing loans nationally.

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

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

Debt Brokerage

We serve as an intermediary in the placement of commercial real estate debt between institutional sources of capital, such as life insurance companies, investment banks, commercial banks, pension funds, CMBS issuers, and other institutional investors, and owners of all types of commercial real estate. A client seeking to finance or refinance a property will seek our assistance in developing different alternatives and soliciting interest from various sources of capital. We often advise on capital structure, develop the financing package, facilitate negotiations between our client and institutional sources of capital, coordinate due diligence, and assist in closing the transaction. In these instances, we act as a loan broker and do not underwrite or originate the loan and do not retain any interest in the loan. For those brokered loans that we service, we collect ongoing servicing fees while those loans remain in our servicing portfolio. The servicing fees we typically earn on brokered loan transactions are substantially lower than the servicing fees we earn for servicing Agency loans.

Over the past five years, the Company has invested approximately \$125.2 million to acquire certain assets and assume certain liabilities of five debt brokerage companies. These acquisitions, along with our recruiting efforts, have expanded our network of brokers, broadened our geographical reach, and provided further diversification to our origination platform.

Principal Lending and Investing

Through a joint venture with an affiliate of Blackstone Mortgage Trust, Inc., we offer short-term, senior secured debt financing products that provide floating-rate, interest-only loans for terms of generally up to three years to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing (the “Interim Program JV” or the “joint venture”). The joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities. We hold a 15% ownership interest in the Interim Program

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JV and are responsible for sourcing, underwriting, servicing, and asset-managing the loans originated by the joint venture. The Interim Program JV assumes full risk of loss while the loans it originates are outstanding, while we assume risk commensurate with our 15% ownership interest.

Using a combination of our own capital and warehouse debt financing, we separately offer interim loans that do not meet the criteria of the Interim Program JV (the “Interim Program”). We underwrite, service, and asset-manage all loans executed through the Interim Program. We originate and hold these Interim Program loans for investment, which are included on our balance sheet, and during the time that these loans are outstanding, we assume the full risk of loss. The ultimate goal of the Interim Program is to provide permanent Agency financing on these transitional properties. Since we began originating interim loans in 2012, we have not charged off any Interim Program loans.

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. We fund these preferred equity investments with our own capital and hold the investments until maturity, during which time we assume the full risk of loss. There were no preferred equity investments outstanding as of December 31, 2019.

During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation and subsidiaries (“JCR”), the operator of a private commercial real estate investment adviser focused on the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds. The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify our operations by growing our investment management platform. JCR’s current assets under management (“AUM”) of \$1.2 billion primarily consist of four sources: Fund III, Fund IV, Fund V, and separate accounts managed for life insurance companies. AUM for Fund III and Fund IV consist of both unfunded commitments and funded investments. AUM for Fund V consists of unfunded commitments, and AUM for the separate account consists entirely of funded investments. Unfunded commitments are highest during the fund raising and investment phases. JCR receives management fees based on both unfunded commitments and funded investments. Additionally, with respect to Fund III, Fund IV, and Fund V, JCR receives a percentage of the return above the fund return hurdle rate specified in the fund agreements.

Property Sales

Through a majority ownership interest in Walker & Dunlop Investment Sales, LLC (“WDIS”), we offer property sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties. Through these property sales brokerage services, we seek to maximize proceeds and certainty of closure for our clients using our knowledge of the commercial real estate and capital markets and relying on our experienced transaction professionals. We receive a sales commission for brokering the sale of these multifamily assets on behalf of our clients. Our property sales services are offered in various regions throughout the United States.

Correspondent Network

In addition to our originators, at December 31, 2019, we had correspondent agreements with 22 independently owned loan originating companies across the country with which we have relationships for Agency loan originations. This network of correspondents helps us extend our geographic reach into new and/or smaller markets on a cost-effective basis. In addition to identifying potential borrowers and key principal(s) (the individual or individuals directing the activities of the borrowing entity), our correspondents assist us in evaluating loans, including pre-screening the borrowers, key principal(s), and properties for program eligibility, coordinating due diligence, and generally providing market intelligence. In exchange for providing these services, the correspondent earns an origination fee based on a percentage of the principal amount of the financing arranged and in some cases a fee paid out over time based on the servicing revenues earned over the life of the loan.

Underwriting and Risk Management

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

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

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

In addition, we have concentration limits with respect to our Fannie Mae loans. We limit geographic concentration, focusing on regional employment concentration and trends. We also limit the aggregate amount of loans subject to full risk-sharing for any one borrower. Fannie Mae's counterparty risk policies require a full risk-sharing cap for individual loans, which is currently set at \$200.0 million for us. Our full risk-sharing cap was increased by Fannie Mae in the second quarter of 2018 from \$60.0 million to the current level of \$200.0 million. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur if the underlying collateral is determined to be completely without value at the time of loss). However, we may request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fairly compensated for the risks of the transaction.

Servicing and Asset Management

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

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

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

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

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

Our Growth Strategy

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

For the year ended December 31, 2019, we had \$26.6 billion of debt financing volume and \$5.4 billion of property sales volume. As of December 31, 2019, the unpaid principal balance of our servicing portfolio was \$93.2 billion, and our assets under management totaled \$2.0 billion.

To reach these milestones in 2020, we will focus on the following areas:

- ***Defend Our Market Position as a Leading Provider of Capital to Multifamily Borrowers.*** We intend to further grow our Agency debt financing volume with the goal of increasing our market share with the GSEs and remaining a top five lender of HUD products. For 2019, we ranked as the largest Fannie Mae DUS lender and the third largest Freddie Mac Optigo Seller/Service., by loan deliveries. Additionally, we were ranked as the third largest multifamily lender for HUD in 2019 based on MAP initial endorsements. At December 31, 2019, our Agency debt financing platform had 58 originators focused on selling Agency products. We believe that we will have significant opportunities to continue broadening our Agency debt financing volumes to maintain or grow our market share. This expansion may include organic growth, recruitment of talented origination professionals, and potential acquisitions of competitors with strong origination capabilities.
- ***Continue to Expand our Debt Brokerage Team.*** At December 31, 2019, we had 94 mortgage bankers in 22 offices focused on debt brokerage transactions across the United States. Over the past three years, we have added 33 net new debt brokerage professionals to our team through recruiting and the acquisition of the loan origination platforms of five companies. We intend to continue growing our debt brokerage team to further diversify our business, to strengthen our market position and borrower relationships, and to grow our market share. Continued growth of our debt brokerage team will provide greater exposure to the overall commercial real estate market and provide us with institutional access to deal flow supporting our bridge lending solutions. In addition, many of our debt brokerage professionals also originate loans through the Agencies' programs, assisting our growth objectives with the Agencies.
- ***Continue to Expand our Property Sales Team.*** At December 31, 2019, we had 37 property sales brokers in 15 offices located in various regions throughout the United States. We have added 27 property sales brokers since the beginning of 2018 and have more than tripled the number of our property sales brokers since we acquired a property sales company in 2015. We continue to seek to add other property sales brokers, with the goal of expanding these brokerage services to cover all major regions throughout the United States, allowing us to continue growing our property sales team to broaden our market position and borrower relationships and to grow our market share. Continued growth of our property sales team will provide greater exposure to the multifamily market. In addition, we are able to capture additional loan

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origination volume as our property sales brokers are successful at working with our debt professionals to arrange the financing for some of our property sales transactions.

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

Competition

We compete in the commercial real estate services industry. We are one of 25 approved lenders that participate in Fannie Mae's DUS program and one of 23 lenders approved as a Freddie Mac Optigo Seller/Servicer. We face significant competition across our business, including, but not limited to, commercial real estate services subsidiaries of large national commercial banks, privately-held and public commercial real estate service providers, CMBS conduits, public and private real estate investment trusts, private equity, investment funds, and insurance companies, some of which are also investors in loans we originate. Our competitors include, but are not limited to, Wells Fargo, N.A.; CBRE Group, Inc.; Jones Lang LaSalle Incorporated; Marcus & Millichap, Inc.; Eastdil Secured; PNC Real Estate; Northmarq Capital, LLC; Newmark Realty Capital; and Berkadia Commercial Mortgage, LLC. Many of these competitors enjoy advantages over us, including greater name recognition, financial resources, well-established investment management platforms, and access to lower-cost capital. The commercial real estate services subsidiaries of the large national commercial banks may have an advantage over us in originating commercial loans if borrowers already have other lending or deposit relationships with the bank.

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

Regulatory Requirements

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

Federal and State Regulation of Commercial Real Estate Lending Activities

Our multifamily and commercial real estate lending, servicing, asset management, and appraisal activities are subject, in certain instances, to supervision and regulation by federal and state governmental authorities in the United States. In addition, these activities 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

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other charges on certain collection practices and creditor remedies. Some states also require licensing of lenders, loan brokers, and loan servicers and adequate disclosure of certain contract terms. We also are required to comply with certain provisions of, among other statutes and regulations, the USA PATRIOT Act, regulations promulgated by the Office of Foreign Asset Control, the Employee Retirement Income Security Act of 1974, as amended, which we refer to as “ERISA,” and federal and state securities laws and regulations.

Requirements of the Agencies

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

Investment Advisers Act

Under the Investment Advisers Act of 1940, JCR is required to be registered as an investment adviser with the SEC and follow the various rules and regulations applicable to investment advisers. These rules and regulations cover, among other areas, communications with investors, marketing materials provided to potential investors, disclosure and calculation of fees, calculation and reporting of performance information, maintenance of books and records, and custody. Investment advisers are also subject to periodic inspection and examination by the SEC and filing requirements on Form ADV and Form PF. Should JCR not meet any of the requirements of the Investment Advisers Act, it could face, among other things, fines, penalties, legal proceedings, an order to cease and desist, or revocation of its registration.

Employees

At December 31, 2019, we employed 823 full-time employees. All employees, except our executive officers, are employed by our operating subsidiary, Walker & Dunlop, LLC. Our executive officers are employees of Walker & Dunlop, Inc. None of our employees is represented by a union or subject to a collective bargaining agreement, and we have never experienced a work stoppage. We believe that our employee relations are exceptional.

Available Information

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

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

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

In the event of any changes to these charters, codes, or guidelines, changed copies will also be made available on our website. If we waive or amend any provision of our code of ethics, we will promptly disclose such waiver or

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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, changes in, or disruptions to our relationships with the Agencies and institutional investors would adversely affect our ability to originate commercial real estate loans, which would materially and adversely affect us.

Currently, we originate a significant percentage of our loans held for sale through the Agencies’ programs. We are approved as a Fannie Mae DUS lender nationwide, a Fannie Mae Multifamily Small Loan lender, a Freddie Mac Optigo Seller/Servicer nationally for Conventional, Seniors Housing, and Targeted Affordable Housing, a HUD MAP lender nationwide, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. Our status as an approved lender affords us a number of advantages and may be terminated by the applicable Agency at any time. The loss of such status would, or changes in our relationships could, prevent us from being able to originate commercial real estate loans for sale through the particular Agency, which would materially and adversely affect us. It could also result in a loss of similar approvals from the other Agencies. Additionally, federal budgetary policies also impact our ability to originate loans, particularly if they have a negative impact on the ability of the Agencies to do business with us. During periods of limited or no U.S. government operations, our ability to originate HUD loans may be severely constrained. Changes in fiscal, monetary, and budgetary policies and the operating status of the U.S. government are beyond our control, are difficult to predict, and could materially and adversely affect us. The impact that limited or dormant government operations may have on our HUD lending depends on the duration of such impacted operations.

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

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

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

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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 September 2019, the U.S. Department of the Treasury released a Housing Reform Plan that includes a mix of legislative and administrative proposals for reforming the housing finance system in the United States, including the GSEs' multifamily businesses. The FHFA has begun implementing some of the administrative proposals and members of the U.S. Congress are evaluating some of the legislative proposals.

Regulatory Reform

As the primary regulator and the conservator of the GSEs, the FHFA has taken a number of steps during conservatorship to manage the GSEs' multifamily business activities. Since 2013, the FHFA has established limits on the volume of new multifamily loans that may be purchased annually by the GSEs ("caps"). In September 2019, the FHFA set each GSE's loan origination caps to \$100.0 billion for the five-quarter period beginning with the fourth quarter 2019 through the fourth quarter of 2020. The new caps apply to all multifamily business with no exclusions. The FHFA also directed that at least 37.5 percent of the GSEs' multifamily business be mission-driven, affordable housing. We cannot predict whether FHFA will implement further regulatory and other policy changes that will modify the GSEs' multifamily businesses.

Legislative Reform

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

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

As a loan servicer, we maintain the primary contact with the borrower throughout the life of the loan and are responsible, pursuant to our servicing agreements with the Agencies and institutional investors, for asset management. We are also responsible, together with the applicable Agency or institutional investor, for taking actions to mitigate losses. Our asset management process may be unsuccessful in identifying loans that are in danger of underperforming or defaulting or in taking appropriate action once those loans are identified. While we can recommend a loss mitigation strategy for the Agencies, decisions regarding loss mitigation are within the control of the Agencies. Previous turmoil in the real estate, 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. These items could have a negative impact on our cash flows and a negative effect on the net carrying value of the mortgage servicing right ("MSR") on our balance sheet and could result in a charge to our earnings. Because of the foregoing, a rise in delinquencies could have a material adverse effect on us. 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, except for rare instances when we negotiate a cap at 30% for loans with unique attributes. At December 31, 2019, we have had only one such experience. 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. Fannie Mae also requires us to maintain collateral, which may include pledged securities, for our risk-sharing obligations. As of December 31, 2019, we had pledged securities of \$121.8 million as collateral against future losses related to \$36.7 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, 2019, our allowance for risk-sharing as a percentage of the at risk balance was 0.03%, or \$11.5 million, and reflects our current estimate of our future expected payouts under our risk-sharing obligations. Additionally, we have a guaranty obligation of \$54.7 million as of December 31, 2019. The guaranty obligation and the allowance for risk-sharing obligations as a percentage of the at risk balance was 0.9% as of December 31, 2019. 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, 2019, there were two loans with an aggregate unpaid principal balance of \$48.5 million in our at risk servicing portfolio that had defaulted, representing 0.13% of our at risk servicing portfolio. If loan defaults increase, actual risk-sharing obligation payments under the Fannie Mae DUS program may increase, and such defaults and payments could have a material adverse effect on our results of operations and liquidity. In addition, any failure to pay our share of losses under the Fannie Mae DUS program could result in the revocation of our license from Fannie Mae and the exercise of various remedies available to Fannie Mae under the Fannie Mae DUS program.

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

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

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

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

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

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

We expect that loan servicing fees will continue to constitute a significant portion of our revenues for the foreseeable future. Nearly all of these fees are derived from loans that we originate and sell through the Agencies' programs or place

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

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, 2019, we had \$3.3 billion of committed and uncommitted loan funding available through six commercial banks and \$1.5 billion of uncommitted funding available through Fannie Mae's As Soon As Pooled ("ASAP") program. Additionally, consistent with industry practice, all of our existing agency warehouse facilities are short-term, requiring annual renewal. If any of our committed facilities are terminated or are not renewed or our uncommitted facilities are not honored, we may be unable to find replacement financing on favorable terms, or at all, and we might not be able to originate loans, which would have a material adverse effect on us. Additionally, as our business continues to expand, we may need additional warehouse funding capacity for loans we originate. There can be no assurance that, in the future, we will be able to obtain additional warehouse funding capacity on favorable terms, on a timely basis, or at all.

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

We may be required to repurchase loans or indemnify loan purchasers if there is a breach of a representation or warranty made by us in connection with the sale of loans through the programs of the Agencies, which could have a material adverse effect on us.

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

In the event of a breach of any representation or warranty concerning a loan, investors could, among other things, require us to repurchase the full amount of the loan and seek indemnification for losses from us, or, for Fannie Mae DUS loans, increase the level of risk-sharing on the loan. Our obligation to repurchase the loan is independent of our risk-sharing obligations. The Agencies could require us to repurchase the loan if representations and warranties are breached, even if the loan is not in default. Because the accuracy of many such representations and warranties generally is based on our actions or on third-party reports, such as title reports and environmental reports, we may not receive similar representations and warranties from other parties that would serve as a claim against them. Even if we receive representations and

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

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

We have made preferred equity investments in entities owning real estate in the past. Such investments are subordinate to debt financing and are not secured by real property. If the issuer of the preferred equity defaults on our investment, in most instances we would only be able to proceed against the entity that issued the equity in accordance with the terms of the investment, and not any real property owned by the entity. As a result, we may not recover some or all of our invested capital, which could result in losses to the Company. As of December 31, 2019, we had no preferred equity investments.

Under the Interim Program, we offer short-term, floating-rate loans to borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing. Such a borrower under an interim loan often has identified a transitional asset that has been under-managed and/or is located in a recovering market. If the market in which the asset is located fails to recover according to the borrower's projections, or if the borrower fails to improve the quality of the asset's management and/or the value of the asset, the borrower may not receive a sufficient return on the asset to satisfy the interim loan, and we bear the risk that we may not recover some or all of the loan balance. In addition, borrowers usually use the proceeds of a long-term mortgage loan to repay an interim loan. We may therefore be dependent on a borrower's ability to obtain permanent financing to repay our interim loan, which could depend on market conditions and other factors. Further, interim loans may be relatively less liquid than loans against stabilized properties due to their short life, their potential unsuitability for securitization, any unstabilized nature of the underlying real estate and the difficulty of recovery in the event of a borrower's default. This lack of liquidity may significantly impede our ability to respond to adverse changes in the performance of loans in the Interim Program and may adversely affect the fair value of such loans and the proceeds from their disposition. Carrying loans for longer periods of time on our balance sheet exposes us to greater risks of loss than we currently face for loans that are pre-sold or placed with investors, including, without limitation, 100% exposure for defaults and impairment charges, which may adversely affect our profitability. At December 31, 2019, the outstanding principal balance of \$546.6 million of loans held by us under the Interim Program was the largest it has ever been. One loan in the portfolio, totaling \$14.7 million, is currently in default, and we are working with the borrower to restructure the loan.

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:

- an 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 or values of multifamily developments;
- the inability of residents and tenants to pay rent;
- changes in the tax code related to investment real estate;
- increased competition in the multifamily sector based on considerations such as the attractiveness, location, rental rates, amenities, and safety record of various properties; and
- increased operating costs, including increased real property taxes, maintenance, insurance, and utilities costs.

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

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

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

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

We depend on our bankers and brokers to generate 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 bankers and brokers. The market for talent 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 bankers and brokers. If we cannot attract, motivate or retain a sufficient number of skilled bankers and brokers, or if our hiring and retention costs increase significantly, we could be materially and adversely affected.

We intend to drive a significant portion of our future growth through additional strategic acquisitions or investments in new ventures and new lines of business. If we do not successfully identify, complete and integrate such acquisitions or start-ups, our growth may be limited. Additionally, continued growth and integration in our business may place significant demands on our administrative, operational, and financial resources, and the acquired businesses or new ventures may not perform as we expect them to, or become profitable.

We intend to pursue continued growth by acquiring or starting complementary businesses, but we cannot guarantee such efforts will be successful or profitable. We do not know whether the favorable conditions that have enabled our past growth through acquisitions and strategic investments will continue. The identification of suitable acquisition candidates and new ventures can be difficult, time consuming and costly, and we may not be able to successfully complete identified acquisitions or investments in new ventures on favorable terms, or at all. Furthermore, even if we successfully complete an acquisition or an investment, we may not be able to successfully integrate newly acquired businesses or new investments into our operations, and the process of integration could be expensive and time consuming and may strain our resources.

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. Acquisitions or new investments also typically involve significant costs related to integrating information technology, accounting, reporting, and management services and rationalizing personnel levels and may require significant time to obtain new or updated regulatory approvals from the Agencies and other federal and state authorities. Acquisitions or new ventures could divert management's attention from the regular operations of our business and result in the potential loss of our key personnel, and we may not achieve the anticipated benefits of the acquisitions or new investments, any of which could materially and adversely affect us. 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. In addition, future acquisitions or new investments could result in significantly dilutive issuances of equity securities or the incurrence of substantial debt, contingent liabilities, or expenses or other charges, which could also materially and adversely affect us.

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Our future success depends, in part, on our ability to expand or modify our business in response to changing client 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.

Risks Relating to Regulatory Matters

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

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

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

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

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

If borrower information is inappropriately accessed and used by a third party or an employee for illegal purposes, such as identity theft, we may be responsible to the affected applicant or borrower for any losses he or she may have incurred as a result of misappropriation. In such an instance, we may be liable to a governmental authority for fines or

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penalties associated with a lapse in the integrity and security of our customers' information. Additionally, if we are the target of a successful cyber-attack, we may experience reputational harm that could impact our standing with our borrowers and adversely impact our financial results.

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

Risks Related to Our 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 control of the Company.

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

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classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a class or series of common or preferred stock that could delay, defer, or prevent a transaction or a change in control of our company that might involve a premium price for shares of our common stock or otherwise be in the best interests of our stockholders.

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

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

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

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

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

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

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

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

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

Risks Related to Our Financial Statements

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

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

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

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 2020 for material changes to the above discussion of risk factors.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal headquarters are located in Bethesda, Maryland. We currently maintain an additional 38 offices across the country. Many of our offices are small, loan origination and property sales offices. The majority of our real estate services activity occurs in our corporate headquarters and our office in Needham, Massachusetts. We believe that our facilities are adequate for us to conduct our present business activities.

All of our office space is leased. The most significant terms of the lease arrangements for our office space are the length of the lease and the amount of the rent. Our leases have terms varying in duration as a result of differences in prevailing market conditions in different geographic locations, with the longest leases generally expiring in 2024. We do not believe that any single office lease is material to us. In addition, we believe there is adequate alternative office space available at acceptable rental rates to meet our needs, although adverse movements in rental rates in some markets may negatively affect our results of operations and cash flows when we execute new leases.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Our common stock trades on the NYSE under the symbol "WD." In connection with our initial public offering, our common stock began trading on the NYSE on December 15, 2010. As of the close of business on January 31, 2020, there were 22 stockholders of record. We believe that the number of beneficial holders is much greater.

Dividend Policy

During 2019, our Board of Directors declared, and we paid, four quarterly dividends totaling \$1.20 per share. In February 2020, our Board of Directors declared a dividend for the first quarter of 2020 of \$0.36 per share, a 20% increase over the dividend declared for the fourth quarter of 2019. We expect to make regular quarterly dividend payments for the foreseeable future.

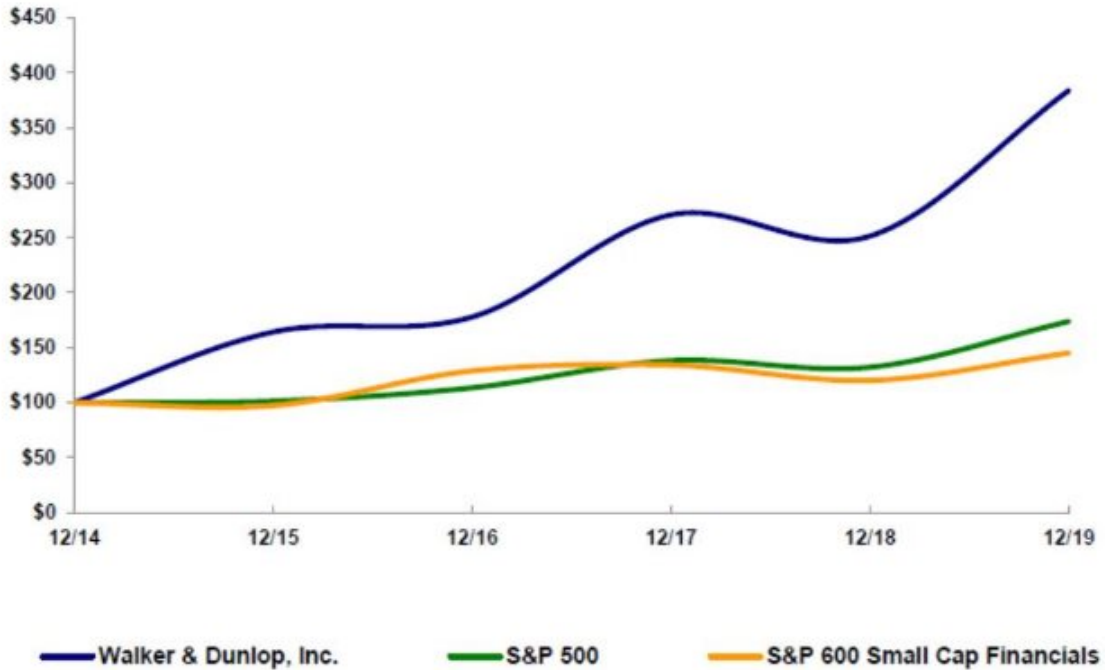
Our current and projected dividends provide a return to shareholders while retaining sufficient capital to continue investing in the growth of our business. Our Term Loan (defined in Item 7 below) contains direct restrictions to the amount of dividends we may pay, and our warehouse debt facilities and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

Stock Performance Graph

The following chart graphs our performance in the form of a cumulative five-year total return to holders of our common stock since December 31, 2014 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, 2014 in our common stock and in each of the indices shown and assumes that all dividends were reinvested. Our stock price performance shown in the following graph is not indicative of future performance or relative performance in comparison to the indices.



Issuer Purchases of Equity Securities

Under the 2015 Equity Incentive Plan, subject to the Company’s approval, grantees have the option of electing to satisfy minimum tax withholding obligations at the time of vesting or exercise by allowing the Company to withhold and purchase the shares of stock otherwise issuable to the grantee. For the quarter and year ended December 31, 2019, we purchased 13 thousand shares and 222 thousand shares, respectively, to satisfy grantee tax withholding obligations on share-vesting events. Additionally, we purchased 55 thousand shares in the first quarter of 2019 as part of a share repurchase program that began in 2018 and ended in February 2019. In February 2019, our Board of Directors authorized the repurchase of \$50.0 million of shares of our common stock over a 12-month period as part of the share repurchase program. We purchased 80 thousand shares under this program and had \$45.8 million of authorized share repurchase

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capacity remaining as of December 31, 2019. The following table provides information regarding common stock repurchases for the quarter and year ended December 31, 2019:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
1st Quarter	459,026	\$ 52.62	55,329	
2nd Quarter	33,826	\$ 51.88	29,803	
3rd Quarter	73,907	\$ 53.25	50,366	
October 1-31, 2019	2,155	\$ 55.16	—	
November 1-30, 2019	1,598	65.41	—	
December 1-31, 2019	9,024	66.61	—	
4th Quarter	12,777	\$ 64.53	—	\$ 45,792,802
Total	579,536		135,498	

Securities Authorized for Issuance Under Equity Compensation Plans

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

Item 6. Selected Financial Data

The selected historical financial information as of and for the years ended December 31, 2019, 2018, 2017, 2016, and 2015 has been derived from our audited historical financial statements. The selected historical financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the consolidated financial statements as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018, and 2017, and the related notes, all contained elsewhere in this Annual Report on Form 10-K. The significant reduction in the Company’s effective tax rate for the year ended December 31, 2017 and the reduction in the Company’s statutory federal rate for the year ended December 31, 2018 are more fully discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations” in Item 7 below.

SELECTED FINANCIAL DATA
(dollars in thousands, except per share amounts)

	As of and For the Year Ended December 31,				
Statement of Income Data	2019	2018	2017	2016	2015
Revenues					
Loan origination and debt brokerage fees, net	258,471	234,681	245,484	174,360	156,836
Fair value of expected net cash flows from servicing, net	180,766	172,401	193,886	192,825	133,630
Servicing fees	214,550	200,230	176,352	140,924	114,757
Net warehouse interest income, loans held for sale	1,917	5,993	15,077	16,245	14,541
Net warehouse interest income, loans held for investment	23,782	8,038	9,390	7,482	9,419
Escrow earnings and other interest income	56,835	42,985	20,396	9,168	4,473
Other revenues	80,898	60,918	51,272	34,272	34,542
Total revenues	\$ 817,219	\$ 725,246	\$ 711,857	\$ 575,276	\$ 468,198
Expenses					
Personnel	\$ 346,168	\$ 297,303	\$ 289,277	\$ 227,491	\$ 184,590
Amortization and depreciation	152,472	142,134	131,246	111,427	98,173
Provision (benefit) for credit losses	7,273	808	(243)	(612)	1,644
Interest expense on corporate debt	14,359	10,130	9,745	9,851	9,918
Other operating expenses	66,596	62,021	48,171	41,338	38,507
Total expenses	\$ 586,868	\$ 512,396	\$ 478,196	\$ 389,495	\$ 332,832
Income from operations	\$ 230,351	\$ 212,850	\$ 233,661	\$ 185,781	\$ 135,366
Income tax expense	57,121	51,908	21,827	71,470	52,771
Net income before noncontrolling interests	\$ 173,230	\$ 160,942	\$ 211,834	\$ 114,311	\$ 82,595
Net income (loss) from noncontrolling interests	(143)	(497)	707	414	467
Walker & Dunlop net income	\$ 173,373	\$ 161,439	\$ 211,127	\$ 113,897	\$ 82,128
Basic earnings per share	\$ 5.61	\$ 5.15	\$ 6.72	\$ 3.66	\$ 2.65
Diluted earnings per share	\$ 5.45	\$ 4.96	\$ 6.47	\$ 3.57	\$ 2.62
Cash dividends declared per common share	\$ 1.20	\$ 1.00	\$ —	\$ —	\$ —
Basic weighted average shares outstanding	29,913	30,202	30,176	29,768	30,227
Diluted weighted average shares outstanding	30,815	31,384	31,386	30,537	30,497
Balance Sheet Data					
Cash and cash equivalents	\$ 120,685	\$ 90,058	\$ 191,218	\$ 118,756	\$ 136,988
Restricted cash and pledged securities	130,444	137,152	104,536	94,711	77,496
Mortgage servicing rights	718,799	670,146	634,756	521,930	412,348
Loans held for sale, at fair value	787,035	1,074,348	951,829	1,858,358	2,499,111
Loans held for investment, net	543,542	497,291	66,510	220,377	231,493
Goodwill	180,424	173,904	123,767	96,420	90,338
Total assets	2,675,199	2,782,057	2,208,427	3,052,432	3,514,991
Warehouse notes payable	906,128	1,161,382	937,769	1,990,183	2,649,470
Note payable	293,964	296,010	163,858	164,163	164,462
Total liabilities	1,632,914	1,874,865	1,393,446	2,437,358	3,022,642
Total equity	1,042,285	907,192	814,981	615,074	492,349
Supplemental Data					
Operating margin	28 %	29 %	33 %	32 %	29 %
Return on equity	18 %	19 %	31 %	21 %	19 %
Total transaction volume	\$ 31,967,064	\$ 28,047,532	\$ 27,905,831	\$ 19,298,112	\$ 17,758,748
Servicing portfolio	93,225,169	85,689,262	74,309,991	63,081,154	50,212,264
Assets under management	1,958,078	1,422,735	182,175	—	—

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

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

Business

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

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

We originate and sell multifamily loans through the programs of Fannie Mae, Freddie Mac, Ginnie Mae, and HUD, with which we have licenses and long-established relationships. We retain servicing rights and asset management responsibilities on nearly all loans that we originate for the Agencies’ programs. We are approved as a Fannie Mae DUS lender nationally, a Freddie Mac Optigo Seller/Servicer nationally for Conventional, Seniors Housing, and Targeted Affordable Housing, a HUD MAP lender nationally, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. We broker and service loans for several life insurance companies, CMBS issuers, commercial banks, and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker.

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

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

We retain servicing rights on substantially all the loans we originate and sell, and generate revenues from the fees we receive for servicing the loans, from the interest income on escrow deposits held on behalf of borrowers, and from other ancillary fees. Servicing fees set at the time an investor agrees to purchase the loan are generally paid monthly for the duration of the loan and are based on the unpaid principal balance of the loan. Our Fannie Mae and Freddie Mac servicing arrangements generally provide for prepayment fees to us in the event of a voluntary prepayment. For loans serviced outside of Fannie Mae and Freddie Mac, we typically do not share in any such payments.

We are currently not exposed to unhedged interest rate risk during the loan commitment, closing, and delivery process. The sale or placement of each loan to an investor is negotiated concurrently with establishing the coupon rate for

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the loan. We also seek to mitigate the risk of a loan not closing. We have agreements in place with the Agencies that specify the cost of a failed loan delivery, 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 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), except for rare instances when we negotiate a cap at 30% for loans with unique attributes. At December 31, 2019, we have had only one such experience. We occasionally request modified risk-sharing based on the size of the loan. During the second quarter of 2018, Fannie Mae increased our risk-sharing cap from \$60.0 million to \$200.0 million. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur if the underlying collateral is determined to be completely without value at the time of loss). We may request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fairly compensated for the risks of the transaction. Our servicing fees for risk-sharing loans include compensation for the risk-sharing obligations and are larger than the servicing fees we receive from Fannie Mae for loans with no risk-sharing obligations.

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

The Interim Program JV assumes full risk of loss while the loans it originates are outstanding. We hold a 15% ownership interest in the Interim Program JV and are responsible for sourcing, underwriting, servicing, and asset-managing the loans originated by the joint venture. The joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities.

We originate and hold some Interim Program loans for investment, which are included on our balance sheet. During the time that these loans are outstanding, we assume the full risk of loss. Since we began originating interim loans, we have not charged off any Interim Program loans. As of December 31, 2019, we had 22 loans held for investment under the Interim Program with an aggregate outstanding unpaid principal balance of \$546.6 million. One loan, totaling \$14.7 million, is currently in default, and we are working with the borrower to restructure the loan.

During the year ended December 31, 2019, \$436.1 million of the \$757.2 million of interim loan originations were executed through the joint venture, with the remainder originated through our Interim Program. During the year ended December 31, 2018, \$350.0 million of the \$993.1 million of interim loan originations were executed through the joint venture. As of December 31, 2019 and 2018, we asset-managed \$670.5 million and \$334.6 million, respectively of interim loans on behalf of the Interim Program JV.

During the third quarter of 2018, we transferred a \$70.1 million portfolio of participating interests in loans held for investment to a third party and accounted for the transfer as a secured borrowing. The balance of the portfolio is presented as loans held for investment with an offsetting amount for the secured borrowing included as account payable as of December 31, 2019. We do not have credit risk related to the transferred loans.

During the fourth quarter of 2018, we completed a \$150.0 million participation in a subordinated note with a large institutional investor in multifamily loans and presented as loans held for investment. The participation was fully funded with corporate cash and has been paid down to \$7.8 million at December 31, 2019. During 2019, the borrower repaid principal of \$142.2 million, and the remaining \$7.8 million was repaid in February 2020.

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Through WDIS, we offer property sales brokerage services to owners and developers of multifamily properties that are seeking to sell these properties. Through these property sales brokerage services, we seek to maximize proceeds and certainty of closure for our clients using our knowledge of the commercial real estate and capital markets and relying on our experienced transaction professionals. Our property sales services are offered in various regions throughout the United States. We have added several property sales brokerage teams over the past few years and continue to seek to add other property sales brokers, with the goal of expanding these services to cover all major regions throughout the United States. We consolidate the activities of WDIS and present the portion of WDIS that we do not control as *Noncontrolling interests* in the Consolidated Balance Sheets and *Net income from noncontrolling interests* in the Consolidated Statements of Income.

During the second quarter of 2018, the Company acquired JCR, the operator, registered investment adviser, and general partner of private commercial real estate investment funds focused on the management of debt, preferred equity, and mezzanine equity investments in private middle-market commercial real estate funds and separately managed accounts. The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify the company by growing our investment management platform. JCR's current assets under management ("AUM") of \$1.2 billion primarily consist of assets held in three managed funds: Fund III, Fund IV, Fund V, and separate accounts managed for life insurance companies. AUM for Fund III and Fund IV consist of both unfunded commitments and funded investments, AUM for Fund V consists of unfunded commitments, and AUM for the separate accounts consist entirely of funded investments. Unfunded commitments are highest during the fund raising and investment phases. AUM disclosed in this Annual Report on Form 10-K may differ from regulatory assets under management disclosed on JCR's Form ADV.

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

Over the past several years, we have purchased the rights to service HUD loans with an aggregate \$4.3 billion unpaid principal balance from third-party servicers for a total of \$52.7 million. The acquisition of these servicing rights substantially increased our HUD servicing portfolio and led to our being one of the largest servicers of HUD commercial real estate loans as of December 31, 2019. We expect the servicing rights acquisitions to have the following benefits:

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

As of December 31, 2019, our servicing portfolio was \$93.2 billion, up 9% from December 31, 2018, making it the 7th largest commercial/multifamily primary and master servicing portfolio in the nation according to the Mortgage Bankers' Association's ("MBA") 2019 year-end survey (the "Survey"). Our servicing portfolio includes \$40.0 billion of loans serviced for Fannie Mae and \$32.6 billion for Freddie Mac, making us the 2nd and 3rd largest primary cashier servicer of Fannie Mae and Freddie Mac loans in the nation, respectively, according to the Survey. Also included in our servicing portfolio is \$10.0 billion of HUD loans, the 2nd largest HUD primary and master servicing portfolio in the nation according to the Survey.

The average number of our mortgage bankers increased from 138 during 2018 to 150 during 2019 due to organic growth, contributing to an increase of 5% in our loan origination volume, from a total of \$25.3 billion during 2018 to a total of \$26.6 billion during 2019. Fannie Mae recently announced that we ranked as its largest DUS lender in 2019, by loan deliveries, and Freddie Mac recently announced that we ranked as its 3rd largest Freddie Mac Optigo Seller/Servicer in 2019, by loan deliveries. Additionally, we were the third largest multifamily lender for HUD in 2019 based on MAP initial endorsements.

Basis of Presentation

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

Critical Accounting Policies

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

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

The assumptions used to estimate the fair value of OMSRs are based on internal models and are periodically compared to assumptions used by other market participants. Due to the relatively few transactions in the multifamily MSR market, we have experienced little volatility in the assumptions we used during the periods presented, including the most-significant assumption – the discount rate. Additionally, we do not expect to see significant 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 OMSRs and PMSRs at the lower of amortized cost or fair value and evaluate the carrying value for impairment quarterly. We test for impairment on PMSRs separately from OMSRs. The PMSRs and OMSRs are tested for impairment at the portfolio level. We have never recorded an impairment of MSRs in our history. We engage a third party to assist in determining an estimated fair value of our existing and outstanding MSRs on at least a semi-annual basis.

Revenue 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 OMSR. All OMSRs are amortized into expense using the interest method over the estimated life of the loan and presented as a component of *Amortization and depreciation* in the Consolidated Statements of Income.

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

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Allowance for Risk-sharing Obligations. This reserve liability (referred to as “allowance”) for risk-sharing obligations relates to our at risk servicing portfolio and is presented as a separate liability within the Consolidated Balance Sheets. The amount of this allowance considers our assessment of the likelihood of repayment by the borrower or key principal(s), the risk characteristics of the loan, the loan’s risk rating, historical loss experience, adverse situations affecting individual loans, the estimated disposition value of the underlying collateral, and the level of risk sharing. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. We regularly monitor the allowance on all applicable loans and update loss estimates as current information is received. *Provision (benefit) for credit losses* in the Consolidated Statements of Income reflects the income statement impact of changes to both the allowance for risk-sharing obligations and allowance for loan losses.

We perform a quarterly evaluation of all of our risk-sharing loans to determine whether a loss is probable. Our process for identifying which risk-sharing loans may be probable of loss consists of an assessment of several qualitative and quantitative factors including payment status, property financial performance, local real estate market conditions, loan-to-value ratio, debt-service-coverage ratio, and property condition. We record an allowance for risk-sharing obligations related to all risk-sharing loans on our watch list (“general reserves”). Such loans are not probable of foreclosure but are probable of loss as the characteristics of these loans indicate that it is probable that these loans include some losses even though the loss cannot be attributed to a specific loan. For all other risk-sharing loans not on our watch list, we continue to carry a guaranty obligation. We calculate the general reserves based on a migration analysis of the loans on our historical watch lists, adjusted for qualitative factors that are based on the characteristics of the servicing portfolio and the current market conditions. We have not experienced volatility in the general reserves loss percentage and do not expect to experience significant volatility in the near term.

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

When we believe a loan is probable of foreclosure or when the loan is in foreclosure, we record an allowance for that loan (a “specific reserve”). The specific reserve is based on the estimate of the property fair value less selling and property preservation costs and considers the loss-sharing requirements detailed below in the “Credit Quality and Allowance for Risk-Sharing Obligations” section. The estimate of property fair value at initial recognition of the allowance for risk-sharing obligations is based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value. The allowance for risk-sharing obligations for such loans is updated as any additional information is received until the loss is settled with Fannie Mae. The settlement with Fannie Mae is based on the actual sales price of the property and selling and property preservation costs and considers the Fannie Mae loss-sharing requirements. Loss settlement with Fannie Mae has historically concluded within 18 to 36 months after foreclosure. Historically, the initial specific reserves have not varied significantly from the final settlement. We are uncertain whether such a trend will continue in the future.

Overview of Current Business Environment

The fundamentals of the commercial real estate market remain strong. For the last two years, multifamily debt financing activity has represented at least 80% of our total mortgage banking volumes and has been a meaningful driver of our operating performance. Multifamily occupancy rates and effective rents remain strong based upon robust rental market demand while delinquency rates remain at historic lows, all of which aid loan performance and debt financing volumes due to their importance to the cash flows of the underlying properties. Additionally, the headwinds facing single-family home ownership, including high valuations and limited supply, have led to home ownership levels at or near historic lows over the past few years. At the same time, new household formation continues to grow, unemployment levels remain at historic lows, and macroeconomic indicators are strong, all resulting in high demand for multifamily housing.

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The Mortgage Bankers' Association ("MBA") recently reported that the amount of commercial and multifamily mortgage debt outstanding continued to grow in the third quarter of 2019, reaching \$3.6 trillion, an increase of \$75.7 billion (2.2%) from the second quarter of 2019. Multifamily mortgage debt outstanding rose by \$40.6 billion to \$1.5 trillion as of the end of the third quarter of 2019, an increase of 2.8% from the second quarter of 2019.

Steady household formation and a dearth of supply of entry-level single-family homes have led to strong demand for rental housing and continued increasing rents for multifamily properties in most markets. The positive performance has boosted the value of many multifamily properties towards the high end of historical ranges. According to RealPage, a provider of commercial real estate data and analytics, rent growth continued to increase at an average annual pace of 3.0% during the fourth quarter of 2019 as occupancy rates fell slightly to 95.8%, from a near all-time high of 96.3% in the third quarter of 2019. We believe that the market demand for multifamily housing in the upcoming quarters will continue to absorb most of the capacity created by new construction and that vacancy rates will remain near historic lows, continuing to make multifamily properties an attractive investment option.

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

The Federal Reserve lowered the Fed Funds Rate by 50 basis points during the third quarter of 2019 and by 25 basis points during the fourth quarter of 2019 and changed the target rate to 1.50% - 1.75%. Prior to the rate decreases starting in the third quarter of 2019, the rate had increased 125 basis points over the previous two years. Long-term mortgage interest rates, which form the basis for most of our lending, have remained at relatively low levels throughout this period and have resulted in a flattened yield curve. There remains a significant amount of capital investing in U.S. commercial real estate and multifamily properties resulting from historically low global interest rates and the strong fundamentals of the U.S. commercial real estate and multifamily market.

We expect to see continued strength in the multifamily financing market for the foreseeable future due to the underlying fundamentals of the multifamily market as the labor market remains strong, single-family home ownership remains unaffordable for many households, and new household formation fuels rental demand.

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") establishes loan origination caps for both Fannie Mae and Freddie Mac each year. In September 2019, FHFA revised Fannie Mae's and Freddie Mac's loan origination caps to \$100.0 billion each for all multifamily business for the five-quarter period beginning with the fourth quarter 2019 through the fourth quarter of 2020. The new caps apply to all multifamily business with no exclusions.

The GSEs reported combined loan origination volume of approximately \$148.5 billion in 2019 compared to \$143.3 billion during 2018, an increase of 3.6%, with Fannie Mae and Freddie Mac volumes growing 7.5% and 0.4%, respectively. We expect the GSEs to maintain their historical market share in a multifamily origination market that is projected by the MBA on average to be \$390 billion in 2020. We believe our market leadership positions us to be a significant lender with the GSEs for the foreseeable future. Our originations with the GSEs are some of our most profitable executions as they provide significant non-cash gains from MSRs that turn into significant cash revenue streams in the future. A decline in our GSE originations would negatively impact our financial results as our non-cash revenues would decrease disproportionately with loan origination volume and future servicing fee revenue would be constrained or decline.

We continue to significantly grow our debt brokerage platform through hiring and acquisitions to gain greater access to capital, deal flow, and borrower relationships. The apparent appetite for debt funding within the broader commercial real estate market, along with the significant additions of mortgage bankers over the past several years, has resulted in significant growth in our brokered debt financing volume with a 40% increase in brokered debt financing volume from the fourth quarter of 2018 to the fourth quarter of 2019. Our outlook for our debt brokerage platform is positive as we expect

continued growth in the commercial and multifamily financing markets in the near future, and we expect to continue adding debt brokers to our platform.

During the first quarter of 2019, the U.S. government was shut down for approximately one month, during which time HUD processed no loan commitments. The shutdown negatively impacted the amount of loan originations at HUD, which contributed to a decrease of 15% of 2019 originations compared to 2018. HUD remains a strong source of capital for new construction loans and healthcare facilities. We expect that HUD will continue to be a meaningful supplier of capital to our borrowers. We continue to seek to add resources and scale to our HUD lending platform, particularly in the area of construction lending, seniors housing, and skilled nursing, where HUD remains an important provider of capital.

Many of our borrowers continue to seek higher returns by identifying and acquiring the transitional properties that the Interim Program is designed to address. We entered into the Interim Program JV to both increase the overall capital available to transitional properties and dramatically expand our capacity to originate Interim Program loans. The demand for transitional lending has brought increased competition from lenders, specifically banks, mortgage real estate investment trusts, and life insurance companies. All are actively pursuing transitional properties by leveraging their low cost of capital and desire for short-term, floating-rate, high-yield commercial real estate investments. We originated \$935.9 million of interim loans during 2019 compared to \$1.2 billion during 2018.

We saw increased activity in our multifamily-focused property sales platform in 2019 compared to 2018 as the macroeconomic conditions in 2019 continued to make multifamily properties an attractive investment, and we added 20 new property sales brokers to our platform during the year. We expect to continue adding to our property sales team in the future as we continue our efforts to expand the platform more broadly across the United States and to increase the size of our property sales team to capture what we believe will be strong multifamily property sales activity over the coming years.

Factors That May Impact Our Operating Results

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

- *Performance of Multifamily and Other Commercial Real Estate Related Markets.* Our business is dependent on the general demand for, and value of, commercial real estate and related services, which are sensitive to long-term mortgage interest rates and other macroeconomic conditions and the continued existence of the GSEs. Demand for multifamily and other commercial real estate generally increases during stronger economic environments, resulting in increased property values, transaction volumes, and loan origination volumes. During weaker economic environments, multifamily and other commercial real estate may experience higher property vacancies, lower demand and reduced values. These conditions can result in lower property transaction volumes and loan originations, as well as an increased level of servicer advances and losses from our Fannie Mae DUS risk-sharing obligations and our interim lending program.
- *The Level of Losses from Fannie Mae Risk-Sharing Obligations.* Under the Fannie Mae DUS program, we share risk of loss on most loans we sell to Fannie Mae. In the majority of cases, we absorb the first 5% of any losses on the loan's unpaid principal balance at the time of loss settlement, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the loan's unpaid principal balance on the origination date, except for rare instances when we negotiate a cap at 30% for loans with unique attributes. At December 31, 2019, we have had only one such experience. As a result, a rise in defaults could have a material adverse effect on us.
- *The Price of Loans in the Secondary Market.* Our profitability is determined in part by the price we are paid for the loans we originate. A component of our origination related revenues is the premium we recognize on the sale of a loan. Stronger investor demand typically results in larger premiums while weaker demand results in little to no premium.
- *Market for Servicing Commercial Real Estate Loans.* Servicing fee rates for new loans are set at the time we enter into a loan sale commitment based on origination fees, competition, prepayment rates, and any risk-

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sharing obligations we undertake. 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 immediately and over time.

- *The Percentage of Adjustable Rate Loans Originated and the Overall Loan Origination Mix.* The adjustable rate mortgage loans ("ARMs") we originate typically have less stringent prepayment protection features than fixed rate mortgage loans ("FRMs"), resulting in a shorter expected life for ARMs than FRMs. The shorter expected life for ARMs results in smaller MSR'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. Additionally, the loan product mix we originate can significantly impact our overall earnings. For example, an increase in loan origination volume for our two highest-margin products, Fannie Mae and HUD loans, without a change in total loan origination volume would increase our overall profitability, while a decrease in the loan origination volume of these two products without a change in total loan origination volume would decrease our overall profitability, all else equal.

Revenues

Loan Origination and Debt Brokerage Fees, net. Revenue related to the loan origination fee is recognized when we record a derivative asset upon the simultaneous commitments to originate a loan with a borrower and sell to an investor or when a loan that we broker closes with the institutional lender. The commitment asset related to the loan origination fee is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and any sale premiums, net of co-broker fees. Also included in revenues from loan origination 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.

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.

The "Critical Accounting Policies" section above provides additional details of the accounting for these revenues.

Fair Value of Expected Net Cash Flows from Servicing, net. Revenue related to expected net cash flows from servicing is recognized at the loan commitment date, similar to the loan origination fees, as described above. The derivative asset is recognized at fair value, which reflects the estimated fair value of the expected net cash flows associated with the servicing of the loan, reduced by the estimated fair value of any guaranty obligations to be assumed. OMSR's and guaranty obligations are recognized as assets and liabilities, respectively, upon the sale of the loans.

OMSR's are recorded at fair value upon loan sale. The fair value is based on estimates of expected net cash flows associated with the servicing rights. The estimated net cash flows are discounted at a rate that reflects the credit and liquidity risk of the MSR over the estimated life of the loan.

The "Critical Accounting Policies" section above provides additional details of the accounting for these revenues.

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

Our servicing fees on loans we originate provide a stable revenue stream. They are based on contractual terms, are earned over the life of the loan, and are generally not subject to significant prepayment risk. Our Fannie Mae and Freddie

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Mac servicing agreements provide for prepayment fees in the event of a voluntary prepayment. Accordingly, we currently do not hedge our servicing portfolio for prepayment risk. Any prepayment fees received are included in *Other revenues*.

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

Net Warehouse Interest Income, Loans Held for Sale. We earn net interest income on loans funded through borrowings from our warehouse facilities from the time the loan is closed until the loan is sold pursuant to the loan purchase agreement. Each borrowing on a warehouse line relates to a specific loan for which we have already secured a loan sale commitment with an investor. Related interest expense from the warehouse loan funding is netted in our financial statements against interest income. Net warehouse interest income related to loans held for sale varies based on the period of time between the loan closing and the sale of the loan to the investor, the size of the average balance of the loans held for sale, and the net interest spread between the loan coupon rate and the cost of warehouse financing. Loans may remain in the warehouse facility for up to 60 days, but the average time in the warehouse facility is approximately 30 days. As a short-term cash management tool, we may also use excess corporate cash to fund Agency loans on our balance sheet rather than borrowing against a warehouse line. Loans that we broker for institutional investors and other investors are funded directly by them; therefore, there is no warehouse interest income or expense associated with brokered loan transactions. Additionally, the amortization of deferred debt issuance costs related to our Agency warehouse lines is included in net warehouse interest income, loans held for sale.

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

Escrow Earnings and Other Interest Income. We earn fee income on property-level escrow deposits in our servicing portfolio, generally based on a fixed or variable placement fee negotiated with the financial institutions that hold the escrow deposits. Escrow earnings reflect interest income net of interest paid to the borrower, if required, which generally equals a money market rate. Escrow earnings tend to increase as short-term interest rates increase as they did in 2017 and 2018 but tend to decline as short-term interest rates decrease as they did in the latter part of 2019. Also included with escrow earnings and other interest income are interest earnings from our cash and cash equivalents and interest income earned on our pledged securities. Interest income from pledged securities increased during 2019 as we sold investments in money market funds and invested those proceeds in higher-earning multifamily Agency mortgage-backed securities (“Agency MBS”).

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

Costs and Expenses

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

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Amortization and Depreciation. Amortization and depreciation is principally comprised of amortization of our MSRs, net of amortization of our guaranty obligations. The MSRs 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 OMSR 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 OMSR defaults, we write the OMSR off to *Amortization and depreciation*. We depreciate property, plant, and equipment ratably over their estimated useful lives.

Amortization and depreciation also includes the amortization of intangible assets, principally related to the amortization of the mortgage pipeline and other intangible assets recognized in connection with acquisitions. We recognize amortization related to the mortgage pipeline intangible asset when a loan included in the mortgage pipeline intangible asset is rate locked or is no longer probable of rate locking. Also included in amortization and depreciation for the years ended December 31, 2019 and 2018 is the amortization of intangible assets associated with our acquisition of JCR. These intangible assets consisted primarily of asset management contracts, which had an estimated life at acquisition of five years. For the years presented in the Consolidated Statements of Income, the amortization of intangible assets relates primarily to intangible assets associated with our acquisition of JCR in 2018.

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

Interest Expense on Corporate Debt. Interest expense on corporate debt includes interest expense incurred and amortization of debt discount and deferred debt issuance costs related to our term loan 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, 2019, our estimated combined statutory federal and state tax rate was approximately 25.0% compared to approximately 25.1% as of December 31, 2018 and 38.2% as of December 31, 2017. In December 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted. Tax Reform significantly reduced the federal income tax rate from 35.0% in 2017 to 21.0% in 2018. Except for the effects of Tax Reform, our combined statutory tax rate has historically not varied significantly as the only material difference in the calculation of the combined statutory tax rate from year to year is the apportionment of our taxable income amongst the various states where we are subject to taxation since we do not have foreign operations or significant permanent differences. For example, from the period since we went public in 2010 through 2017, our combined statutory tax rate varied by only 0.7%, with a low of 38.2% and a high of 38.9%. Absent additional significant legislative changes to statutory tax rates (particularly the federal tax rate), we expect minimal deviation from the 2019 combined statutory tax rate for future years. However, we do expect some variability in the effective tax rate going forward due to excess tax benefits recognized and limitations on the deductibility of certain book expenses as a result of Tax Reform, primarily related to executive compensation.

Excess tax benefits recognized in 2019, 2018, and 2017 reduced income tax expense by \$4.6 million, \$6.8 million, and \$9.5 million, respectively. The decrease in the excess tax benefits from 2017 to 2018 related primarily to the aforementioned reduction in the combined statutory tax rate due to Tax Reform. The decrease from 2018 to 2019 largely reflects the limited deductibility of excess tax benefits related to executive compensation.

Results of Operations

Following is a discussion of our results of operations for the years ended December 31, 2019, 2018 and 2017. 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

	For the year ended December 31,		
	2019	2018	2017
<i>(in thousands; except per share data)</i>			
Transaction Volume:			
Components of Debt Financing Volume			
Fannie Mae	\$ 8,045,499	\$ 7,805,517	\$ 7,894,106
Freddie Mac	6,380,210	6,972,299	7,981,156
Ginnie Mae - HUD	848,359	999,001	1,358,221
Brokered (1)	10,363,953	8,398,127	7,326,907
Principal Lending and Investing (2)	935,941	1,159,283	314,372
Total Debt Financing Volume	\$ 26,573,962	\$ 25,334,227	\$ 24,874,762
Property Sales Volume	5,393,102	2,713,305	3,031,069
Total Transaction Volume	\$ 31,967,064	\$ 28,047,532	\$ 27,905,831
Key Performance Metrics:			
Operating margin	28 %	29 %	33 %
Return on equity	18 %	19 %	31 %
Walker & Dunlop net income	\$ 173,373	\$ 161,439	\$ 211,127
Adjusted EBITDA (3)	\$ 247,907	\$ 220,081	\$ 200,950
Diluted EPS	\$ 5.45	\$ 4.96	\$ 6.47
Key Expense Metrics (as a percentage of total revenues):			
Personnel expenses	42 %	41 %	41 %
Other operating expenses	8 %	9 %	7 %
Key Revenue Metrics (as a percentage of debt financing volume):			
Origination related fees (4)	1.00 %	0.96 %	0.99 %
Gains attributable to MSR's (4)	0.71 %	0.71 %	0.79 %
Gains attributable to MSR's, as a percentage of Agency debt financing volume (5)	1.18 %	1.09 %	1.13 %

	As of December 31,		
	2019	2018	2017
<i>(in thousands; except per share data)</i>			
Managed Portfolio:			
Components of Servicing Portfolio			
Fannie Mae	\$ 40,049,095	\$ 35,983,178	\$ 32,075,617
Freddie Mac	32,583,842	30,350,724	26,782,581
Ginnie Mae - HUD	9,972,989	9,944,222	9,640,312
Brokered (6)	10,151,120	9,127,640	5,744,518
Principal Lending and Investing (7)	468,123	283,498	66,963
Total Servicing Portfolio	\$ 93,225,169	\$ 85,689,262	\$ 74,309,991
Assets under management (8)	1,958,078	1,422,735	182,175
Total Managed Portfolio	\$ 95,183,247	\$ 87,111,997	\$ 74,492,166
Key Servicing Portfolio Metrics (end of period):			
Weighted-average servicing fee rate (basis points)	23.2	24.3	25.7
Weighted-average remaining servicing portfolio term (years)	9.6	9.8	10.0

SUPPLEMENTAL OPERATING DATA (Continued)

The following table summarizes JCR's AUM as of December 31, 2019:

Components of JCR assets under management <i>(in thousands)</i>	Unfunded	Funded	Total
	Commitments	Investments	
Fund III	\$ 95,171	\$ 94,222	\$ 189,393
Fund IV	174,483	129,178	303,661
Fund V	193,980	—	193,980
Separate accounts	—	530,044	530,044
Total assets under management	\$ 463,634	\$ 753,444	\$ 1,217,078

- (1) Brokered transactions for life insurance companies, commercial mortgage backed securities issuers, commercial banks, and other capital sources.
- (2) For the year ended December 31, 2019, includes \$436.1 million from the Interim Program JV, \$321.1 million from the Interim Program, and \$178.7 million from JCR separate accounts. For the year ended December 31, 2018, includes \$350.0 million from the Interim Program JV, \$643.1 million from the Interim Program, and \$166.2 million from JCR separate accounts. For the year ended December 31, 2017, includes \$139.5 million from the Interim Program JV and \$177.9 million from the Interim Program.
- (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) Excludes the income and debt financing volume from Principal Lending and Investing.
- (5) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained, as a percentage of Agency volume.
- (6) Brokered loans serviced primarily for life insurance companies.
- (7) Consists of interim loans not managed for the Interim Program JV.
- (8) As of December 31, 2019, includes \$670.5 million of Interim Program JV managed loans, \$70.5 million of loans serviced directly for the Interim Program JV partner, and JCR assets under management of \$1.2 billion. As of December 31, 2018, includes \$334.6 million of Interim Program JV managed loans, \$70.1 million of loans serviced directly for the Interim Program JV partner, and JCR assets under management of \$1.0 billion. As of December 31, 2017, includes \$182.2 million of Interim Program JV managed loans.

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Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table presents a period-to-period comparison of our financial results for the years ended December 31, 2019 and 2018.

FINANCIAL RESULTS – 2019 COMPARED TO 2018

<i>(dollars in thousands)</i>	For the year ended		Dollar Change	Percentage Change
	December 31, 2019	2018		
Revenues				
Loan origination and debt brokerage fees, net	\$ 258,471	\$ 234,681	\$ 23,790	10 %
Fair value of expected net cash flows from servicing, net	180,766	172,401	8,365	5
Servicing fees	214,550	200,230	14,320	7
Net warehouse interest income, loans held for sale	1,917	5,993	(4,076)	(68)
Net warehouse interest income, loans held for investment	23,782	8,038	15,744	196
Escrow earnings and other interest income	56,835	42,985	13,850	32
Property sales broker fees	30,917	17,257	13,660	79
Other revenues	49,981	43,661	6,320	14
Total revenues	\$ 817,219	\$ 725,246	\$ 91,973	13
Expenses				
Personnel	\$ 346,168	\$ 297,303	\$ 48,865	16 %
Amortization and depreciation	152,472	142,134	10,338	7
Provision (benefit) for credit losses	7,273	808	6,465	800
Interest expense on corporate debt	14,359	10,130	4,229	42
Other operating expenses	66,596	62,021	4,575	7
Total expenses	\$ 586,868	\$ 512,396	\$ 74,472	15
Income from operations	\$ 230,351	\$ 212,850	\$ 17,501	8
Income tax expense	57,121	51,908	5,213	10
Net income before noncontrolling interests	\$ 173,230	\$ 160,942	\$ 12,288	8
Less: net income (loss) from noncontrolling interests	(143)	(497)	354	(71)
Walker & Dunlop net income	\$ 173,373	\$ 161,439	\$ 11,934	7

Overview

The increase in revenues was primarily attributable to increases in (i) origination fees (as defined in note 1 to the table below) and MSR income (as defined in note 2 to the table below) due primarily to an increase in debt financing volume, (ii) servicing fees due to a year-over-year increase in the average servicing portfolio, (iii) net warehouse interest income from loans held for investment due to a substantially higher average balance of loans held for investment year over year, (iv) escrow earnings and other interest income principally related to increases in the escrow balances of loans serviced and the annual average escrow earnings rate, (v) property sales broker fees as a result of a nearly doubling of property sales volume year over year, and (vi) other revenues primarily from an increase in prepayment fees. Partially offsetting the increases in other revenue streams was a decrease in net warehouse interest income from loans held for sale due to a lower net interest spread on loans held for sale year over year.

The increase in total expenses was due primarily to increases in (i) personnel expense mostly due to increases in salaries expense resulting from a rise in average headcount year over year and commissions costs due to the increases in loan origination and debt brokerage fees, net and property sales broker fees, (ii) amortization and depreciation costs due to an increase in the average balance of MSRs outstanding year over year, (iii) provision for credit losses due to three loan defaults in 2019 compared to none in 2018, and (iv) other operating expenses due primarily to the aforementioned increase in the average headcount and an increase in recruiting costs.

Revenues

The following table provides additional information that helps explain changes in origination fees and mortgage servicing rights over the past three years:

	Debt Financing Volume by Product Type		
	For the year ended December 31,		
	2019	2018	2017
Fannie Mae	30 %	31 %	32 %
Freddie Mac	24	28	32
Ginnie Mae - HUD	3	4	5
Brokered	39	33	30
Interim Loans	4	4	1

	For the year ended December 31,		
	2019	2018	2017
<i>(dollars in thousands)</i>			
Origination Fees (1)	\$ 258,471	\$ 234,681	\$ 245,484
<i>Dollar Change</i>	\$ 23,790	\$ (10,803)	
<i>Percentage Change</i>	10 %	(4)%	
MSR Income (2)	\$ 180,766	\$ 172,401	\$ 193,886
<i>Dollar Change</i>	\$ 8,365	\$ (21,485)	
<i>Percentage Change</i>	5 %	(11)%	
Origination Fee Rate (3) (basis points)	100	96	99
<i>Basis Point Change</i>	4	(3)	
<i>Percentage Change</i>	4 %	(3)%	
MSR Rate (4) (basis points)	71	71	79
<i>Basis Point Change</i>	-	(8)	
<i>Percentage Change</i>	-	(10)%	
Agency MSR Rate (5) (basis points)	118	109	113
<i>Basis Point Change</i>	9	(4)	
<i>Percentage Change</i>	8 %	(4)%	

- (1) Loan origination and debt brokerage fees, net
- (2) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained.
- (3) Origination fees as a percentage of debt financing volume, excluding the income and debt financing volume from principal lending and investing.
- (4) MSR income as a percentage of debt financing volume, excluding the income and debt financing volume from principal lending and investing.
- (5) MSR income as a percentage of Agency debt financing volume.

Loan origination and debt brokerage fees, net and fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained. The increase in origination fees was primarily the result of a 5% increase in debt financing volume year over year along with a slight increase in origination fee rate. The increase in MSR income is principally related to the increase in debt financing volume.

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

Servicing Fees. The increase was primarily attributable to an increase in the average servicing portfolio from 2018 to 2019 as shown below due primarily to new loan originations and relatively few payoffs. Partially offsetting the increase in servicing fees due to an increase in the average servicing portfolio was a decrease in the servicing portfolio’s weighted

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average servicing fee as shown below primarily because the weighted-average servicing fee on our new Fannie Mae originations was less than the weighted-average servicing fee of Fannie Mae loans that matured or pre-paid during 2019.

<i>(dollars in thousands)</i>	Servicing Fees Details		
	For the year ended December 31,		
	2019	2018	2017
Average Servicing Portfolio	\$ 89,633,210	\$ 78,635,979	\$ 67,072,015
<i>Dollar Change</i>	\$ 10,997,231	\$ 11,563,964	
<i>Percentage Change</i>	14 %	17 %	
Average Servicing Fee (basis points)	23.7	25.2	26.2
<i>Basis Point Change</i>	(1.5)	(1.0)	
<i>Percentage Change</i>	(6)%	(4)%	

Net Warehouse Interest Income, Loans Held for Sale (“LHFS”). The decrease was largely the result of a decrease in the average balance and a significant decrease in the net spread as shown below. The decrease in the net spread was the result of a greater increase in the short-term interest rates on which our borrowings are based than in the long-term interest rates on which the majority of our loans held for sale are based, principally during the first nine months of 2019.

<i>(dollars in thousands)</i>	Net Warehouse Interest Income Details - LHFS		
	For the year ended December 31,		
	2019	2018	2017
Average LHFS Outstanding Balance	\$ 1,108,945	\$ 1,310,589	\$ 1,613,898
<i>Dollar Change</i>	\$ (201,644)	\$ (303,309)	
<i>Percentage Change</i>	(15)%	(19)%	
LHFS Net Spread (basis points)	17	46	93
<i>Basis Point Change</i>	(29)	(47)	
<i>Percentage Change</i>	(63)%	(51)%	

Net Warehouse Interest Income, Loans Held for Investment (“LHFI”). The increase was due to the substantial increase in the average balance of loans held for investment outstanding from 2018 to 2019. The increase in the average balance was due to an increase in the average servicing portfolio. If we originate the majority of our interim loans through the Interim Program JV, net warehouse interest income from LHFI will be lower than if we originate them entirely through the Interim Program. Such a decrease in net warehouse interest income from LHFI would be partially offset by our portion of the net income generated by the Interim Program JV. Additionally, a large loan that was fully funded with corporate cash paid off in the first quarter of 2020.

<i>(dollars in thousands)</i>	Net Warehouse Interest Income Details - LHFI		
	For the year ended December 31,		
	2019	2018	2017
Average LHFI Outstanding Balance	\$ 402,112	\$ 136,160	\$ 211,476
<i>Dollar Change</i>	\$ 265,952	\$ (75,316)	
<i>Percentage Change</i>	195 %	(36)%	
LHFI Net Spread (basis points)	591	590	444
<i>Basis Point Change</i>	1	146	
<i>Percentage Change</i>	0 %	33 %	

Escrow Earnings and Other Interest Income. The increase was due to increases in both the average balance of escrow accounts and the average earnings rate from 2018 to 2019. The increase in the average balance was due to an increase in the average servicing portfolio. The increase in the average earnings rate was due to the increase in short-term interest rates upon which our earnings rates are based, principally during the first nine months of 2019.

Property Sales Broker Fees. The increase in 2019 was the result of a substantial increase in property sales volume due largely to additions of property sales brokers over the past year and the favorable property sales market in 2019 as more fully discussed above in the “Overview of Current Business Environment” section.

Other Revenues. The increase was primarily related to a \$7.9 million increase in prepayment fees as more of the loans in our servicing portfolio paid off during 2019 than in 2018 and a \$1.0 million increase in income from the Interim

JV due to an increased balance of Interim JV loans outstanding during 2019, partially offset by a \$3.4 million decrease in income from preferred equity investments as we did not have any preferred equity investments outstanding during 2019.

Expenses

Personnel. The increase was primarily the result of a \$16.3 million increase in salaries and benefits due to hiring to support our growth, resulting in a 14% increase in the average headcount from 671 for the year ended December 31, 2018 to 765 for the year ended December 31, 2019. Additionally, commission costs increased \$24.8 million due to the increases in origination fees and property sales broker fees detailed above. Lastly, subjective bonus expense increased \$6.4 million due to the aforementioned increase in average headcount and due our improved financial performance year over year.

Amortization and Depreciation. The increase was attributable to loan origination activity and the resulting growth in the average MSR balance outstanding from 2018 to 2019. During the year ended December 31, 2019, we added \$48.7 million of MSRs, net of amortization and write offs due to prepayment.

Provision (Benefit) for Credit Losses. During the year ended December 31, 2019, three loans defaulted, two of which were in our at-risk portfolio and resulted in specific reserves of \$6.9 million. The properties related to these two at risk loans are located in the same city. The Company does not have any additional at risk loans related to properties in this geographical area. During the year ended December 31, 2018, we experienced no defaults of any at risk loans.

Interest Expense on Corporate Debt. The increase in the outstanding balance of our long-term debt was the primary driver of the increases in interest expense on corporate debt, partially offset by lower interest rates. We refinanced our long-term debt in the fourth quarter of 2018, increasing the balance \$134.6 million while reducing the spread on the interest rate by 75 basis points. We re-priced our long-term debt in December of 2019, reducing the spread by another 25 basis points.

Other Operating Expenses. The increase was primarily attributable to a \$3.0 million increase in office expenses as a result of the aforementioned increase in average headcount and new offices added in 2019 and a \$2.9 million increase in recruiting costs to support the growth of our mortgage banker and property sales broker teams in 2019.

Income Tax Expense. The increase in income tax expense related to the 8% increase in income from operations and a \$2.2 million decrease in realizable excess tax benefits due to significantly fewer exercises of stock options during 2019 compared to 2018 and due to lower executive compensation deductions in 2019 relative to 2018, resulting in a 24.8% effective tax rate for 2019 compared to 24.4% in 2018.

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

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

FINANCIAL RESULTS – 2018 COMPARED TO 2017

	For the year ended		Dollar Change	Percentage Change
	December 31, 2018	2017		
<i>(dollars in thousands)</i>				
Revenues				
Loan origination and debt brokerage fees, net	\$ 234,681	\$ 245,484	\$ (10,803)	(4)%
Fair value of expected net cash flows from servicing, net	172,401	193,886	(21,485)	(11)
Servicing fees	200,230	176,352	23,878	14
Net warehouse interest income, loans held for sale	5,993	15,077	(9,084)	(60)
Net warehouse interest income, loans held for investment	8,038	9,390	(1,352)	(14)
Escrow earnings and other interest income	42,985	20,396	22,589	111
Property sales broker fees	17,257	19,213	(1,956)	(10)
Other revenues	43,661	32,059	11,602	36
Total revenues	\$ 725,246	\$ 711,857	\$ 13,389	2
Expenses				
Personnel	\$ 297,303	\$ 289,277	\$ 8,026	3 %
Amortization and depreciation	142,134	131,246	10,888	8
Provision for credit losses	808	(243)	1,051	(433)
Interest expense on corporate debt	10,130	9,745	385	4
Other operating expenses	62,021	48,171	13,850	29
Total expenses	\$ 512,396	\$ 478,196	\$ 34,200	7
Income from operations	\$ 212,850	\$ 233,661	\$ (20,811)	(9)
Income tax expense	51,908	21,827	30,081	138
Net income before noncontrolling interests	\$ 160,942	\$ 211,834	\$ (50,892)	(24)
Less: net income from noncontrolling interests	(497)	707	(1,204)	(170)
Walker & Dunlop net income	\$ 161,439	\$ 211,127	\$ (49,688)	(24)

Overview

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

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

Revenues

The following table provides additional information that helps explain changes in origination fees and mortgage servicing rights over the past three years:

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

	For the year ended December 31,		
	2018	2017	2016
<i>(dollars in thousands)</i>			
Origination Fees (1)	\$ 234,681	\$ 245,484	\$ 174,360
<i>Dollar Change</i>	\$ (10,803)	\$ 71,124	
<i>Percentage Change</i>	(4)%	41 %	
MSR Income (2)	\$ 172,401	\$ 193,886	\$ 192,825
<i>Dollar Change</i>	\$ (21,485)	\$ 1,061	
<i>Percentage Change</i>	(11)%	1 %	
Origination Fee Rate (3) (basis points)	96	99	106
<i>Basis Point Change</i>	(3)	(7)	
<i>Percentage Change</i>	(3)%	(7)%	
MSR Rate (4) (basis points)	71	79	118
<i>Basis Point Change</i>	(8)	(39)	
<i>Percentage Change</i>	(10)%	(33)%	
Agency MSR Rate (5) (basis points)	109	113	159
<i>Basis Point Change</i>	(4)	(46)	
<i>Percentage Change</i>	(4)%	(29)%	

- (1) Loan origination and debt brokerage fees, net
- (2) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained.
- (3) Origination fees as a percentage of debt financing volume, excluding the income and debt financing volume from principal lending and investing.
- (4) MSR income as a percentage of debt financing volume, excluding the income and debt financing volume from principal lending and investing.
- (5) MSR income as a percentage of Agency debt financing volume.

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

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

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

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portfolio as well as the aforementioned decrease in the weighted average servicing fee of new Fannie Mae loan originations.

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

Net Warehouse Interest Income, Loans Held for Sale. The decrease was largely the result of a decrease in the average balance and a significant decrease in the net spread as shown below. The decrease in the net spread was the result of a greater increase in the short-term interest rates on which our borrowings are based than in the long-term interest rates on which the majority of our loans held for sale are based.

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

Escrow Earnings and Other Interest Income. The increase was due to increases in both the average balance of escrow accounts and the average earnings rate from 2017 to 2018. The increase in the average balance was due to an increase in the average servicing portfolio. The increase in the average earnings rate was due to the increase in short-term interest rates, upon which our earnings rates are based.

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

Expenses

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

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

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

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

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

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

Non-GAAP Financial Measures

To supplement our financial statements presented in accordance with GAAP, we use adjusted EBITDA, a non-GAAP financial measure. The presentation of adjusted EBITDA is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. When analyzing our operating performance, readers should use adjusted EBITDA in addition to, and not as an alternative for, net income. Adjusted EBITDA represents net income before income taxes, interest expense on our term loan facility, and amortization and depreciation, adjusted for provision (benefit) for credit losses net of write-offs, stock-based incentive compensation charges, and fair value of expected net cash flows from servicing, net. Additionally, adjusted EBITDA further includes or excludes other significant non-cash items that are not part of our ongoing operations. Because not all companies use identical calculations, our presentation of adjusted EBITDA may not be comparable to similarly titled measures of other companies. Furthermore, adjusted EBITDA is not intended to be a measure of free cash flow for our management's discretionary use, as it does not reflect certain cash requirements such as tax and debt service payments. The amounts shown for adjusted EBITDA may also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges that are used to determine compliance with financial covenants.

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

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

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

Adjusted EBITDA is calculated as follows:

ADJUSTED FINANCIAL METRIC RECONCILIATION TO GAAP

<i>(in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
<i>Reconciliation of Walker & Dunlop Net Income to Adjusted EBITDA</i>			
Walker & Dunlop Net Income	\$ 173,373	\$ 161,439	\$ 211,127
Income tax expense	57,121	51,908	21,827
Interest expense on corporate debt	14,359	10,130	9,745
Amortization and depreciation	152,472	142,134	131,246
Provision (benefit) for credit losses	7,273	808	(243)
Net write-offs	—	—	—
Stock compensation expense	24,075	23,959	21,134
Fair value of expected net cash flows from servicing, net	(180,766)	(172,401)	(193,886)
Unamortized issuance costs from early debt extinguishment	—	2,104	—
Adjusted EBITDA	<u>\$ 247,907</u>	<u>\$ 220,081</u>	<u>\$ 200,950</u>

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table presents a period-to-period comparison of our adjusted EBITDA for the year ended December 31, 2019 and 2018:

ADJUSTED EBITDA – 2019 COMPARED TO 2018

<i>(dollars in thousands)</i>	For the year ended		Dollar Change	Percentage Change
	December 31, 2019	December 31, 2018		
Loan origination and debt brokerage fees, net	\$ 258,471	\$ 234,681	\$ 23,790	10 %
Servicing fees	214,550	200,230	14,320	7
Net warehouse interest income	25,699	14,031	11,668	83
Escrow earnings and other interest income	56,835	42,985	13,850	32
Other revenues	81,041	61,415	19,626	32
Personnel	(322,093)	(273,344)	(48,749)	18
Net write-offs	—	—	—	N/A
Other operating expenses	(66,596)	(59,917)	(6,679)	11
Adjusted EBITDA	<u>\$ 247,907</u>	<u>\$ 220,081</u>	<u>\$ 27,826</u>	<u>13</u>

See the table above for the components of the change in adjusted EBITDA. The increase in origination fees (as defined above) was primarily related to an increase in debt financing volumes year over year. Servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new debt financing volume and relatively few payoffs. The increase in net warehouse interest income was related to increased income from LHFI due to an increase in the average balance outstanding, partially offset by a decrease in net warehouse interest income from LHFS. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate. Other revenues increased primarily due to increases in prepayment fees and property sales broker fees.

The increase in personnel expense was primarily due to increased salaries and benefits expense due to a rise in headcount, commissions expense resulting from the increases in origination fees and property sales broker fees, and subjective bonus related to the rise in headcount and the improvement in the Company's financial performance year over year. Other operating expenses increased primarily as a result of increased occupancy costs due to the larger average headcount period over period and additional costs for recruiting to support the growth of our mortgage banker and property sales broker teams in 2019.

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

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

ADJUSTED EBITDA – 2018 COMPARED TO 2017

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

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

Financial Condition***Cash Flows from Operating Activities***

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

Cash Flow from Investing Activities

Our cash flows from investing activities include the funding and repayment of loans held for investment and preferred equity investments, the contribution to and distribution from the Interim Program JV, the acquisition and disposition of equity-method investments, and the purchase of available-for-sale (“AFS”) securities pledged to Fannie Mae. We opportunistically invest cash for acquisitions and MSR portfolio purchases.

Cash Flow from Financing Activities

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

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Years Ended December 31, 2019 Compared to Years Ended December 31, 2018

The following table presents a period-to-period comparison of the significant components of cash flows for the year ended December 31, 2019 and 2018.

SIGNIFICANT COMPONENTS OF CASH FLOWS – 2019 COMPARED TO 2018

<i>(dollars in thousands)</i>	For the year ended December 31,		Dollar Change	Percentage Change
	2019	2018		
Net cash provided by (used in) operating activities	\$ 427,561	\$ 64,076	\$ 363,485	567 %
Net cash provided by (used in) investing activities	(79,705)	(552,238)	472,533	(86)
Net cash provided by (used in) financing activities	(331,638)	321,830	(653,468)	(203)
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period ("Total cash")	136,566	120,348	16,218	13
Cash flows from (used in) operating activities				
Net receipt (use) of cash for loan origination activity	\$ 260,961	\$ (102,071)	\$ 363,032	(356)%
Net cash provided by (used in) operating activities, excluding loan origination activity	166,600	166,147	453	0
Cash flows from (used in) investing activities				
Net purchases of pledged available-for-sale securities	\$ (7,855)	\$ (98,442)	\$ 90,587	(92)%
Net proceeds from the payoff of preferred equity investments	—	41,719	(41,719)	(100)
Distributions from (investments in) joint ventures, net	(15,944)	(4,137)	(11,807)	285
Acquisitions, net of cash received	(7,180)	(53,249)	46,069	(87)
Originations of loans held for investment	(362,924)	(597,889)	234,965	(39)
Total principal collected on loans held for investment	319,832	161,303	158,529	98
Net payoff of (investment in) loans held for investment	\$ (43,092)	\$ (436,586)	\$ 393,494	(90)%
Cash flows from (used in) financing activities				
Borrowings (repayments) of warehouse notes payable, net	\$ (367,864)	\$ 139,298	\$ (507,162)	(364)%
Borrowings of interim warehouse notes payable	179,765	145,043	34,722	24
Repayments of interim warehouse notes payable	(67,871)	(61,050)	(6,821)	11
Repayments of note payable	(2,250)	(166,223)	163,973	(99)
Borrowings of note payable	—	298,500	(298,500)	(100)
Secured borrowings	—	70,052	(70,052)	(100)
Repurchase of common stock	(30,676)	(68,832)	38,156	(55)
Cash dividends paid	(37,272)	(31,445)	(5,827)	19
Proceeds from issuance of common stock	5,511	8,949	(3,438)	(38)

The increase in the Total cash balance from December 31, 2018 to December 31, 2019 is primarily the result of our investing and financing activities. Substantial decreases in purchases of pledged AFS securities, the size and number of acquisitions, and the decrease in the net investment in loans held for investment led to the decrease in the amount of cash used in investing activity shown above. Additionally, in 2018 we made significant cash outlays to repurchase common stock, along with substantial increases in net borrowings of note payable and secured borrowings.

Changes in cash flows from operations were driven primarily by loans originated and sold. Such loans are held for short periods of time, generally less than 60 days, and impact cash flows presented as of a point in time. The increase in cash flows from operations year over year is primarily attributable to the net receipt of \$0.3 billion for the funding of loan originations, net of sales of loans to third parties during 2019 compared to the net use of \$0.1 billion during 2018. Excluding cash used for the origination and sale of loans, cash flows provided by operations was \$166.6 million during 2019 compared to \$166.1 million during 2018.

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The increase in cash provided by (used in) investing activities is primarily attributable to a substantial decrease in the investment in loans held for investment and reductions in the net purchases of pledged AFS securities and cash paid for acquisitions, partially offset by an increase in investments in joint ventures and a decrease in the proceeds from the payoff of preferred equity investments. The net investment in loans held for investment during 2019 was \$43.1 million compared to net investment in loans held for investment of \$436.6 million during 2018. A much larger percentage of the originations in 2019 was funded using borrowings than in 2018. For example, the origination activity in 2018 included a \$150.0 million loan funded entirely using corporate cash with no comparable activity in 2019, and this loan was substantially repaid in 2019. The reduction in purchases of pledged AFS securities is due to most of our pledged cash and money market fund having been invested in previous periods. We began an initiative in the fourth quarter of 2017 to invest pledged collateral in AFS securities. During 2018, a larger balance of collateral was available to invest than 2019 as we made multiple purchases of these securities throughout 2018 and have not sold any investments and have had relatively few prepayments in 2019. The decrease in cash used for acquisitions is due to a year-over-year decrease in the size of the companies acquired. The increase in the cash invested in joint ventures was the result of net origination activity by the Interim Program JV and the startup of our appraisal JV. During 2019, the Interim Program JV had a larger level of net loan originations, resulting in a larger level of capital invested by us in the Interim Program JV.

The change in cash provided by (used in) financing activities was primarily attributable to the change in net warehouse borrowings period to period and decreases in the net borrowing of note payable and secured borrowings, partially offset by an increase in net borrowings of interim warehouse notes payable and a decrease in the repurchases of common stock. The change in net borrowings (repayments) of warehouse borrowings during 2019 was due to the change in the unpaid principal balance of LHFS funded by Agency Warehouse Facilities (as defined below) from December 31, 2018 to December 31, 2019 and from December 31, 2017 to December 31, 2018. During 2019, the unpaid principal balance of LHFS funded by Agency Warehouse Facilities decreased \$261.0 million from their December 31, 2018 balance compared to an increase of \$102.1 million during the same period in 2018.

The change in net borrowings of interim warehouse notes payable was principally due to interim loan origination and repayment activity period over period. During 2019, interim loans originated were funded principally from interim warehouse notes payable, and the interim loans that paid off were largely fully funded with corporate cash in prior years, resulting in net borrowings for interim warehouse loans in the current year. During 2018, the net repayments of interim warehouse notes payable was principally due to the Company's fully funding a large portfolio of loans held for investment at the end of the second quarter of 2018. The secured borrowings in 2018 were the result of a unique transaction in 2018, with no comparable activity in 2019. The change in the net borrowings of note payable is related to the refinance of our term debt in 2018, with no comparable activity in 2019. The decrease in cash used for share repurchases is primarily related to a decrease in share repurchases under stock buyback programs year over year. The increase in cash dividends paid is the result of our increasing the dividends paid per share by 20% year over year. The decrease in the proceeds from the issuance of common stock is principally related to a year-over-year decrease in the number of stock options exercised. Only 65 thousand shares were exercised during 2019 compared to 348 thousand in 2018.

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

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

SIGNIFICANT COMPONENTS OF CASH FLOWS – 2018 COMPARED TO 2017

<i>(dollars in thousands)</i>	For the year ended December 31,		Dollar Change	Percentage Change
	2018	2017		
Net cash provided by (used in) operating activities	\$ 64,076	\$ 1,067,642	\$ (1,003,566)	(94)%
Net cash provided by (used in) investing activities	(552,238)	97,170	(649,408)	(668)
Net cash provided by (used in) financing activities	321,830	(1,089,491)	1,411,321	(130)
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period ("Total Cash")	120,348	286,680	(166,332)	(58)
Cash flows from operating activities				
Net receipt (use) of cash for loan origination activity	\$ (102,071)	\$ 919,491	\$ (1,021,562)	(111)%
Net cash provided by (used in) operating activities, excluding loan origination activity	166,147	148,151	17,996	12
Cash flows from investing activities				
Proceeds from the sale of equity-method investments	\$ 4,993	\$ —	\$ 4,993	N/A %
Purchases of pledged available-for-sale securities	(98,442)	(6,966)	(91,476)	1,313
Funding of preferred equity investments	(41,100)	(16,884)	(24,216)	143
Proceeds from the payoff of preferred equity investments	82,819	—	82,819	N/A
Capital invested in the Interim Program JV, net	(4,137)	(6,342)	2,205	(35)
Acquisitions, net of cash received	(53,249)	(15,000)	(38,249)	255
Purchase of mortgage servicing rights	(1,814)	(7,781)	5,967	(77)
Originations of loans held for investment	\$ (597,889)	\$ (183,916)	\$ (413,973)	225
Total principal collected on loans held for investment	161,303	339,266	(177,963)	(52)
Net payoff of (investment in) loans held for investment	\$ (436,586)	\$ 155,350	\$ (591,936)	(381)%
Cash flows from financing activities				
Borrowings (repayments) of warehouse notes payable, net	\$ 139,298	\$ (955,040)	\$ 1,094,338	(115)%
Borrowings of interim warehouse notes payable	145,043	140,341	4,702	3
Repayments of interim warehouse notes payable	(61,050)	(237,912)	176,862	(74)
Repayments of note payable	(166,223)	(1,104)	(165,119)	14,956
Borrowings of note payable	298,500	—	298,500	N/A
Secured borrowings	70,052	—	70,052	N/A
Repurchase of common stock	(68,832)	(34,899)	(33,933)	97
Cash dividends paid	(31,445)	—	(31,445)	N/A
Proceeds from issuance of common stock	8,949	3,013	5,936	197
Payment of contingent consideration	(5,150)	—	(5,150)	N/A
Debt issuance costs	(7,312)	(3,890)	(3,422)	88

The decrease of \$166.3 million in the Total Cash balance from December 31, 2017 to December 31, 2018 is primarily the result of our investing and financing activities. Substantial increases in purchases of pledged AFS securities, the size and number of acquisitions, and investments in loans held for investment led to the significant amount of cash used in investing activity shown above. Additionally, we made significant cash outlays to repurchase common stock and pay cash dividends. Partially offsetting these cash outlays were substantial increases in net borrowings of note payable and secured borrowings and a decrease in cash repayments of interim warehouse notes payable.

Changes in cash flows from operations were driven primarily by loans acquired and sold. Such loans are held for short periods of time, generally less than 60 days, and impact cash flows presented as of a point in time. The decrease in cash flows from operations year over year is primarily attributable to the net use of \$0.1 billion for the funding of loan originations, net of sales of loans to third parties during 2018 compared to the net receipt of \$0.9 billion during 2017. Excluding cash used for the origination and sale of loans, cash flows provided by operations was \$166.1 million during

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2018 compared to \$148.2 million during 2017. The significant components of the change included a \$48.4 million increase in deferred tax expense (a non-cash adjustment) due to Tax Reform and a \$21.5 million lower adjustment to net income for gains attributable to the fair value of future servicing rights, partially offset by a \$50.9 million decrease in net income before noncontrolling interests.

The reduction in cash provided by (used in) investing activities is primarily attributable to a change in the net payoff of (investment in) loans held for investment and an increase in the purchases of pledged AFS securities, partially offset by an increase in proceeds from the payoff of preferred equity investments. The net investment in loans held for investment during 2018 was \$436.6 million compared to net payoff of loans held for investment of \$155.4 million during 2017. Of the \$436.6 million of the net investment in loans held for investment during 2018, \$84.0 million was funded using interim warehouse borrowings (included in cash flows from financing activities), with the other \$352.6 million funded using corporate cash. Of the \$155.4 million of the net payoff of loans held for investment during 2017, \$97.6 million was funded using interim warehouse borrowings, with the other \$57.8 million funded using corporate cash. The increase in purchases of pledged AFS securities is due to a Company initiative to invest pledged collateral in AFS securities that began near the end of 2017. The decrease in cash paid for mortgage servicing rights was due to the substantially smaller size of the servicing portfolio purchased in 2018. The increase in cash used to fund preferred equity investments was principally due to a short-term preferred equity investment of \$40.0 million in 2018, with no comparable transaction in 2017. The increase in the proceeds from the payoff of preferred equity investments was due to the repayment of the aforementioned \$40.0 million short-term preferred equity investment and \$41.8 million of preferred equity investments made over the past several years, as expected. Net cash paid for acquisitions increased due to an increase in the size and number of acquisitions year over year. The increase in the proceeds from the sale of equity-method investments was due to the sale of our small investment in a technology company, with no comparable activity in 2017.

The substantial change in cash provided by (used in) financing activities was primarily attributable to the changes in net warehouse borrowings and the change in the repayments of interim warehouse borrowings period to period and an increase in borrowings of note payable, partially offset by increases in repayments of note payable, repurchases of common stock, and cash dividends paid. The change in net borrowings (repayments) of warehouse borrowings in 2018 was due to a smaller increase in the unpaid principal balance of loans held for sale funded by Agency Warehouse Facilities (as defined below) from December 31, 2017 to December 31, 2018 than from December 31, 2016 to December 31, 2017. During 2018, the unpaid principal balance of loans held for sale funded by Agency Warehouse Facilities increased \$102.1 million from their December 31, 2017 balance compared to a decrease of \$919.5 million during the same period in 2017. Substantially all of the loans held for sale at the end of each period were funded with warehouse borrowings, with some loans held for sale funded with corporate cash.

The significant change in net repayments of interim warehouse notes payable was principally due to the Company's fully funding more loans in 2018 than in 2017. Most of this funding is expected to be short term. We typically fund a large portion of loans held for investment with interim warehouse borrowings. We refinanced our long-term debt during 2018, substantially increasing our long-term debt outstanding and leading to the increases in proceeds from note payable and repayment of note payable. The secured borrowings in 2018 were the result of a unique transaction in 2018, with no comparable activity in 2017. During the first quarter of 2018, we paid the first cash dividend in our history as a public company and have continued to pay cash dividends since. The increase in the repurchase of common stock was due to our using substantially all of the \$50.0 million authorized repurchase capacity in 2018 compared to using much less of the repurchase capacity in 2017 under repurchase programs as more fully discussed below in the "Uses of Liquidity, Cash and Cash Equivalents" section.

Liquidity and Capital Resources

Uses of Liquidity, Cash and Cash Equivalents

Our significant recurring cash flow requirements consist of (i) short-term liquidity necessary to fund loans held for sale; (ii) liquidity necessary to fund loans held for investment under the Interim Program; (iii) liquidity necessary to pay cash dividends; (iv) liquidity necessary to fund our portion of the equity necessary for the operations of the Interim Program JV and our appraisal JV; (v) working capital to support our day-to-day operations, including debt service payments and payments for salaries, commissions, and income taxes; and (vi) working capital to satisfy collateral requirements for our

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Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae, and our warehouse facility lenders.

Fannie Mae has established benchmark standards for capital adequacy and reserves the right to terminate our servicing authority for all or some of the portfolio if at any time it determines that our financial condition is not adequate to support our obligations under the DUS agreement. We are required to maintain acceptable net worth as defined in the standards, and we satisfied the requirements as of December 31, 2019. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. As of December 31, 2019, the net worth requirement was \$194.6 million, and our net worth was \$710.6 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of December 31, 2019, we were required to maintain at least \$38.3 million of liquid assets to meet our operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, Ginnie Mae and our warehouse facility lenders. As of December 31, 2019, we had operational liquidity of \$227.0 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

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, 2017, we had preferred equity investments with one borrower totaling \$41.7 million, all of which were repaid during the year ended December 31, 2018. We made no preferred equity investments during the year ended December 31, 2019.

Prior to 2018, we retained all earnings for the operation and expansion of our business and, therefore, did not pay cash dividends on our common stock. However, we paid a cash dividend of \$0.25 per share each quarter of 2018 and \$0.30 per share each quarter of 2019. In February 2020, the Company's Board of Directors declared a dividend of \$0.36 per share for the first quarter of 2020. The dividend will be paid March 9, 2020 to all holders of record of our restricted and unrestricted common stock as of February 21, 2020. We expect to continue to make regular quarterly dividend payments for the foreseeable future.

Over the past three years, we have returned \$148.2 million to investors in the form of the repurchase of 1.7 million shares of our common stock under share repurchase programs for a cost of \$79.6 million and cash dividend payments of \$68.6 million. Additionally, we have invested \$177.2 million in acquisitions and the purchase of MSRs. On occasion, we may use cash to fully fund loans held for investment or loans held for sale instead of using our warehouse line. As of December 31, 2019, we used corporate cash to fully fund loans held for investment with an unpaid principal balance of \$230.3 million and loans held for sale with an unpaid principal balance of \$109.0 million. We continually seek opportunities to execute additional acquisitions and purchases of MSRs and complete such acquisitions if we believe the economics are favorable.

In February 2018, our Board of Directors approved a stock repurchase program that permitted the repurchase of up to \$50.0 million of shares of our common stock over a 12-month period beginning on February 9, 2018. In 2018, we repurchased 1.2 million shares for an aggregate cost of \$57.0 million. In February 2019, our Board of Directors approved a new stock repurchase program that permitted the repurchase of up to \$50.0 million of shares of our common stock over a 12-month period beginning on February 11, 2019. In 2019, we repurchased 0.1 million shares for an aggregate cost of \$6.6 million. In February 2020, our Board of Directors approved a new stock repurchase program that permits the repurchase of up to \$50.0 million of shares of our common stock over a 12-month period beginning on February 11, 2020.

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

Restricted Cash and Pledged Securities

Restricted cash consists primarily of good faith deposits held on behalf of borrowers between the time we enter into a loan commitment with the borrower and the investor purchases the loan.

We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. We are required to secure this obligation by assigning collateral to Fannie Mae. We meet this obligation by

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assigning pledged securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires collateral for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. The restricted liquidity requirements for Tier 3 and Tier 4 loans is substantially less. Collateral held in the form of money market funds holding U.S. Treasuries is discounted 5%, and Agency MBS are discounted 4% for purposes of calculating compliance with the collateral requirements. As of December 31, 2019, we held substantially all of our restricted liquidity in Agency MBS in the aggregate amount of \$114.6 million. Additionally, the majority of the loans for which we have risk sharing are Tier 2 loans. We fund any growth in our Fannie Mae required operational liquidity and collateral requirements from our working capital.

We are in compliance with the December 31, 2019 collateral requirements as outlined above. As of December 31, 2019, reserve requirements for the December 31, 2019 DUS loan portfolio will require us to fund \$63.9 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any future changes to have a material impact on our future operations; however, any future changes to collateral requirements may adversely impact our available cash.

Under the provisions of the DUS agreement, we must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. We satisfied these requirements as of December 31, 2019.

Sources of Liquidity: Warehouse Facilities

The following table provides information related to our warehouse facilities as of December 31, 2019.

<i>(dollars in thousands)</i> Facility	December 31, 2019				Interest rate
	Committed Amount	Uncommitted Amount	Total Capacity	Facility Outstanding Balance	
Agency Warehouse Facility #1	\$ 350,000	\$ 200,000	\$ 550,000	\$ 148,877	30-day LIBOR plus 1.15%
Agency Warehouse Facility #2	500,000	300,000	800,000	15,291	30-day LIBOR plus 1.15%
Agency Warehouse Facility #3	500,000	265,000	765,000	35,510	30-day LIBOR plus 1.15%
Agency Warehouse Facility #4	350,000	—	350,000	258,045	30-day LIBOR plus 1.15%
Agency Warehouse Facility #5	—	500,000	500,000	60,751	30-day LIBOR plus 1.15%
Agency Warehouse Facility #6	250,000	100,000	350,000	14,930	30-day LIBOR plus 1.15%
Total National Bank Agency Warehouse Facilities	\$ 1,950,000	\$ 1,365,000	\$ 3,315,000	\$ 533,404	
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	1,500,000	131,984	
Total Agency Warehouse Facilities	\$ 1,950,000	\$ 2,865,000	\$ 4,815,000	\$ 665,388	
Interim Warehouse Facility #1	135,000	—	135,000	98,086	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	100,000	49,256	30-day LIBOR plus 1.65%
Interim Warehouse Facility #3	75,000	75,000	150,000	65,991	30-day LIBOR plus 1.90% to 2.50%
Interim Warehouse Facility #4	100,000	—	100,000	28,100	30-day LIBOR plus 1.75%
Total National Bank Interim Warehouse Facilities	\$ 410,000	\$ 75,000	\$ 485,000	\$ 241,433	
Total warehouse facilities	\$ 2,360,000	\$ 2,940,000	\$ 5,300,000	\$ 906,821	

Agency Warehouse Facilities

As of December 31, 2019, we had six warehouse lines of credit in the aggregate amount of \$3.3 billion with certain national banks and a \$1.5 billion uncommitted facility with Fannie Mae (collectively, the “Agency Warehouse Facilities”) that we use to fund substantially all of our loan originations. Six of these facilities are revolving commitments we expect to renew annually (consistent with industry practice), and the Fannie Mae facility is provided on an uncommitted basis

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without a specific maturity date. Our ability to originate mortgage loans depends upon our ability to secure and maintain these types of short-term financing on acceptable terms.

During the third quarter of 2019, an Agency Warehouse Facility with a \$30.0 million aggregate committed and uncommitted borrowing capacity expired according to its terms. We believe that the six remaining committed and uncommitted credit facilities from national banks, the uncommitted credit facility from Fannie Mae, and our corporate cash provide us with sufficient borrowing capacity to conduct our Agency lending operations without this facility.

Agency Warehouse Facility #1:

We have a warehousing credit and security agreement with a national bank for a \$350.0 million committed warehouse line that is scheduled to mature on October 26, 2020. The agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance and borrowings under this line bear interest at the 30-day London Interbank Offered Rate ("LIBOR") plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides \$200.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. The agreement contains certain affirmative and negative covenants that are binding on the Company's operating subsidiary, Walker & Dunlop, LLC (which are in some cases subject to exceptions), including, but not limited to, restrictions on its ability to assume, guarantee, or become contingently liable for the obligation of another person, to undertake certain fundamental changes such as reorganizations, mergers, amendments to the Company's certificate of formation or operating agreement, liquidations, dissolutions or dispositions or acquisitions of assets or businesses, to cease to be directly or indirectly wholly owned by the Company, to pay any subordinated debt in advance of its stated maturity or to take any action that would cause Walker & Dunlop, LLC to lose all or any part of its status as an eligible lender, seller, servicer or issuer or any license or approval required for it to engage in the business of originating, acquiring, or servicing mortgage loans.

In addition, the agreement requires compliance with certain financial covenants, which are measured for the Company and its subsidiaries on a consolidated basis, as follows:

- tangible net worth of the Company of not less than (i) \$200.0 million plus (ii) 75% of the net proceeds of any equity issuances by the Company or any of its subsidiaries after the closing date;
- compliance with the applicable net worth and liquidity requirements of Fannie Mae, Freddie Mac, Ginnie Mae, FHA, and HUD;
- liquid assets of the Company of not less than \$15.0 million;
- maintenance of aggregate unpaid principal amount of all mortgage loans comprising the Company's consolidated servicing portfolio of not less than \$20.0 billion or (ii) all Fannie Mae DUS mortgage loans comprising the Company's consolidated servicing portfolio of not less than \$10.0 billion, exclusive in both cases of mortgage loans which are 60 or more days past due or are otherwise in default or have been transferred to Fannie Mae for resolution;
- aggregate unpaid principal amount of Fannie Mae DUS mortgage loans within the Company's consolidated servicing portfolio which are 60 or more days past due or otherwise in default not to exceed 3.5% of the aggregate unpaid principal balance of all Fannie Mae DUS mortgage loans within the Company's consolidated servicing portfolio; and
- maximum indebtedness (excluding warehouse lines) to tangible net worth of 2.25 to 1.00.

The agreement contains customary events of default, which are in some cases subject to certain exceptions, thresholds, notice requirements, and grace periods. During the third quarter of 2019, we executed the third amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points as of September 30, 2019. During the fourth quarter of 2019, we executed the fourth amendment to the warehouse and security agreement that extended the maturity date to October 26, 2020. Additionally, at our request, the committed amount was reduced to \$350.0 million from \$425.0 million. No other material modifications were made to the agreement in 2019.

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Agency Warehouse Facility #2:

We have a warehousing credit and security agreement with a national bank for a \$500.0 million committed warehouse line that is scheduled to mature on September 8, 2020. The committed warehouse facility provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides \$300.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2019, we executed the fourth amendment to the warehouse and security agreement that extended the maturity date to September 8, 2020. No other material modifications were made to the agreement in 2019.

The negative and financial covenants of the amended and restated warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above, with the exception of the leverage ratio covenant, which is not included in the warehouse agreement for Agency Warehouse Facility #2.

Agency Warehouse Facility #3:

We have a \$500.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on April 30, 2020. The committed warehouse facility provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides \$265.0 million of uncommitted borrowing capacity that bears interest at the same rate at the committed facility. During the second quarter of 2019, we executed the tenth amendment to the warehouse agreement that extended the maturity date to April 30, 2020 and decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 125 basis points. Additionally, the amendment provided for an uncommitted amount of \$265.0 million until January 31, 2020. No other material modifications were made to the agreement during 2019.

The negative and financial covenants of the warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above.

Agency Warehouse Facility #4:

We have a \$350.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on October 4, 2020. The warehouse facility provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD, FHA, and defaulted HUD and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. During the second quarter of 2019, we executed the sixth amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points. During the fourth quarter of 2019, we executed the Amended and Restated Mortgage Loan and Security Agreement (the "Amended and Restated Agreement"). The Amended and Restated Agreement has the same terms and conditions as the agreement it replaced except that it provides the Company with the ability to fund defaulted HUD and FHA loans up to \$30.0 million and extends the maturity date to October 4, 2020. No other material modifications were made to the agreement during 2019.

The negative and financial covenants of the warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above, with the exception of the leverage ratio covenant, which is not included in the warehouse agreement for Agency Warehouse Facility #4.

Agency Warehouse Facility #5:

During the third quarter of 2019, we executed a warehousing and security agreement with a national bank to establish Agency Warehouse Facility #5. The facility, which is structured as a master repurchase agreement, has an uncommitted \$500.0 million maximum borrowing amount and is scheduled to mature on August 5, 2020. The committed warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. No other material modifications were made to the agreement during 2019.

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The negative and financial covenants of the warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above.

Agency Warehouse Facility #6

We had a \$250.0 million committed warehouse credit and security agreement with a national bank that matured on January 31, 2020. The warehouse facility provided us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances were made at 100% of the loan balance, and the borrowings under the warehouse agreement bore interest at a rate of LIBOR plus 115 basis points. The agreement provided \$100.0 million of uncommitted borrowing capacity that bore interest at the same rate as the committed facility. During the first quarter of 2019, we executed the second amendment to the warehouse and security agreement that extended the maturity date to January 31, 2020. During the fourth quarter of 2019, we executed the third amendment to the warehouse and security agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points. No other material modifications were made to the agreement during 2019. We allowed the credit facility to expire on January 31, 2020 according to its terms. We believe our aggregate remaining credit facilities provide us with sufficient capacity to conduct our ongoing Agency business.

The negative and financial covenants of the warehouse agreement substantially conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above.

Uncommitted Agency Warehouse Facility:

We have a \$1.5 billion uncommitted facility with Fannie Mae under its ASAP funding program. After approval of certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the loan balance. There is no expiration date for this facility. The uncommitted facility has no specific negative or financial covenants.

Interim Warehouse Facilities

To assist in funding loans held for investment under the Interim Program, we have four warehouse facilities with certain national banks in the aggregate amount of \$410.0 million as of December 31, 2019 (“Interim Warehouse Facilities”). Consistent with industry practice, three of these facilities are revolving commitments we expect to renew annually, and one is a revolving commitment we expect to renew every two years. Our ability to originate loans held for investment depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

Interim Warehouse Facility #1:

We have an \$135.0 million committed warehouse line agreement that is scheduled to mature on April 30, 2020. The facility provides the Company with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company and bear interest at 30-day LIBOR plus 190 basis points. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the first quarter of 2019, we executed the ninth amendment to the credit and security agreement that increased the maximum borrowing capacity to \$135.0 million. During the second quarter of 2019, we executed the tenth amendment to the credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications were made to the agreement during 2019.

The facility agreement requires the Company’s compliance with the same financial covenants as Agency Warehouse Facility #1, described above, and also includes the following additional financial covenant:

- minimum rolling four-quarter EBITDA, as defined, to total debt service ratio of 2.00 to 1.00.

Interim Warehouse Facility #2:

We have a \$100.0 million committed warehouse line agreement that is scheduled to mature on December 13, 2021. The agreement provides the Company with the ability to fund first mortgage loans on multifamily real estate properties

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for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company. All borrowings originally bear interest at 30-day LIBOR plus 165 basis points. The lender retains a first priority security interest in all mortgages funded by such advances on a cross-collateralized basis. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the fourth quarter of 2019, we executed the fifth amendment to the warehouse and security agreement that decreased the borrowing rate to 30-day LIBOR plus 165 basis points from 30-day LIBOR plus 200 basis points and extended the maturity date to December 13, 2021. No other material modifications were made to the agreement during 2019.

The credit agreement requires the borrower and the Company to abide by the same financial covenants as Agency Warehouse Facility #1, described above, with the exception of the leverage ratio covenant, which is not included in the warehouse agreement for Interim Warehouse Facility #2. Additionally, Interim Warehouse Facility #2 has the following additional financial covenants:

- rolling four-quarter EBITDA, as defined, of not less than \$35.0 million; and
- debt service coverage ratio, as defined, of not less than 2.75 to 1.00.

Interim Warehouse Facility #3:

We have a \$75.0 million repurchase agreement with a national bank that is scheduled to mature on May 18, 2020. The agreement provides the Company with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company. The borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 1.90% to 2.50% (“the spread”). The spread varies according to the type of asset the borrowing finances. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2019, we executed the fourth amendment to the credit and security agreement that extended the maturity date to May 18, 2020 and provides for an uncommitted amount of \$75.0 million. No other material modifications were made to the agreement during 2019.

The Repurchase Agreement requires the borrower and the Company to abide by the following financial covenants:

- tangible net worth of the Company of not less than (i) \$200.0 million plus (ii) 75% of the net proceeds of any equity issuances by the Company or any of its subsidiaries after the closing date;
- liquid assets of the Company of not less than \$15.0 million;
- leverage ratio, as defined, of not more than 3.0 to 1.0; and
- debt service coverage ratio, as defined, of not less than 2.75 to 1.00.

Interim Warehouse Facility #4:

During the first quarter of 2019, we executed a warehousing credit and security agreement to establish an additional interim warehouse facility. The warehouse facility has a committed \$100.0 million maximum borrowing amount and is scheduled to mature on April 30, 2020. We can fund certain interim loans to a specific large institutional borrower, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 175 basis points. During the second quarter of 2019, we executed the first amendment to the warehousing credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications were made to the agreement in 2019.

The facility agreement requires the Company’s compliance with the same financial covenants as Agency Warehouse Facility #1, described above, and also includes the following additional financial covenant:

- leverage ratio, as defined, of not more than 2.25 to 1.00.

The warehouse agreements above contain cross-default provisions, such that if a default occurs under any of our warehouse agreements, generally the lenders under our other warehouse agreements could also declare a default. As of December 31, 2019, we were in compliance with all of our warehouse line covenants.

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

Debt Obligations

On November 7, 2018, we entered into a senior secured credit agreement (the “Credit Agreement”) that amended and restated our prior credit agreement and provided for a \$300.0 million term loan (the “Term Loan”). The Term Loan was issued at a 0.5% discount, has a stated maturity date of November 7, 2025, and bears interest at 30-day LIBOR plus 200 basis points. At any time, we may also elect to request one or more incremental term loan commitments not to exceed \$150.0 million, provided that the total indebtedness would not cause the leverage ratio (as defined in the Credit Agreement) to exceed 2.00 to 1.00.

We are obligated to repay the aggregate outstanding principal amount of the term loan in consecutive quarterly installments equal to \$0.8 million on the last business day of each of March, June, September, and December commencing on March 31, 2019. The term loan also requires certain other prepayments in certain circumstances pursuant to the terms of the Term Loan Agreement. The final principal installment of the term loan is required to be paid in full on November 7, 2025 (or, if earlier, the date of acceleration of the term loan pursuant to the terms of the Term Loan Agreement) and will be in an amount equal to the aggregate outstanding principal of the term loan on such date (together with all accrued interest thereon). During the fourth quarter of 2019, we executed the first amendment to the Term Loan that decreased the borrowing rate to 30-day LIBOR plus 200 basis points from 30-day LIBOR plus 225. No other material modifications were made to the agreement in 2019.

Our obligations under the Credit Agreement are guaranteed by Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC, Walker & Dunlop Capital, LLC, and W&D BE, Inc., each of which is a direct or indirect wholly owned subsidiary of the Company (together with the Company, the “Loan Parties”), pursuant to the Amended and Restated Guarantee and Collateral Agreement entered into on November 7, 2018 among the Loan Parties and Wells Fargo Bank, National Association, as administrative agent (the “Guarantee and Collateral Agreement”). Subject to certain exceptions and qualifications contained in the Credit Agreement, the Company is required to cause any newly created or acquired subsidiary, unless such subsidiary has been designated as an Excluded Subsidiary (as defined in the Credit Agreement) by the Company in accordance with the terms of the Credit Agreement, to guarantee the obligations of the Company under the Credit Agreement and become a party to the Guarantee and Collateral Agreement. The Company may designate a newly created or acquired subsidiary as an Excluded Subsidiary so long as certain conditions and requirements provided for in the Credit Agreement are met.

The Credit Agreement contains certain affirmative and negative covenants that are binding on the Loan Parties, including, but not limited to, restrictions (subject to specified exceptions and qualifications) on the ability of the Loan Parties to incur indebtedness, to create liens on their property, to make investments, to merge, consolidate or enter into any similar combination, or enter into any asset disposition of all or substantially all assets, or liquidate, wind-up or dissolve, to make asset dispositions, to declare or pay dividends or make related distributions, to enter into certain transactions with affiliates, to enter into any negative pledges or other restrictive agreements, to engage in any business other than the business of the Loan Parties as of the date of the Credit Agreement and business activities reasonably related or ancillary thereto, to amend certain material contracts, or to enter into any sale leaseback arrangements. The Credit Agreement contains only one financial covenant, which requires the Company not to permit its asset coverage ratio (as defined in the Credit Agreement) to be less than 1.50 to 1.00.

The Credit Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods), including, but not limited to, non-payment of principal or interest or other amounts, misrepresentations, failure to perform or observe covenants, cross-defaults with certain other indebtedness or material agreements, certain change in control events, voluntary or involuntary bankruptcy proceedings, failure of the Credit Agreements or other loan documents to be valid and binding, certain ERISA events and judgments.

As of December 31, 2019, the outstanding principal balance of the note payable was \$297.8 million.

The note payable and the warehouse facilities are senior obligations of the Company. As of December 31, 2019, we were in compliance with all covenants related to the Term Loan Agreement.

Credit Quality and Allowance for Risk-Sharing Obligations

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

<i>(dollars in thousands)</i>	As of December 31,		
	2019	2018	2017
Key Credit Metrics			
Risk-sharing servicing portfolio:			
Fannie Mae Full Risk	\$ 33,063,130	\$ 28,807,241	\$ 24,173,829
Fannie Mae Modified Risk	6,939,349	7,112,702	7,491,822
Freddie Mac Modified Risk	52,817	52,959	53,207
Total risk-sharing servicing portfolio	\$ 40,055,296	\$ 35,972,902	\$ 31,718,858
Non-risk-sharing servicing portfolio:			
Fannie Mae No Risk	\$ 46,616	\$ 63,235	\$ 409,966
Freddie Mac No Risk	32,531,025	30,297,765	26,729,374
GNMA - HUD No Risk	9,972,989	9,944,222	9,640,312
Brokered	10,151,120	9,127,640	5,744,518
Total non-risk-sharing servicing portfolio	\$ 52,701,750	\$ 49,432,862	\$ 42,524,170
Total loans serviced for others	\$ 92,757,046	\$ 85,405,764	\$ 74,243,028
Interim loans (full risk) servicing portfolio	468,123	283,498	66,963
Total servicing portfolio unpaid principal balance	\$ 93,225,169	\$ 85,689,262	\$ 74,309,991
Interim Program JV Managed Loans (1)	741,000	404,670	182,175
At risk servicing portfolio (2)	\$ 36,699,969	\$ 32,533,838	\$ 28,058,967
Maximum exposure to at risk portfolio (3)	7,488,985	6,666,082	5,680,798
Defaulted loans	48,481	11,103	5,962
Specifically identified at risk loan balances associated with allowance for risk-sharing obligations	48,481	11,103	5,962
Defaulted loans as a percentage of the at risk portfolio	0.13 %	0.03 %	0.02 %
Allowance for risk-sharing as a percentage of the at risk portfolio	0.03	0.01	0.01
Allowance for risk-sharing as a percentage of the specifically identified at risk loan balances	23.66	41.63	63.45
Allowance for risk-sharing as a percentage of maximum exposure	0.15	0.07	0.07
Allowance for risk-sharing and guaranty obligation as a percentage of maximum exposure	0.88	0.77	0.79

- (1) As of December 31, 2019 and 2018, this balance consists of \$70.5 million and \$70.1 million of loans serviced directly for the Interim Program JV partner and \$670.5 million and \$334.6 million, respectively, of Interim Program JV managed loans. As of December 31, 2017, the entire balance consists of Interim Program JV managed loans. We indirectly share in a portion of the risk of loss associated with Interim Program JV managed loans through our 15% equity ownership in the Interim Program JV. We have no exposure to risk of loss for the loans serviced directly for the Interim Program JV partner. The balance of this line is included as a component of assets under management in the Supplemental Operating Data table above.
- (2) At risk servicing portfolio is defined as the balance of Fannie Mae DUS loans subject to the risk-sharing formula described below, as well as a small number of Freddie Mac and GNMA - HUD loans on which we share in the risk of loss. Use of the at risk portfolio provides for comparability of the full risk-sharing and modified risk-sharing loans because the provision and allowance for risk-sharing obligations are based on the at risk balances of the associated loans. Accordingly, we have presented the key statistics as a percentage of the at risk portfolio.
For example, a \$15 million loan with 50% risk-sharing has the same potential risk exposure as a \$7.5 million loan with full DUS risk sharing. Accordingly, if the \$15 million loan with 50% risk-sharing were to default, we would view the overall loss as a percentage of the at risk balance, or \$7.5 million, to ensure comparability between all risk-sharing obligations. To date, substantially all of the risk-sharing obligations that we have settled have been from full risk-sharing loans.
- (3) Represents the maximum loss we would incur under our risk-sharing obligations if all of the loans we service, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement. The maximum exposure is not representative of the actual loss we would incur.

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

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

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

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

During the second quarter of 2018, Fannie Mae increased our risk-sharing cap from \$60.0 million to \$200.0 million. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur if the underlying collateral is determined to be completely without value at the time of loss). We may request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above if we do not believe that we are being fairly compensated for the risks of the transaction.

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

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

As of December 31, 2019 and 2018, loans with an aggregate UPB of \$48.5 million and \$11.1 million of our at risk balances had defaulted, respectively. For the years ended December 31, 2019, 2018, and 2017, our provisions for risk-sharing obligations were \$6.4 million, \$0.7 million, and \$0.1 million, respectively.

As of December 31, 2019 and 2018, our allowance for risk-sharing obligations was \$11.5 million and \$4.6 million, respectively, or three basis points and one basis point of the at risk balance, respectively. The *Allowance for risk-sharing obligations* as of December 31, 2019 was based primarily on the specific reserves related to two large defaulted loans. As there were only two small defaulted loans in the at risk servicing portfolio as of December 31, 2018, the *Allowance for risk-sharing obligations* as of December 31, 2018 was based primarily on our collective assessment of the probability of loss related to the loans on the watch list as of December 31, 2018.

For the ten-year period from January 1, 2009 through December 31, 2019, we recognized net write-offs of risk-sharing obligations of \$24.1 million, or an average of two basis points annually of the average at risk Fannie Mae portfolio balance.

We have never been required to repurchase a loan.

Off-Balance Sheet Risk

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

Contractual Obligations

We have contractual obligations to make future payments on debt and lease agreements. Additionally, in the normal course of business, we enter into contractual arrangements whereby we commit to future purchases of products or services from unaffiliated parties. We believe our recurring cash flows from operations and proceeds from loan sales and loan payoffs will provide sufficient cash flows to cover the scheduled payments over the near term related to our contractual obligations outstanding as of December 31, 2019.

Contractual payments due under warehouse facility obligations, long-term debt, and other obligations at December 31, 2019 are as follows:

<i>(in thousands)</i>	Total	Due in 1 Year or Less	Due after 1 Year through 3 Years	Due after 3 Years through 5 Years	Due after 5 Years
Long-term debt (1)	\$ 362,906	\$ 14,139	\$ 27,940	\$ 27,488	\$ 293,339
Warehouse facilities (2)	923,514	831,854	91,660	—	—
Operating leases	30,791	8,607	15,865	6,319	—
Purchase obligations	19,280	12,685	3,911	2,684	—
Total	\$ 1,336,491	\$ 867,285	\$ 139,376	\$ 36,491	\$ 293,339

- (1) Interest for long-term debt is based on a variable rate. Such interest is included here and based on the effective interest rate for long-term debt as of December 31, 2019.
- (2) To be repaid from proceeds from loan sales for facilities relating to loans held for sale and from proceeds from payoffs for facilities relating to loans held for investment under the Interim Program. Includes interest at the effective interest rate for warehouse borrowings as of December 31, 2019.

New/Recent Accounting Pronouncements

NOTE 2 of the financial statements in Item 15 of Part IV in this Annual Report on Form 10-K contains a description of the accounting pronouncements that the Financial Accounting Standards Board has issued and that have the potential to impact us but have not yet been adopted by us. Although we do not believe any of the accounting pronouncements listed there will have a significant impact on our business activities or compliance with our debt covenants, we are still in the process of determining the impact some of the new pronouncements may have on our future financial results and operating activities.

The U.K. Financial Conduct Authority announced in 2017 that it intends to phase out the London Interbank Offered Rate ("LIBOR") by the end of 2021. Changes in the method of calculating LIBOR, or the replacement of LIBOR with an alternative rate or benchmark, may adversely affect interest rates and could result in higher borrowing costs. Our borrowing agreements include provisions for alternative rates, in the event that LIBOR is not available. In addition to the impact of our borrowing, certain adjustable rate loans in our servicing portfolio and investment securities available for sale are indexed to LIBOR. If LIBOR is replaced by a new reference rate or ceases to exist, it may have an impact on our operations or the price volatility of our investment securities. We are still in the process of evaluating the full impact the change will have on the Company.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

For loans held for sale to Fannie Mae, Freddie Mac, and HUD, we are not currently exposed to unhedged interest rate risk during the loan commitment, closing, and delivery processes. The sale or placement of each loan to an investor is

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negotiated prior to closing on the loan with the borrower, and the sale or placement is typically effectuated within 60 days of closing. The coupon rate for the loan is set at the same time we establish the interest rate with the investor.

Some of our assets and liabilities are subject to changes in interest rates. Earnings from escrows are generally based on LIBOR. 30-day LIBOR as of December 31, 2019 and 2018 was 176 basis points and 250 basis points, respectively. The following table shows the impact on our annual escrow earnings due to a 100-basis point increase and decrease in 30-day LIBOR based on our escrow balances outstanding at each period end. A portion of these changes in earnings as a result of a 100-basis point increase in the 30-day LIBOR would be delayed several months due to the negotiated nature of some of our escrow arrangements.

<i>(in thousands)</i>	As of December 31,	
	2019	2018
Change in annual escrow earnings due to:		
100 basis point <i>increase</i> in 30-day LIBOR	\$ 26,316	\$ 23,275
100 basis point <i>decrease</i> in 30-day LIBOR	(26,316)	(23,275)

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

<i>(in thousands)</i>	As of December 31,	
	2019	2018
Change in annual net warehouse interest income due to:		
100 basis point <i>increase</i> in 30-day LIBOR	\$ (12,685)	\$ (14,729)
100 basis point <i>decrease</i> in 30-day LIBOR	12,685	14,729

All of our corporate debt is based on 30-day LIBOR. Our corporate debt has a 30-day LIBOR floor of 100 basis points. The following table shows the impact on our annual earnings due to a 100-basis point increase and decrease in 30-day LIBOR based on our note payable balance outstanding at each period end.

<i>(in thousands)</i>	As of December 31,	
	2019	2018
Change in annual income from operations due to:		
100 basis point <i>increase</i> in 30-day LIBOR	\$ (2,978)	\$ (3,000)
100 basis point <i>decrease</i> in 30-day LIBOR (1)	2,263	3,000

(1) The decrease in 2019 was 76 basis points due to the 30-day LIBOR floor.

Market Value Risk

The fair value of our MSR's is subject to market-value risk. A 100-basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of our MSR's by approximately \$28.5 million as of December 31, 2019 compared to \$26.9 million as of December 31, 2018. Our Fannie Mae and Freddie Mac servicing engagements provide for prepayment fees in the event of a voluntary prepayment prior to the expiration of the prepayment protection period. Our servicing contracts with institutional investors and HUD do not require them to provide us with prepayment fees. As of December 31, 2019, 86% of the servicing fees are protected from the risk of prepayment through prepayment provisions compared to 87% as of December 31, 2018; given this significant level of prepayment protection, we do not hedge our servicing portfolio for prepayment risk.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of Walker & Dunlop, Inc. and subsidiaries and the notes related to the foregoing financial statements, together with the independent registered public accounting firm's report thereon, listed in Item 15, are filed as part of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2019. Our internal control over financial reporting as of December 31, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report which is included herein.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this item regarding directors, executive officers, corporate governance and our code of ethics is hereby incorporated by reference to the material appearing in the Proxy Statement for the Annual Meeting of Stockholders to be held in 2020 (the "Proxy Statement") under the captions "BOARD OF DIRECTORS AND CORPORATE GOVERNANCE" and "EXECUTIVE OFFICERS – Executive Officer Biographies." The information required by this item regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption "VOTING SECURITIES OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT — Section 16(a) Beneficial Ownership Reporting Compliance." The information required by this Item 10 with respect to the availability of our code of ethics is provided in this Annual Report on Form 10-K. See "Available Information."

Item 11. Executive Compensation.

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “COMPENSATION DISCUSSION AND ANALYSIS,” “COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS,” “COMPENSATION DISCUSSION AND ANALYSIS – Compensation Committee Report” and “COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS – Compensation Committee Interlocks and Insider Participation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under our employee stock-based compensation plans required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the captions “VOTING SECURITIES OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” and “COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS – Equity Compensation Plan Information.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

Item 13 is hereby incorporated by reference to material appearing in the Proxy Statement under the captions “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS” and “BOARD OF DIRECTORS AND CORPORATE GOVERNANCE – Corporate Governance Information – Director Independence.”

Item 14. Principal Accounting Fees and Services

The information required by this item is hereby incorporated by reference to the material appearing in the Proxy Statement under the caption “AUDIT RELATED MATTERS.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(a) Financial Statements

Walker & Dunlop, Inc. and Subsidiaries Consolidated Financial Statements
Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Income and Comprehensive Income
Consolidated Statements of Changes in Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(b) Exhibits

- 2.1 [Contribution Agreement, dated as of October 29, 2010, by and among Mallory Walker, Howard W. Smith, William M. Walker, Taylor Walker, Richard C. Warner, Donna Mighty, Michael Yavinsky, Edward B. Hermes, Deborah A. Wilson and Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 2.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 2.2 [Contribution Agreement, dated as of October 29, 2010, by and between Column Guaranteed LLC and Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 2.2 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 2.3 [Amendment No. 1 to Contribution Agreement, dated as of December 13, 2010, by and between Column Guaranteed LLC and Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 2.3 to Amendment No. 6 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 13, 2010\)](#)

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- 2.4 [Purchase Agreement, dated June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, CW Financial Services LLC and CWCapital LLC \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K/A filed on June 15, 2012\)](#)
- 3.1 [Articles of Amendment and Restatement of Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 3.1 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 3.2 [Amended and Restated Bylaws of Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on November 8, 2018\)](#)
- 4.1 [Specimen Common Stock Certificate of Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on September 30, 2010\)](#)
- 4.2 [Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 27, 2010\)](#)
- 4.3 [Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 27, 2010\)](#)
- 4.4 [Piggy Back Registration Rights Agreement, dated June 7, 2012, by and among Column Guaranteed, LLC, William M. Walker, Mallory Walker, Howard W. Smith, III, Deborah A. Wilson, Richard C. Warner, CW Financial Services LLC and Walker & Dunlop, Inc. \(incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012\)](#)
- 4.5 [Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, Mallory Walker, William M. Walker, Richard Warner, Deborah Wilson, Richard M. Lucas, Howard W. Smith, III and CW Financial Services LLC \(incorporated by reference to Annex C of the Company's proxy statement filed on July 26, 2012\)](#)
- 4.6 [Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., Walker & Dunlop, LLC, Column Guaranteed, LLC and CW Financial Services LLC \(incorporated by reference to Annex D of the Company's proxy statement filed on July 26, 2012\)](#)
- 4.7* [Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.](#)
- 10.1 [Formation Agreement, dated January 30, 2009, by and among Green Park Financial Limited Partnership, Walker & Dunlop, Inc., Column Guaranteed LLC and Walker & Dunlop, LLC \(incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on August 4, 2010\)](#)
- 10.2† [Employment Agreement, dated October 27, 2010, between Walker & Dunlop, Inc. and William M. Walker \(incorporated by reference to Exhibit 10.2 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 10.3† [Amendment to the Employment Agreement between Walker & Dunlop, Inc. and William M. Walker, effective as of December 14, 2012 \(incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)
- 10.4† [Employment Agreement, dated October 27, 2010, between Walker & Dunlop, Inc. and Howard W. Smith, III \(incorporated by reference to Exhibit 10.3 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 10.5† [Amendment to the Employment Agreement between Walker & Dunlop, Inc. and Howard W. Smith, III, effective as of December 14, 2012 \(incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)
- 10.6† [Employment Agreement, dated October 27, 2010, between Walker & Dunlop, Inc. and Richard Warner \(incorporated by reference to Exhibit 10.5 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 10.7† [Amendment to the Employment Agreement between Walker & Dunlop, Inc. and Richard Warner, effective as of December 14, 2012 \(incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)

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- 10.8† [Employment Agreement, dated October 27, 2010, between Walker & Dunlop, Inc. and Richard M. Lucas \(incorporated by reference to Exhibit 10.6 to Amendment No. 4 to the Company's Registration Statement on Form S-1 \(File No. 333-168535\) filed on December 1, 2010\)](#)
- 10.9† [Amendment to the Employment Agreement between Walker & Dunlop, Inc. and Richard M. Lucas, effective as of December 14, 2012 \(incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)
- 10.10† [Employment Agreement, dated March 3, 2013 between Walker & Dunlop, Inc. and Stephen P. Theobald \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed March 4, 2013\)](#)
- 10.11† [2010 Equity Incentive Plan, as amended \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 30, 2012\)](#)
- 10.12† [Management Deferred Stock Unit Purchase Plan, as amended \(incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015\)](#)
- 10.13† [Management Deferred Stock Unit Purchase Matching Program, as amended \(incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015\)](#)
- 10.14† [Form of Restricted Common Stock Award Agreement \(Employee\) \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012\)](#)
- 10.15† [Amendment to Restricted Stock Award Agreement \(Employee\) \(2010 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015\)](#)
- 10.16† [Form of Restricted Common Stock Award Agreement \(Director\) \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012\)](#)
- 10.17† [Amendment to Restricted Stock Award Agreement \(Director\) \(2010 Equity Incentive Plan\) \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015\)](#)
- 10.18† [Form of Non-Qualified Stock Option Award Agreement \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012\)](#)
- 10.19† [Amendment to Non-Qualified Stock Option Agreement Under the 2010 Equity Incentive Plan \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019\)](#)
- 10.20† [Form of Incentive Stock Option Award Agreement \(incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012\)](#)
- 10.21† [Form of Deferred Stock Unit Award Agreement \(Matching Program\) \(incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)
- 10.22† [Form of Restricted Stock Unit Award Agreement \(Matching Program\) \(incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)
- 10.23† [Form of Deferred Stock Unit Award Agreement \(Purchase Plan, as amended\) \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015\)](#)
- 10.24† [Form of Amendment to Deferred Stock Unit Award Agreement \(Purchase Plan\) \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015\)](#)
- 10.25† [Walker & Dunlop, Inc. 2015 Equity Incentive Plan \(incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-8 \(File No. 333-204722\) filed June 4, 2015\)](#)
- 10.26† [Amendment No. 1 to Walker & Dunlop, Inc. 2015 Equity Incentive Plan \(incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016\)](#)
- 10.27† [Form of Non-Qualified Stock Option Agreement \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019\)](#)
- 10.28† [Amendment to Non-Qualified Stock Option Agreement Under the 2015 Equity Incentive Plan \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019\)](#)
- 10.29† [Form of Performance Stock Unit Agreement \(incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-8 \(File No. 333-204722\) filed June 4, 2015\)](#)

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- 10.30† [Form of Restricted Stock Agreement \(incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-8 \(File No. 333-204722\) filed June 4, 2015\)](#)
- 10.31† [Form of Restricted Stock Agreement \(Directors\) \(incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-8 \(File No. 333-204722\) filed June 4, 2015\)](#)
- 10.32† [Form of Restricted Stock Unit Agreement \(Matching Program\) \(incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-8 \(File No. 333-204722\) filed June 4, 2015\)](#)
- 10.33† [Form of Deferred Stock Unit Agreement \(Matching Program\) \(incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-8 \(File No. 333-204722\) filed June 4, 2015\)](#)
- 10.34† [Form of Non-Qualified Stock Option Transfer Agreement \(incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019\)](#)
- 10.35† [Management Deferred Stock Unit Purchase Plan, as amended and restated effective May 1, 2017 \(incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017\)](#)
- 10.36† [Management Deferred Stock Unit Purchase Matching Program, as amended and restated effective May 1, 2017 \(incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017\)](#)
- 10.37† [Form of Deferred Stock Unit Award Agreement \(Purchase Plan, as amended\) \(incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017\)](#)
- 10.38† [Form of Deferred Stock Unit Award Agreement \(Matching Program\) \(incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017\)](#)
- 10.39† [Form of Restricted Stock Unit Award Agreement \(Matching Program\) \(incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017\)](#)
- 10.40† [Non-Executive Director Compensation Rates \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017\)](#)
- 10.41† [Walker & Dunlop, Inc. Deferred Compensation Plan for Non-Employee Directors \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016\)](#)
- 10.42† [Walker & Dunlop, Inc. Deferred Compensation Plan for Non-Employee Directors Election Form \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016\)](#)
- 10.43† [Walker & Dunlop, Inc. 2015 Equity Incentive Plan Restricted Stock Agreement \(Directors\) \(incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016\)](#)
- 10.44† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and William M. Walker \(incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.45† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Howard W. Smith, III \(incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.46† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and John Rice \(incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.47† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Richard M. Lucas \(incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.48† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Alan J. Bowers \(incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.49† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Cynthia A. Hallenbeck \(incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.50† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Dana L. Schmaltz \(incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)

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- 10.51† [Indemnification Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Richard C. Warner \(incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010\)](#)
- 10.52† [Indemnification Agreement, dated March 3, 2013, between Walker & Dunlop, Inc. and Stephen P. Theobald \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 4, 2013\)](#)
- 10.53† [Indemnification Agreement, dated November 2, 2012, by and among Walker & Dunlop, Inc. and Michael D. Malone \(incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012\)](#)
- 10.54† [Indemnification Agreement, dated February 28, 2017, by and among Walker & Dunlop, Inc. and Michael J. Warren \(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017\)](#)
- 10.55† [Indemnification Agreement, dated March 6, 2019, by and between Walker & Dunlop, Inc. and Ellen D. Levy \(incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019\)](#)
- 10.56† [Performance Stock Unit Agreement \(incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013\)](#)
- 10.57† [Walker & Dunlop, Inc. Deferred Compensation Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 20, 2019\)](#)
- 10.58† [Form of Trust Agreement \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 20, 2019\)](#)
- 10.59 [Second Amended and Restated Warehousing Credit and Security Agreement, dated as of September 11, 2017, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2017\)](#)
- 10.60 [First Amendment to Second Amended and Restated Warehousing Credit and Security Agreement, dated as of September 15, 2017, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 20, 2017\)](#)
- 10.61 [Second Amendment to Second Amended and Restated Warehousing Credit and Security Agreement, dated as of September 10, 2018, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 13, 2018\)](#)
- 10.62 [Third Amendment to Second Amended and Restated Warehousing Credit and Security Agreement, dated as of May 20, 2019, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2019\)](#)
- 10.63 [Fourth Amendment to Second Amended and Restated Warehousing Credit and Security Agreement, dated as of September 6, 2019, by and among Walker & Dunlop, LLC, Walker & Dunlop, Inc. and PNC Bank, National Association, as Lender \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 11, 2019\)](#)
- 10.64 [Second Amended and Restated Guaranty and Suretyship Agreement, dated as of September 11, 2017, by Walker & Dunlop, Inc. in favor of PNC Bank, National Association, as Lender \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 13, 2017\)](#)
- 10.65 [Closing Side Letter, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and CWCapital LLC \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 10, 2012\)](#)
- 10.66 [Registration Rights Agreement, dated as of September 4, 2012, by and between Walker & Dunlop, Inc. and CW Financial Services LLC \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 10, 2012\)](#)
- 10.67 [Closing Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and CWCapital LLC \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 10, 2012\)](#)

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10.68	<u>Transfer and Joinder Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and Galaxy Acquisition LLC (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 10, 2012)</u>
10.69	<u>Amended and Restated Credit Agreement, dated as of November 7, 2018, by and among Walker & Dunlop, Inc., as borrower, the lenders referred to therein, Wells Fargo Bank, National Association, as administrative agent, and Wells Fargo Securities, LLC and JPMorgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 13, 2018)</u>
10.70	<u>Amendment No. 1, dated of December 17, 2019, to Credit Agreement, dated as of November 7, 2018, among Walker & Dunlop, Inc., the lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 20, 2019)</u>
10.71	<u>Amended and Restated Guarantee and Collateral Agreement, dated as of November 7, 2018, among Walker & Dunlop, Inc., as borrower, certain subsidiaries of Walker & Dunlop, Inc., as subsidiary guarantors, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 13, 2018)</u>
21*	<u>List of Subsidiaries of Walker & Dunlop, Inc. as of December 31, 2019</u>
23*	<u>Consent of KPMG LLP (Independent Registered Public Accounting Firm)</u>
31.1*	<u>Certification of Walker & Dunlop, Inc.'s Chief Executive Officer Pursuant to Rule 13a-14(a)</u>
31.2*	<u>Certification of Walker & Dunlop, Inc.'s Chief Financial Officer Pursuant to Rule 13a-14(a)</u>
32**	<u>Certification of Walker & Dunlop, Inc.'s Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.1*	Inline XBRL Instance Document
101.2*	Inline XBRL Taxonomy Extension Schema Document
101.3*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.4*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.5*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.6*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained an Exhibit 101)

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

*: Filed herewith.

** : Furnished herewith.

Item 16. Form 10-K Summary

Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Walker & Dunlop, Inc.

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

Date: February 26, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ William M. Walker</u> William M. Walker	Chairman and Chief Executive Officer (Principal Executive Officer)	February 26, 2020
<u>/s/ Alan J. Bowers</u> Alan J. Bowers	Director	February 26, 2020
<u>/s/ Ellen D. Levy</u> Ellen D. Levy	Director	February 26, 2020
<u>/s/ Michael D. Malone</u> Michael D. Malone	Director	February 26, 2020
<u>/s/ John Rice</u> John Rice	Director	February 26, 2020
<u>/s/ Dana L. Schmaltz</u> Dana L. Schmaltz	Director	February 26, 2020
<u>/s/ Howard W. Smith, III</u> Howard W. Smith, III	President and Director	February 26, 2020
<u>/s/ Michael J. Warren</u> Michael J. Warren	Director	February 26, 2020
<u>/s/ Stephen P. Theobald</u> Stephen P. Theobald	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 26, 2020

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Walker & Dunlop, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Walker & Dunlop, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 26, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or is required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

As discussed in Notes 2 and 3 to the consolidated financial statements, the capitalized mortgage servicing rights amounted to \$206.9 million for the year ended December 31, 2019. For loans originated and sold by the Company, the capitalized mortgage servicing rights ("OMSRs") are initially recorded at fair value. The initial valuation of the OMSRs is reflected as an addition to the mortgage servicing rights reported on the Consolidated Balance Sheets. The fair value of the OMSRs at the loan sale date is based on estimates of expected net cash flows associated with the servicing rights, and includes assumptions for the estimated life of the loan, escrow earnings rate and servicing cost. The estimated net cash flows are discounted at a rate that reflects the credit and liquidity risk of the OMSRs over the estimated life of the underlying loan. The estimated life of the underlying loan is estimated giving consideration to the prepayment provisions in the loan and estimates of default. The estimated earnings rate on escrow accounts associated with servicing the loan for the estimated

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life of the OMSRs is added to the estimated future cash flows. The estimated future cost to service the loan for the estimated life of the OMSRs is subtracted from the estimated future cash flows.

We identified the assessment of initial valuation of the OMSRs as a critical audit matter because it involved significant measurement and valuation uncertainty requiring complex auditor judgment. It also involved specific knowledge and experience because of the level of judgment and limited publicly available transactional and market participant data. Our assessment encompassed the evaluation of the key assumptions requiring judgment used in estimating the net cash flows and determining the initial fair value of the OMSRs, including the discount rate, estimated life of the loan, escrow earnings rate, and servicing cost.

The following are the primary procedures we performed to address this critical audit matter. We tested the effectiveness of certain internal controls over the (1) development, approval and governance in the determination and application of the discount rate, estimated life of loan, escrow earnings rate, and servicing cost assumptions, and (2) preparation and measurement of the OMSRs estimate for each loan. We involved internal valuation professionals with specialized skill and knowledge, who assisted in the evaluation of the discount rate, estimated life of loan, escrow earnings rate, and servicing cost assumptions used for initial OMSRs valuation, by comparing it against ranges that were independently developed using available market data for comparable entities and loans, and an industry market survey. We performed sensitivity analyses over the discount rate, estimated life of loan, escrow earnings rate, and servicing cost assumptions to assess their impact on the Company's determination of the initial fair value of the OMSRs.

/s/ KPMG LLP

We have served as the Company's auditor since 2007.

McLean, Virginia
February 26, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Walker & Dunlop, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Walker & Dunlop, Inc. and subsidiaries', (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 26, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

McLean, Virginia
February 26, 2020

Walker & Dunlop, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except per share data)

	December 31,	
	2019	2018
Assets		
Cash and cash equivalents	\$ 120,685	\$ 90,058
Restricted cash	8,677	20,821
Pledged securities, at fair value	121,767	116,331
Loans held for sale, at fair value	787,035	1,074,348
Loans held for investment, net	543,542	497,291
Mortgage servicing rights	718,799	670,146
Goodwill and other intangible assets	182,959	177,093
Derivative assets	15,568	35,536
Receivables, net	52,146	50,419
Other assets	124,021	50,014
Total assets	<u>\$ 2,675,199</u>	<u>\$ 2,782,057</u>
Liabilities		
Warehouse notes payable	\$ 906,128	\$ 1,161,382
Note payable	293,964	296,010
Guaranty obligation, net of accumulated amortization	54,695	46,870
Allowance for risk-sharing obligations	11,471	4,622
Deferred tax liabilities, net	146,811	125,542
Derivative liabilities	36	32,697
Performance deposits from borrowers	7,996	20,335
Other liabilities	211,813	187,407
Total liabilities	<u>\$ 1,632,914</u>	<u>\$ 1,874,865</u>
Equity		
Preferred shares, 50,000 authorized; none issued.	\$ —	\$ —
Common stock, \$0.01 par value. Authorized 200,000; issued and outstanding 30,035 shares at December 31, 2019 and 29,497 shares at December 31, 2018.	300	295
Additional paid-in capital ("APIC")	237,877	235,152
Accumulated other comprehensive income (loss) ("AOCI")	737	(75)
Retained earnings	796,775	666,752
Total stockholders' equity	<u>\$ 1,035,689</u>	<u>\$ 902,124</u>
Noncontrolling interests	6,596	5,068
Total equity	<u>\$ 1,042,285</u>	<u>\$ 907,192</u>
Commitments and contingencies (NOTES 2 and 9)	—	—
Total liabilities and equity	<u>\$ 2,675,199</u>	<u>\$ 2,782,057</u>

See accompanying notes to consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
(In thousands, except per share data)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
Loan origination and debt brokerage fees, net	\$ 258,471	\$ 234,681	\$ 245,484
Fair value of expected net cash flows from servicing, net	180,766	172,401	193,886
Servicing fees	214,550	200,230	176,352
Net warehouse interest income, loans held for sale	1,917	5,993	15,077
Net warehouse interest income, loans held for investment	23,782	8,038	9,390
Escrow earnings and other interest income	56,835	42,985	20,396
Other revenues	80,898	60,918	51,272
Total revenues	<u>\$ 817,219</u>	<u>\$ 725,246</u>	<u>\$ 711,857</u>
Expenses			
Personnel	\$ 346,168	\$ 297,303	\$ 289,277
Amortization and depreciation	152,472	142,134	131,246
Provision (benefit) for credit losses	7,273	808	(243)
Interest expense on corporate debt	14,359	10,130	9,745
Other operating expenses	66,596	62,021	48,171
Total expenses	<u>\$ 586,868</u>	<u>\$ 512,396</u>	<u>\$ 478,196</u>
Income from operations	<u>\$ 230,351</u>	<u>\$ 212,850</u>	<u>\$ 233,661</u>
Income tax expense	57,121	51,908	21,827
Net income before noncontrolling interests	<u>\$ 173,230</u>	<u>\$ 160,942</u>	<u>\$ 211,834</u>
Less: net income (loss) from noncontrolling interests	(143)	(497)	707
Walker & Dunlop net income	<u>\$ 173,373</u>	<u>\$ 161,439</u>	<u>\$ 211,127</u>
Other comprehensive income (loss), net of tax:			
Net change in unrealized gains and losses on pledged available-for-sale securities	812	(168)	(14)
Walker & Dunlop comprehensive income	<u>\$ 174,185</u>	<u>\$ 161,271</u>	<u>\$ 211,113</u>
Basic earnings per share (NOTE 11)	<u>\$ 5.61</u>	<u>\$ 5.15</u>	<u>\$ 6.72</u>
Diluted earnings per share (NOTE 11)	<u>\$ 5.45</u>	<u>\$ 4.96</u>	<u>\$ 6.47</u>
Basic weighted average shares outstanding	<u>29,913</u>	<u>30,202</u>	<u>30,176</u>
Diluted weighted average shares outstanding	<u>30,815</u>	<u>31,384</u>	<u>31,386</u>

See accompanying notes to consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries
 Consolidated Statements of Changes in Equity
 (in thousands)

	Stockholders' Equity						Noncontrolling Interests	Total Equity
	Common Stock		APIC	AOCI	Retained Earnings			
	Shares	Amount						
Balance at December 31, 2016	29,551	\$ 296	\$ 228,782	\$ 107	\$ 381,031	\$ 4,858	\$ 615,074	
Walker & Dunlop net income	—	—	—	—	211,127	—	211,127	
Net income from noncontrolling interests	—	—	—	—	—	707	707	
Other comprehensive income (loss), net of tax	—	—	—	(14)	—	—	(14)	
Stock-based compensation - equity classified	—	—	19,973	—	—	—	19,973	
Issuance of common stock in connection with equity compensation plans	1,272	12	3,001	—	—	—	3,013	
Repurchase and retirement of common stock (NOTE 11)	(807)	(8)	(22,676)	—	(12,215)	—	(34,899)	
Balance at December 31, 2017	30,016	\$ 300	\$ 229,080	\$ 93	\$ 579,943	\$ 5,565	\$ 814,981	
Walker & Dunlop net income	—	—	—	—	161,439	—	161,439	
Net income (loss) from noncontrolling interests	—	—	—	—	—	(497)	(497)	
Other comprehensive income (loss), net of tax	—	—	—	(168)	—	—	(168)	
Stock-based compensation - equity classified	—	—	22,765	—	—	—	22,765	
Issuance of common stock in connection with equity compensation plans	958	10	8,939	—	—	—	8,949	
Repurchase and retirement of common stock (NOTE 11)	(1,477)	(15)	(25,632)	—	(43,185)	—	(68,832)	
Cash dividends paid (\$1.00 per common share)	—	—	—	—	(31,445)	—	(31,445)	
Balance at December 31, 2018	29,497	\$ 295	\$ 235,152	\$ (75)	\$ 666,752	\$ 5,068	\$ 907,192	
Cumulative-effect adjustment for adoption of ASU 2016-02, net of tax	—	—	—	—	(1,002)	—	(1,002)	
Walker & Dunlop net income	—	—	—	—	173,373	—	173,373	
Net income (loss) from noncontrolling interests	—	—	—	—	—	(143)	(143)	
Contributions from noncontrolling interests	—	—	—	—	—	1,671	1,671	
Other comprehensive income (loss), net of tax	—	—	—	812	—	—	812	
Stock-based compensation - equity classified	—	—	22,819	—	—	—	22,819	
Issuance of common stock in connection with equity compensation plans	1,118	11	5,500	—	—	—	5,511	
Repurchase and retirement of common stock (NOTE 11)	(580)	(6)	(25,594)	—	(5,076)	—	(30,676)	
Cash dividends paid (\$1.20 per common share)	—	—	—	—	(37,272)	—	(37,272)	
Balance at December 31, 2019	30,035	\$ 300	\$ 237,877	\$ 737	\$ 796,775	\$ 6,596	\$ 1,042,285	

See accompanying notes to consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows
 (In thousands)

	For the year ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net income before noncontrolling interests	\$ 173,230	\$ 160,942	\$ 211,834
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Gains attributable to the fair value of future servicing rights, net of guaranty obligation	(180,766)	(172,401)	(193,886)
Change in the fair value of premiums and origination fees (NOTE 2)	6,041	(5,037)	5,781
Amortization and depreciation	152,472	142,134	131,246
Stock compensation-equity and liability classified	24,075	23,959	21,134
Provision (benefit) for credit losses	7,273	808	(243)
Deferred tax expense (benefit)	22,012	17,483	(30,961)
Originations of loans held for sale	(15,746,949)	(15,153,003)	(17,018,424)
Sales of loans to third parties	16,007,910	15,050,932	17,937,915
Amortization of deferred loan fees and costs	(6,587)	(1,742)	(2,298)
Amortization of debt issuance costs and debt discount	5,451	7,509	4,886
Origination fees received from loans held for investment	2,553	3,968	1,109
Cash paid for cloud computing implementation costs	(6,194)	—	—
Changes in:			
Receivables, net	(2,298)	(4,532)	(12,234)
Other assets	(20,924)	(6,861)	(7,064)
Other liabilities	2,601	(13,957)	22,866
Performance deposits from borrowers	(12,339)	13,874	(4,019)
Net cash provided by (used in) operating activities	\$ 427,561	\$ 64,076	\$ 1,067,642
Cash flows from investing activities			
Capital expenditures	\$ (4,711)	\$ (4,722)	\$ (5,207)
Purchases of equity-method investments	(923)	—	—
Proceeds from the sale of equity-method investments	—	4,993	—
Purchases of pledged available-for-sale ("AFS") securities	(30,611)	(98,442)	(6,966)
Proceeds from prepayment of pledged debt AFS securities	22,756	—	—
Funding of preferred equity investments	—	(41,100)	(16,884)
Proceeds from the payoff of preferred equity investments	—	82,819	—
Distributions from (investments in) joint ventures, net	(15,944)	(4,137)	(6,342)
Acquisitions, net of cash received	(7,180)	(53,249)	(15,000)
Purchase of mortgage servicing rights	—	(1,814)	(7,781)
Originations of loans held for investment	(362,924)	(597,889)	(183,916)
Principal collected on loans held for investment upon payoff	319,832	161,303	219,516
Sales of loans held for investment	—	—	119,750
Net cash provided by (used in) investing activities	\$ (79,705)	\$ (552,238)	\$ 97,170
Cash flows from financing activities			
Borrowings (repayments) of warehouse notes payable, net	\$ (367,864)	\$ 139,298	\$ (955,040)
Borrowings of interim warehouse notes payable	179,765	145,043	140,341
Repayments of interim warehouse notes payable	(67,871)	(61,050)	(237,912)
Repayments of note payable	(2,250)	(166,223)	(1,104)
Borrowings of note payable	—	298,500	—
Secured borrowings	—	70,052	—
Proceeds from issuance of common stock	5,511	8,949	3,013
Repurchase of common stock	(30,676)	(68,832)	(34,899)
Cash dividends paid	(37,272)	(31,445)	—
Payment of contingent consideration	(6,450)	(5,150)	—
Debt issuance costs	(4,531)	(7,312)	(3,890)
Net cash provided by (used in) financing activities	\$ (331,638)	\$ 321,830	\$ (1,089,491)

Walker & Dunlop, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (CONTINUED)
(In thousands)

Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents (NOTE 2)	\$ 16,218	\$ (166,332)	\$ 75,321
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	<u>120,348</u>	<u>286,680</u>	<u>211,359</u>
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	<u><u>\$ 136,566</u></u>	<u><u>\$ 120,348</u></u>	<u><u>\$ 286,680</u></u>
Supplemental Disclosure of Cash Flow Information:			
Cash paid to third parties for interest	\$ 63,564	\$ 56,430	\$ 56,267
Cash paid for income taxes	39,908	45,728	45,524

See accompanying notes to consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1—ORGANIZATION

These financial statements represent the consolidated financial position and results of operations of Walker & Dunlop, Inc. and its subsidiaries. Unless the context otherwise requires, references to “we,” “us,” “our,” “Walker & Dunlop” and the “Company” mean the Walker & Dunlop consolidated companies.

Walker & Dunlop, Inc. is a holding company and conducts the majority of its operations through Walker & Dunlop, LLC, the operating company. Walker & Dunlop is one of the leading commercial real estate services and finance companies in the United States. The Company originates, sells, and services a range of commercial real estate debt and equity financing products, provides property sales brokerage services with a focus on multifamily, and engages in commercial real estate investment management activities. Through its mortgage bankers and property sales brokers, the Company offers its customers agency lending, debt brokerage, and principal lending and investing products and multifamily property sales services.

Through its agency lending products, the Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac,” and together with Fannie Mae, the “GSEs”), the Government National Mortgage Association (“Ginnie Mae”), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, “HUD”). Through its debt brokerage products, the Company brokers, and in some cases services, loans for various life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases the Company does not fund the loan.

The Company also provides a variety of commercial real estate debt and equity solutions through its principal lending and investing products, including interim loans, preferred equity, and joint venture (“JV”) equity on commercial real estate properties. Interim loans on multifamily properties are offered (i) through the Company and recorded on the Company’s balance sheet (the “Interim Program”) and (ii) through a joint venture with an affiliate of Blackstone Mortgage Trust, Inc., in which the Company holds a 15% ownership interest (the “Interim Program JV”). Interim loans on all commercial real estate property types are also offered through separate accounts managed by the Company’s subsidiary, JCR Capital Investment Corporation (“JCR”). Preferred equity and JV equity on commercial real estate properties are offered through funds managed by JCR.

The Company brokers the sale of multifamily properties through its majority-owned subsidiary, Walker & Dunlop Investment Sales (“WDIS”). In some cases, the Company also provides the debt financing for the property sale. During the second quarter of 2019, the Company formed a joint venture with an international technology services company to offer automated multifamily appraisal services (“Appraisal JV”). The Company owns a 50% interest in the Appraisal JV and accounts for the interest as an equity-method investment. The operations of the Appraisal JV for the year ended December 31, 2019 and the Company’s investment in the Appraisal JV as of December 31, 2019 were immaterial.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The condensed consolidated financial statements include the accounts of Walker & Dunlop, Inc., its wholly owned subsidiaries, and its majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company consolidates entities in which it has a controlling financial interest based on either the variable interest entity (“VIE”) or voting interest model. The Company is required to first apply the VIE model to determine whether it holds a variable interest in an entity, and if so, whether the entity is a VIE. If the Company determines it does not hold a variable interest in a VIE, it then applies the voting interest model. Under the voting interest model, the Company consolidates an entity when it holds a majority voting interest in an entity. If the Company does not have a majority voting interest but has significant influence, it uses the equity method of accounting. In instances where the Company owns less than 100% of the equity interests of an entity but owns a majority of the voting interests or has control over an entity, the Company accounts for the portion of equity not attributable to Walker & Dunlop, Inc. as *Noncontrolling interests* in the balance sheet and the portion of net income not attributable to Walker & Dunlop, Inc. as *Net income from noncontrolling interests* in the income statement.

Walker & Dunlop, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Subsequent Events—The Company has evaluated the effects of all events that have occurred subsequent to December 31, 2019. There have been no material events that would require recognition in the consolidated financial statements. The Company has made certain disclosures in the notes to the consolidated financial statements of events that have occurred subsequent to December 31, 2019. No other material subsequent events have occurred that would require disclosure.

Use of Estimates—The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, including guaranty obligations, allowance for risk-sharing obligations, capitalized mortgage servicing rights, derivative instruments, and the disclosure of contingent assets and liabilities. Actual results may vary from these estimates.

Transfers of Financial Assets— Transfers of financial assets are reported as sales when (a) the transferor surrenders control over those assets, (b) the transferred financial assets have been legally isolated from the Company’s creditors, (c) the transferred assets can be pledged or exchanged by the transferee, and (d) consideration other than beneficial interests in the transferred assets is received in exchange. The transferor is considered to have surrendered control over transferred assets if, and only if, certain conditions are met. The Company determined that all loans sold during the periods presented met these specific conditions and accounted for all transfers of loans held for sale as completed sales.

Derivative Assets and Liabilities—Certain loan commitments and forward sales commitments meet the definition of a derivative asset and are recorded at fair value in the Consolidated Balance Sheets upon the executions of the commitment to originate a loan with a borrower and to sell the loan to an investor, with a corresponding amount recognized as revenue in the Consolidated Statements of Income. The estimated fair value of loan commitments includes (i) the fair value of loan origination fees and premiums on anticipated sale of the loan, net of co-broker fees (included in *Derivative assets* in the Consolidated Balance Sheets and as a component of *Loan origination and debt brokerage fees, net* in the Consolidated Income Statements), (ii) the fair value of the expected net cash flows associated with the servicing of the loan, net of any estimated net future cash flows associated with the risk-sharing obligation (included in *Derivative assets* in the Consolidated Balance Sheets and in *Fair value of expected net cash flows from servicing, net* in the Consolidated Income Statements), and (iii) the effects of interest rate movements between the trade date and balance sheet date. The estimated fair value of forward sale commitments includes the effects of interest rate movements between the trade date and balance sheet date. Adjustments to the fair value are reflected as a component of income within *Loan origination and debt brokerage fees, net* in the Consolidated Statements of Income. The co-broker fees for the years ended December 31, 2019, 2018, and 2017 were \$20.6 million, \$22.8 million and \$19.3 million, respectively. The fair value of expected guaranty obligation recognized at commitment for the years ended December 31, 2019, 2018, and 2017 were \$16.3 million, \$16.0 million and \$13.8 million, respectively.

In 2019, the Company presents two components of its revenue as Loan origination and debt brokerage fees, net and Fair value of expected net cash flows from servicing, net. Previously, the Company presented these two lines as one line item called Gains from mortgage banking activities and disclosed the breakout of Gains from mortgage banking activities in a footnote to the consolidated financial statements. The footnote disclosure is no longer considered necessary as the breakout is provided on the face of the Consolidated Statements of Income. All prior periods have been adjusted to conform to the current-year presentation.

Mortgage Servicing Rights—When a loan is sold, the Company retains the right to service the loan and initially recognizes an individual originated mortgage servicing right (“OMSR”) for the loan sold at fair value. The initial capitalized amount is equal to the estimated fair value of the expected net cash flows associated with servicing the loans, net of the expected net cash flows associated with any guaranty obligations. The following describes the principal assumptions used in estimating the fair value of capitalized OMSRs:

Discount rate—Depending upon loan type, the discount rate used is management’s best estimate of market discount rates. The rates used for loans sold were 10% to 15% for each of the periods presented and varied based on loan type.

Walker & Dunlop, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Estimated Life—The estimated life of the OMSRs is derived based upon the stated term of the prepayment protection provisions of the underlying loan and may be reduced by 6 to 12 months based upon the expiration or reduction of the prepayment and/or lockout provisions prior to that stated maturity date. The Company's model for OMSRs assumes no prepayment while the prepayment provisions have not expired and full prepayment of the loan at or near the point where the prepayment provisions have expired. The Company's historical experience is that the prepayment provisions typically do not provide a significant deterrent to a borrower's paying off the loan within 6 to 12 months of the expiration of the prepayment provisions.

Escrow Earnings—The estimated earnings rate on escrow accounts associated with the servicing of the loans for the life of the OMSR is added to the estimated future cash flows.

Servicing Cost—The estimated future cost to service the loan for the estimated life of the OMSR is subtracted from the estimated future cash flows.

The assumptions used to estimate the fair value of OMSRs at loan sale are based on internal models and are compared to assumptions used by other market participants periodically. When such comparisons indicate that these assumptions have changed significantly, the Company adjusts its assumptions accordingly.

Subsequent to the initial measurement date, OMSRs are amortized using the interest method over the period that servicing income is expected to be received and presented as a component of *Amortization and depreciation* in the Consolidated Statements of Income. The individual loan-level OMSR is written off through a charge to *Amortization and depreciation* when a loan prepays, defaults, or is probable of default. The Company evaluates all MSRs for impairment quarterly. The Company tests for impairment on purchased stand-alone servicing portfolios ("PMSRs") separately from the Company's OMSRs. OMSRs and PMSRs are tested for impairment at the portfolio level. The Company engages a third party to assist in determining an estimated fair value of our existing and outstanding MSRs on at least a semi-annual basis.

The fair value of PMSRs is equal to the purchase price paid. For PMSRs, the Company records a portfolio-level MSR asset and determines the estimated life of the portfolio based on the prepayment characteristics of the portfolio. The Company subsequently amortizes such PMSRs and tests for impairment quarterly as discussed in more detail above.

For PMSRs, a constant rate of prepayments and defaults is included in the determination of the portfolio's estimated life (and thus included as a component of the portfolio's amortization). Accordingly, prepayments and defaults of individual loans do not change the level of amortization expense recorded for the portfolio unless the pattern of actual prepayments and defaults varies significantly from the estimated pattern. When such a significant difference in the pattern of estimated and actual prepayments and defaults occurs, the Company prospectively adjusts the estimated life of the portfolio (and thus future amortization) to approximate the actual pattern observed. The Company has not made any adjustments to the estimated life of any PMSRs.

Guaranty Obligation and Allowance for Risk-sharing Obligations—When a loan is sold under the Fannie Mae Delegated Underwriting and Servicing™ ("DUS") program, the Company undertakes an obligation to partially guarantee the performance of the loan. Upon loan sale, a liability for the fair value of the obligation undertaken in issuing the guaranty is recognized and presented as *Guaranty obligation, net of accumulated amortization* on the Consolidated Balance Sheets. The recognized guaranty obligation is the greater of the fair value of the Company's obligation to stand ready to perform over the term of the guaranty (the noncontingent guaranty) and the fair value of the Company's obligation to make future payments should those triggering events or conditions occur (contingent guaranty).

Historically, the fair value of underlying multifamily collateral for the contingent guaranty at inception has been de minimis; therefore, the fair value of the noncontingent guaranty has been recognized. In determining the fair value of the guaranty obligation, the Company considers the risk profile of the collateral, historical loss experience, and various market indicators. Generally, the estimated fair value of the guaranty obligation is based on the present value of the cash flows expected to be paid under the guaranty over the estimated life of the loan discounted using a rate consistent with what is used for the calculation of the OMSR for each loan. The estimated life of the guaranty obligation is the estimated period over which the Company believes it will be required to stand ready under the guaranty. Subsequent to the initial

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measurement date, the liability is amortized over the life of the guaranty period using the straight-line method as a component of and reduction to *Amortization and depreciation* in the Consolidated Statements of Income, unless, as discussed more fully below, the loan defaults, or management determines that the loan's risk profile is such that amortization should cease.

The Company monitors the performance of each risk-sharing loan for events or conditions which may signal a potential default. The Company's 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. Historically, initial loss recognition occurs at or before a loan becomes 60 days delinquent. In instances where payment under the guaranty on a specific loan is determined to be probable and estimable (as the loan is probable of foreclosure or in foreclosure), the Company records a liability for the estimated allowance for risk-sharing (a "specific reserve") through a charge to the provision for risk-sharing obligations, which is a component of *Provision (benefit) for credit losses* in the Consolidated Statements of Income, along with a write-off of the associated loan-specific OMSR.

The amount of the allowance considers the Company's 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. 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, depending on the facts and circumstances associated with the loan. The Company regularly monitors the specific reserves on all applicable loans and updates loss estimates as current information is received. 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. The maximum amount of the loss the Company absorbs at the time of default is generally 20% of the origination unpaid principal balance of the loan.

In addition to the specific reserves discussed above, the Company also records an allowance for risk-sharing obligations related to risk-sharing loans on its 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 the Company's watch list, the Company continues to carry a guaranty obligation. The Company calculates the general reserves based on a migration analysis of the loans on its historical watch lists, adjusted for qualitative factors. When the Company places a risk-sharing loan on its watch list, the Company transfers the remaining unamortized balance of the guaranty obligation to the general reserves. The Company recognizes a provision for risk-sharing obligations to the extent the calculated general reserve exceeds the remaining unamortized guaranty obligation. If a risk-sharing loan is subsequently removed from the watch list due to improved financial performance or other factors, the Company transfers the unamortized balance of the guaranty obligation back to the guaranty obligation classification on the balance sheet and amortizes the remaining unamortized balance evenly over the remaining estimated life.

For each loan for which it has a risk-sharing obligation, the Company records one of the following liabilities associated with that loan as discussed above: guaranty obligation, general reserve, or specific reserve. Although the liability type may change over the life of the loan, at any particular point in time, only one such liability is associated with a loan for which the Company has a risk-sharing obligation. The total of the specific reserves and general reserves is presented as *Allowance for risk-sharing obligations* in the Consolidated Balance Sheets.

Loans Held for Investment, net—Loans held for investment are multifamily loans originated by the Company through the Interim Program for properties that currently do not qualify for permanent GSE or HUD (collectively, the "Agencies") financing. These loans have terms of up to three years and are all interest-only, multifamily loans with similar risk characteristics and no geographic concentration. The loans are carried at their unpaid principal balances, adjusted for net unamortized loan fees and costs, and net of any allowance for loan losses. Interest income is accrued based on the actual coupon rate, adjusted for the level-yield amortization of net deferred fees and costs, and is recognized as revenue when earned and deemed collectible.

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During the third quarter of 2018, the Company transferred a portfolio of participating interests in loans held for investment to a third party that is scheduled to mature in the third quarter of 2021. The Company accounted for the transfer as a secured borrowing. The aggregate unpaid principal balance of the loans of \$78.3 million is presented as a component of *Loans held for investment, net* in the Consolidated Balance Sheets as of December 31, 2019, and the secured borrowing of \$70.5 million is included within *Other liabilities* in the Consolidated Balance Sheets as of December 31, 2019. The Company does not have credit risk related to the \$70.5 million of loans that were transferred.

As of December 31, 2019, *Loans held for investment, net* consisted of 22 loans with an aggregate \$546.6 million of unpaid principal balance less \$2.0 million of net unamortized deferred fees and costs and \$1.1 million of allowance for loan losses. As of December 31, 2018, *Loans held for investment, net* consisted of 14 loans with an aggregate \$503.5 million of unpaid principal balance less \$6.0 million of net unamortized deferred fees and costs and \$0.2 million of allowance for loan losses. Included within the *Loans held for investment, net* balance as of December 31, 2019 and December 31, 2018 is a participation in a subordinated note with a large institutional investor in multifamily loans that was fully funded with corporate cash. The unpaid principal balance of the participation was \$7.8 million as of December 31, 2019 and \$150.0 million as of December 31, 2018.

The allowance for loan losses is the Company's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The allowance for loan losses is estimated collectively for loans with similar characteristics and for which there is no evidence of impairment. The collective allowance is based on recent historical loss probability and historical loss rates incurred in our risk-sharing portfolio, because the nature of the underlying collateral is the same adjusted as needed for current market conditions. The Company uses the loss experience from its risk-sharing portfolio as a proxy for losses incurred in its loans held for investment portfolio since (i) the Company has not experienced any charge offs related to its 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.

One loan held for investment with an unpaid principal balance of \$14.7 million was delinquent, impaired, and on non-accrual status as of December 31, 2019. The Company expects to complete a restructuring of the loan later in 2020. In connection with the restructuring, the Company expects to lose an immaterial amount of default interest under the terms of the loan. None of the loans held for investment was delinquent, impaired, or on non-accrual status as of December 31, 2018. Prior to 2019, the Company had not experienced any delinquencies related to loans held for investment. The Company has never charged off any loan held for investment. The allowance for loan losses recorded as of December 31, 2019 consisted primarily of the specific reserve on the impaired loan, while the allowance for loan losses as of December 31, 2018 was based on the Company's collective assessment of the portfolio.

Provision (Benefit) for Credit Losses—The Company records the income statement impact of the changes in the allowance for loan losses and the allowance for risk-sharing obligations within *Provision (benefit) for credit losses* in the Consolidated Statements of Income. *Provision (benefit) for credit losses* consisted of the following activity for the years ended December 31, 2019, 2018, and 2017:

Components of Provision (benefit) for Credit Losses (in thousands)	2019	2018	2017
Provision (benefit) for loan losses	\$ 875	\$ 128	\$ (294)
Provision (benefit) for risk-sharing obligations	6,398	680	51
Provision (benefit) for credit losses	\$ 7,273	\$ 808	\$ (243)

Business Combinations—The Company accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The Company recognizes identifiable assets acquired and liabilities (both specific and contingent) assumed at their fair values at the acquisition date. Furthermore, acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the acquired assets. The excess of the purchase price over the assets acquired, identifiable intangible assets and liabilities assumed is recognized as goodwill. During the measurement period, the Company records adjustments to the assets acquired and liabilities assumed with corresponding adjustments to goodwill in the reporting period in which

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the adjustment is identified. After the measurement period, which could be up to one year after the transaction date, subsequent adjustments are recorded to the Company's Consolidated Statements of Income.

Goodwill—The Company evaluates goodwill for impairment annually. In addition to the annual impairment evaluation, the Company evaluates 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. The Company currently has only one reporting unit; therefore, all goodwill is allocated to that one reporting unit. The Company performs its impairment testing annually as of October 1. The annual impairment analysis begins by comparing the Company's market capitalization to its net assets. If the market capitalization exceeds the net asset value, further analysis is not required, and goodwill is not considered impaired. As of the date of our latest annual impairment test, October 1, 2019, the Company's market capitalization exceeded its net asset value by \$703.1 million, or 71.0%. As of December 31, 2019, there have been no events subsequent to that analysis that are indicative of an impairment loss.

Loans Held for Sale—Loans held for sale represent originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded. The Company elects to measure all originated loans at fair value, unless the Company documents at the time the loan is originated that it will measure the specific loan at the lower of cost or fair value for the life of the loan. Electing to use fair value allows a better offset of the change in fair value of the loan and the change in fair value of the derivative instruments used as economic hedges. During the period prior to its sale, interest income on a loan held for sale is calculated in accordance with the terms of the individual loan. There were no loans held for sale that were valued at the lower of cost or fair value or on a non-accrual status at December 31, 2019 and 2018.

Share-Based Payment—The Company recognizes compensation costs for all share-based payment awards made to employees and directors, including restricted stock, restricted stock units, and employee stock options based on the grant date fair value. Restricted stock awards are granted without cost to the Company's officers, employees, and non-employee directors, for which the fair value of the award is calculated as the fair value of the Company's common stock on the date of grant.

Stock option awards were granted to executive officers, with an exercise price equal to the closing price of the Company's common stock on the date of the grant, and were granted with a ten-year exercise period, vesting ratably over three years dependent solely on continued employment. To estimate the grant-date fair value of stock options, the Company used the Black-Scholes pricing model. The Black-Scholes model estimates the per share fair value of an option on its date of grant based on the following inputs: the option's exercise price, the price of the underlying stock on the date of the grant, the estimated option life, the estimated dividend yield, a "risk-free" interest rate, and the expected volatility. For the 2017 option awards, the Company used the simplified method to estimate the expected term of the options as the Company did not have sufficient historical exercise data to provide a reasonable basis for estimating the expected term. The Company used an estimated dividend yield of zero as the Company's stock options were not dividend eligible and at the time of grant there was no expectation that the Company would pay a dividend. For the "risk-free" rate, the Company used a U.S. Treasury Note due in a number of years equal to the option's expected term. For the 2017 option awards, the expected volatility was calculated based on the Company's historical common stock volatility. The Company issues new shares from the pool of authorized but not yet issued shares when an employee exercises stock options. The Company did not grant any stock option awards in 2018 or 2019 and does not expect to issue stock options for the foreseeable future.

Generally, the Company's stock option and restricted stock awards for its officers and employees vest ratably over a three-year period based solely on continued employment. Restricted stock awards for non-employee directors fully vest after one year. Some of the Company's restricted stock awards vest over a period of up to eight years.

With the exception of 2015, the Company offered a performance share plan ("PSP") for the Company's executives and certain other members of senior management for each of the years from 2014 to 2019. The performance period for each PSP is three full calendar years beginning on January 1 of the grant year. Participants in the PSP receive restricted stock units ("RSUs") on the grant date for the PSP in an amount equal to achievement of all performance targets at a maximum level. If the performance targets are met at the end of the performance period and the participant remains employed by the Company, the participant fully vests in the RSUs, which immediately convert to unrestricted shares of common stock. If the performance targets are not met at the maximum level, the participant forfeits a portion of the RSUs.

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If the participant is no longer employed by the Company, the participant forfeits all of the RSUs. The performance targets for the 2017, 2018, and 2019 PSPs are based on meeting diluted earnings per share, return on equity, and total revenues goals. The Company records compensation expense for the PSP based on the grant-date fair value in an amount proportionate to the service time rendered by the participant when it is probable that the achievement of the goals will be met.

Compensation expense for restricted shares and stock options is adjusted for actual forfeitures and is recognized on a straight-line basis, for each separately vesting portion of the award as if the award were in substance multiple awards, over the requisite service period of the award. Share-based compensation is recognized within the income statement as *Personnel*, the same expense line as the cash compensation paid to the respective employees.

Net Warehouse Interest Income—The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans held for sale and loans held for investment. For the periods presented in the Consolidated Balance Sheets, all loans that were held for sale were financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. Generally, a portion of loans that are held for investment is financed with matched borrowings under our warehouse facilities. The portion of loans held for investment not funded with matched borrowings is financed with the Company's own cash. Warehouse interest expense is incurred on borrowings used to fund loans solely while they are held for sale or for investment. Warehouse interest income and expense are earned or incurred on loans held for sale after a loan is closed and before a loan is sold. Warehouse interest income and expense are earned or incurred on loans held for investment after a loan is closed and before a loan is repaid. Included in *Net warehouse interest income* for the three years ended December 31, 2019 and 2018, and 2017 are the following components:

Components of Net Warehouse Interest Income (in thousands)	2019	2018	2017
Warehouse interest income - loans held for sale	\$ 48,211	\$ 55,609	\$ 61,298
Warehouse interest expense - loans held for sale	(46,294)	(49,616)	(46,221)
Net warehouse interest income - loans held for sale	\$ 1,917	\$ 5,993	\$ 15,077
Warehouse interest income - loans held for investment	\$ 32,059	\$ 11,197	\$ 15,218
Warehouse interest expense - loans held for investment	(8,277)	(3,159)	(5,828)
Warehouse interest income - secured borrowings	3,549	1,852	—
Warehouse interest expense - secured borrowings	(3,549)	(1,852)	—
Net warehouse interest income - loans held for investment	\$ 23,782	\$ 8,038	\$ 9,390

Statement of Cash Flows—The Company records the fair value of premiums and origination fees as a component of the fair value of derivative assets on the loan commitment date and records the related income within *Loan origination and debt brokerage fees, net* within the Consolidated Statements of Income. The cash for the origination fee is received upon closing of the loan, and the cash for the premium is received upon loan sale, resulting in a mismatch of the recognition of income and the receipt of cash in a given period when the derivative or loan held for sale remains outstanding at period end.

The Company accounts for this mismatch by recording an adjustment called *Change in the fair value of premiums and origination fees* within the Consolidated Statements of Cash Flows. The amount of the adjustment reflects a reduction to cash provided by or used in operations for the amount of income recognized upon rate lock (i.e., non-cash income) for derivatives and loans held for sale outstanding at period end and an increase to cash provided by or used in operations for cash received upon loan origination or sale for derivatives and loans held for sale that were outstanding at prior period end. When income recognized upon rate lock is greater than cash received upon loan origination or sale, the adjustment is a negative amount. When income recognized upon rate lock is less than cash received upon loan origination or loan sale, the adjustment is a positive amount.

For presentation in the Consolidated Statements of Cash Flows, the Company considers pledged cash and cash equivalents (as detailed in NOTE 9) to be restricted cash and restricted cash equivalents. The following table presents a reconciliation of the total of cash, cash equivalents, restricted cash, and restricted cash equivalents as presented in the

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Consolidated Statements of Cash Flows to the related captions in the Consolidated Balance Sheets as of December 31, 2019, 2018, 2017, and 2016.

<i>(in thousands)</i>	December 31,			
	2019	2018	2017	2016
Cash and cash equivalents	\$ 120,685	\$ 90,058	\$ 191,218	\$ 118,756
Restricted cash	8,677	20,821	6,677	9,861
Pledged cash and cash equivalents (NOTE 9)	7,204	9,469	88,785	82,742
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	<u>\$ 136,566</u>	<u>\$ 120,348</u>	<u>\$ 286,680</u>	<u>\$ 211,359</u>

Income Taxes—The Company files income tax returns in the applicable U.S. federal, state, and local jurisdictions and generally is subject to examination by the respective jurisdictions for three years from the filing of a tax return. The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted.

Deferred tax assets are recognized only to the extent that it is more likely than not that they will be realizable based on consideration of available evidence, including future reversals of existing taxable temporary differences, projected future taxable income, and tax planning strategies.

The Company had no accruals for uncertain tax positions as of December 31, 2019 and 2018.

Pledged Securities—As collateral against its Fannie Mae risk-sharing obligations (NOTES 4 and 9), certain securities have been pledged to the benefit of Fannie Mae to secure the Company's risk-sharing obligations. Substantially all of the balance of *Pledged securities, at fair value* within the Consolidated Balance Sheets as of December 31, 2019 and 2018 was pledged against Fannie Mae risk-sharing obligations. The balance not pledged against Fannie Mae risk-sharing obligations consists of an immaterial amount of cash pledged as collateral against an immaterial amount of risk-sharing obligations with Freddie Mac. The Company's investments included within *Pledged securities, at fair value* consist primarily of money market funds and Agency debt securities. The investments in Agency debt securities consist of multifamily Agency mortgage-backed securities ("Agency MBS") and are all accounted for as available-for-sale ("AFS") securities. When the fair value of AFS Agency MBS are materially lower than the carrying value, the Company performs an analysis to determine whether an other-than-temporary impairment ("OTTI") exists. The Company has never recorded an OTTI related to AFS Agency MBS.

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

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time. The Company had no contract assets or liabilities as of December 31, 2019 and 2018. The following table presents information about the Company's contracts with customers for the years ended December 31, 2019, 2018, and 2017:

Description (in thousands)	2019	2018	2017	Statement of income line item
Certain loan origination fees	\$ 75,599	\$ 59,877	\$ 53,116	Loan origination and debt brokerage fees, net
Property sales broker fees, investment management fees, assumption fees, application fees, and other	51,885	35,837	29,271	Other revenues
Total revenues derived from contracts with customers	\$ 127,484	\$ 95,714	\$ 82,387	

Cash and Cash Equivalents—The term cash and cash equivalents, as used in the accompanying consolidated financial statements, includes currency on hand, demand deposits with financial institutions, and short-term, highly liquid investments purchased with an original maturity of three months or less. The Company had no cash equivalents as of December 31, 2019 and 2018.

Restricted Cash—Restricted cash represents primarily good faith deposits from borrowers. The Company records a corresponding liability for these good faith deposits from borrowers within *Performance deposits from borrowers* within the Consolidated Balance Sheets.

Receivables, Net—Receivables, net represents amounts currently due to the Company pursuant to contractual servicing agreements, investor good faith deposits held in escrow by others, general accounts receivable, and advances of principal and interest payments and tax and insurance escrow amounts if the borrower is delinquent in making loan payments, to the extent such amounts are determined to be reimbursable and recoverable.

Concentrations of Credit Risk—Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, loans held for sale, and derivative financial instruments.

The Company places the cash and temporary investments with high-credit-quality financial institutions and believes no significant credit risk exists. The counterparties to the loans held for sale and funding commitments are owners of residential multifamily properties located throughout the United States. Mortgage loans are generally transferred or sold within 60 days from the date that a mortgage loan is funded. There is no material residual counterparty risk with respect to the Company's funding commitments as each potential borrower must make a non-refundable good faith deposit when the funding commitment is executed. The counterparty to the forward sale is Fannie Mae, Freddie Mac, or a broker-dealer that has been determined to be a credit-worthy counterparty by us and our warehouse lenders. There is a risk that the purchase price agreed to by the investor will be reduced in the event of a late delivery. The risk for non-delivery of a loan primarily results from the risk that a borrower does not close on the funding commitment in a timely manner. This risk is generally mitigated by the non-refundable good faith deposit.

Leases—In the normal course of business, the Company enters into lease arrangements for all of its office space. All such lease arrangements are accounted for as operating leases. The Company initially recognizes a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments over the lease term. The ROU asset is measured at the lease liability amount, adjusted for lease prepayments, accrued rent, lease incentives received, and the lessee's initial direct costs. Lease expense is generally recognized on a straight-line basis over the term of the lease.

These operating leases do not provide an implicit discount rate; therefore, the Company uses the incremental borrowing rate of its note payable at lease commencement to calculate lease liabilities as the terms on this debt most closely resemble the terms on the Company's largest leases. The Company's lease agreements often include options to extend or terminate the lease. Single lease cost related to these lease agreements is recognized on the straight-line basis over the term of the lease, which includes options to extend when it is reasonably certain that such options will be exercised and the Company knows what the lease payments will be during the optional periods.

Litigation—In the ordinary course of business, the Company may be party to various claims and litigation, none of which the Company believes is material. The Company cannot predict the outcome of any pending litigation and may be

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subject to consequences that could include fines, penalties, and other costs, and the Company's reputation and business may be impacted. The Company believes that any liability that could be imposed on the Company in connection with the disposition of any pending lawsuits would not have a material adverse effect on its business, results of operations, liquidity, or financial condition.

Recently Adopted and Recently Announced Accounting Pronouncements— In the first quarter of 2016, Accounting Standards Update 2016-02 ("ASU 2016-02"), *Leases (Topic 842)* was issued. ASU 2016-02 represents a significant reform to the accounting for leases. Lessees initially recognize a lease liability for the obligation to make lease payments and a right-of-use ("ROU") asset for the right to use the underlying asset for the lease term.

The Company adopted the standard as required on January 1, 2019 and elected the available practical expedients that were applicable to the Company and the prospective adoption approach. There was no change to the classification of the Company's leases, which are all currently classified as operating leases. NOTE 14 contains additional detail about the impact ASU 2016-02 had on the Company's financial position as of December 31, 2019 and results of operations for the year ended December 31, 2019.

The Company elected the practical expedients that allowed the Company to not reassess (i) whether any existing agreement are or contain leases, (ii) lease classification of any existing agreements, and (iii) initial direct costs. The Company also elected the hindsight practical expedient to determine the lease term for all of its leases. In conjunction with the election of the hindsight practical expedient, the Company recorded a \$1.0 million cumulative-effect adjustment, net of tax to reduce retained earnings as of January 1, 2019.

In the third quarter of 2018, Accounting Standards Update 2018-15 ("ASU 2018-15"), *Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* was issued. ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance to determine which implementation costs to capitalize as assets. Capitalized implementation costs are amortized over the term of the hosting arrangement once the hosting arrangement is placed in service, and the amortization expense related to the capitalized implementation costs is recorded in the same line in the financial statements as the cloud service cost. The Company early-adopted ASU 2018-15 on January 1, 2019, using the prospective approach. During 2019, the Company capitalized \$6.2 million of implementation costs. Amortization of these costs has not begun as the Company has not placed the hosting arrangements into service.

In the second quarter of 2016, Accounting Standards Update 2016-13 ("ASU 2016-13"), *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* was issued. ASU 2016-13 ("the Standard") represents a significant change to the incurred loss model currently used to account for credit losses. The Standard requires an entity to estimate the credit losses expected over the life of the credit exposure upon initial recognition of that exposure. The expected credit losses consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Exposures with similar risk characteristics are required to be grouped together when estimating expected credit losses. The initial estimate and subsequent changes to the estimated credit losses are required to be reported in current earnings in the income statement and through an allowance in the balance sheet. ASU 2016-13 is applicable to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures. The Standard will modify the way the Company estimates its allowance for risk-sharing obligations and its allowance for loan losses and the way it assesses impairment on its pledged AFS securities. ASU 2016-13 requires modified retrospective application to all outstanding, in-scope instruments, with a cumulative-effect adjustment recorded to opening retained earnings as of the beginning of the period of adoption.

The Company is adopting the standard as required on January 1, 2020. The Company expects to recognize an increase of between \$30 and \$35 million in the allowance for risk-sharing obligations with a cumulative-effect adjustment, net of tax recorded to opening retained earnings of between \$25 and \$30 million. The Company is in the final stages of refining its calculations, establishing certain aspects of the accounting policy for the Standard, and implementing internal controls over financial reporting. The adjustment to the allowance for loan losses for the Company's portfolio of 22 loans held for investment is expected to be de minimis. There will be no impact to AFS securities because the portfolio consists

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of agency-backed securities that inherently have an immaterial risk of loss. The Company has analyzed the disclosures that will be required for the new standard and will implement those disclosures during the first quarter of 2020.

There were no other accounting pronouncements issued during 2020 or 2019 that have the potential to impact the Company's consolidated financial statements.

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

NOTE 3—MORTGAGE SERVICING RIGHTS

The fair value of MSRs at December 31, 2019 and December 31, 2018 was \$910.5 million and \$858.7 million, respectively. The Company uses a discounted static cash flow valuation approach and the key economic assumption is the discount rate. See the following sensitivities related to the discount rate:

The impact of a 100-basis point increase in the discount rate at December 31, 2019 would be a decrease in the fair value of \$28.5 million to the MSRs outstanding as of December 31, 2019.

The impact of a 200-basis point increase in the discount rate at December 31, 2019 would be a decrease in the fair value of \$55.0 million to the MSRs outstanding as of December 31, 2019.

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

Activity related to capitalized MSRs (net of accumulated amortization) for the years ended December 31, 2019 and 2018 follows:

Roll Forward of MSRs <i>(in thousands)</i>	For the year ended December 31,	
	2019	2018
Beginning balance	\$ 670,146	\$ 634,756
Additions, following the sale of loan	206,885	176,565
Purchases ¹	—	5,265
Amortization	(137,792)	(131,739)
Pre-payments and write-offs	(20,440)	(14,701)
Ending balance	\$ 718,799	\$ 670,146

¹ For the year ended December 31, 2018, the purchases line also contains \$3.5 million of MSRs acquired as compensation for originating a large loan held for investment.

The following table summarizes the gross value, accumulated amortization, and net carrying value of the Company's MSRs as of December 31, 2019 and 2018:

Components of MSRs <i>(in thousands)</i>	December 31, 2019	December 31, 2018
Gross Value	\$ 1,201,542	\$ 1,100,439
Accumulated amortization	(482,743)	(430,293)
Net carrying value	\$ 718,799	\$ 670,146

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The expected amortization of MSR's recorded as of December 31, 2019 is shown in the table below. Actual amortization may vary from these estimates.

<i>(in thousands)</i>	Expected Amortization
Year Ending December 31,	
2020	\$ 131,447
2021	118,500
2022	103,567
2023	91,498
2024	78,362
Thereafter	195,425
Total	\$ 718,799

The Company recorded write-offs of OMSRs related to loans that were repaid prior to the expected maturity and loans that defaulted. These write-offs are included as a component of the MSR roll forward shown above and as a component of *Amortization and depreciation* in the accompanying Consolidated Statements of Income and relate to OMSRs only. Prepayment fees totaling \$26.8 million, \$18.9 million, and \$17.3 million were collected for 2019, 2018, and 2017, respectively, and are included as a component of *Other revenues* in the Consolidated Statements of Income. Escrow earnings totaling \$51.4 million, \$38.2 million, and \$19.1 million were earned for the years ended December 31, 2019, 2018, and 2017, respectively, and are included as a component of *Escrow earnings and other interest income* in the Consolidated Statements of Income. All other ancillary servicing fees were immaterial for the periods presented.

Management reviews the capitalized MSR's for temporary impairment quarterly by comparing the aggregate carrying value of the MSR portfolio to the aggregate estimated fair value of the portfolio. Additionally, MSR's related to Fannie Mae loans where the Company has risk-sharing obligations are assessed for permanent impairment on an asset-by-asset basis, considering factors such as debt service coverage ratio, property location, loan-to-value ratio, and property type. Except for defaulted or prepaid loans, no temporary or permanent impairment was recognized for the years ended December 31, 2019, 2018, and 2017.

The weighted average remaining life of the aggregate MSR portfolio is 7.5 years.

NOTE 4—GUARANTY OBLIGATION AND ALLOWANCE FOR RISK-SHARING OBLIGATIONS

When a loan is sold under the Fannie Mae DUS program, the Company typically agrees to guarantee a portion of the ultimate loss incurred on the loan should the borrower fail to perform. The compensation for this risk is a component of the servicing fee on the loan. The guaranty is in force while the loan is outstanding. The Company does not provide a guaranty for any other loan product it sells or brokers. Activity related to the guaranty obligation for the years ended December 31, 2019 and 2018 is presented in the following table:

	For the year ended December 31,	
	2019	2018
Roll Forward of Guaranty Obligation <i>(in thousands)</i>		
Beginning balance	\$ 46,870	\$ 41,187
Additions, following the sale of loan	17,939	13,851
Amortization	(9,663)	(8,009)
Other	(451)	(159)
Ending balance	\$ 54,695	\$ 46,870

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Activity related to the allowance for risk-sharing obligations for the years ended December 31, 2019 and 2018 follows:

Roll Forward of Allowance for Risk-sharing Obligations <i>(in thousands)</i>	For the year ended December 31,	
	2019	2018
Beginning balance	\$ 4,622	\$ 3,783
Provision (benefit) for risk-sharing obligations	6,398	680
Write-offs	—	—
Other	451	159
Ending balance	\$ 11,471	\$ 4,622

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

During the year ended December 31, 2019, two loans defaulted, resulting in the recognition of a specific reserve of \$6.9 million with a corresponding amount included as a component of provision expense. The properties related to these two at risk loans were in the same city. The Company does not have any additional at risk loans related to properties in this city. The *Allowance for risk-sharing obligations* as of December 31, 2019 is substantially comprised of the specific reserves related to these two loans. The *Allowance for risk-sharing obligations* as of December 31, 2018 was based primarily on the Company's collective assessment of the probability of loss related to the loans on the watch list as of December 31, 2018.

As of December 31, 2019 and 2018, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement was \$7.5 billion and \$6.7 billion, respectively. This maximum quantifiable contingent liability relates to the at risk loans serviced for Fannie Mae at the specific point in time indicated. The term and the amount of the liability vary with the origination and payoff activity of the at risk portfolio. The maximum quantifiable contingent liability is not representative of the actual loss the Company would incur. The Company would be liable for this amount only if all of the at risk loans it services for Fannie Mae were to default and all of the collateral underlying these loans were determined to be without value at the time of settlement. For example, over the past three years, the Company recognized no net write-offs of risk-sharing obligations, while the average unpaid principal balance of the at risk loans within the Company's servicing portfolio over the past three years was \$30.3 billion.

NOTE 5—SERVICING

The total unpaid principal balance of loans the Company was servicing for various institutional investors was \$93.2 billion as of December 31, 2019 compared to \$85.7 billion as of December 31, 2018.

As of December 31, 2019 and 2018, custodial escrow accounts relating to loans serviced by the Company totaled \$2.6 billion and \$2.3 billion, respectively. These amounts are not included in the accompanying consolidated balance sheets as such amounts are not Company assets. Certain cash deposits at other financial institutions exceed the Federal Deposit Insurance Corporation insured limits. The Company places these deposits with financial institutions that meet the requirements of the Agencies and where it believes the risk of loss to be minimal.

NOTE 6—DEBT

At December 31, 2019, to provide financing to borrowers under the Agencies' programs, the Company has committed and uncommitted warehouse lines of credit in the amount of \$3.3 billion with certain national banks and a \$1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). In support of these

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Agency Warehouse Facilities, the Company has pledged substantially all of its loans held for sale under the Company's approved programs. The Company's ability to originate mortgage loans for sale depends upon its ability to secure and maintain these types of short-term financings on acceptable terms.

Additionally, at December 31, 2019, the Company has arranged for warehouse lines of credit in the amount of \$0.5 billion with certain national banks to assist in funding loans held for investment under the Interim Program ("Interim Warehouse Facilities"). The Company has pledged substantially all of its loans held for investment against these Interim Warehouse Facilities. The Company's ability to originate loans held for investment depends upon its ability to secure and maintain these types of short-term financings on acceptable terms.

The maximum amount and outstanding borrowings under the warehouse notes payable at December 31, 2019 and 2018 follow:

<i>(dollars in thousands)</i> Facility ¹	December 31, 2019				Interest rate
	Committed Amount	Uncommitted Amount	Total Facility Capacity	Outstanding Balance	
Agency Warehouse Facility #1	\$ 350,000	\$ 200,000	\$ 550,000	\$ 148,877	30-day LIBOR plus 1.15%
Agency Warehouse Facility #2	500,000	300,000	800,000	15,291	30-day LIBOR plus 1.15%
Agency Warehouse Facility #3	500,000	265,000	765,000	35,510	30-day LIBOR plus 1.15%
Agency Warehouse Facility #4	350,000	—	350,000	258,045	30-day LIBOR plus 1.15%
Agency Warehouse Facility #5	—	500,000	500,000	60,751	30-day LIBOR plus 1.15%
Agency Warehouse Facility #6	250,000	100,000	350,000	14,930	30-day LIBOR plus 1.15%
<i>Total National Bank Agency Warehouse Facilities</i>	<u>\$ 1,950,000</u>	<u>\$ 1,365,000</u>	<u>\$ 3,315,000</u>	<u>\$ 533,404</u>	
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	1,500,000	131,984	
<i>Total Agency Warehouse Facilities</i>	<u>\$ 1,950,000</u>	<u>\$ 2,865,000</u>	<u>\$ 4,815,000</u>	<u>\$ 665,388</u>	
Interim Warehouse Facility #1	\$ 135,000	\$ —	\$ 135,000	\$ 98,086	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	100,000	49,256	30-day LIBOR plus 1.65%
Interim Warehouse Facility #3	75,000	75,000	150,000	65,991	30-day LIBOR plus 1.90% to 2.50%
Interim Warehouse Facility #4	100,000	—	100,000	28,100	30-day LIBOR plus 1.75%
<i>Total National Bank Interim Warehouse Facilities</i>	<u>\$ 410,000</u>	<u>\$ 75,000</u>	<u>\$ 485,000</u>	<u>\$ 241,433</u>	
Debt issuance costs	—	—	—	(693)	
Total warehouse facilities	<u><u>\$ 2,360,000</u></u>	<u><u>\$ 2,940,000</u></u>	<u><u>\$ 5,300,000</u></u>	<u><u>\$ 906,128</u></u>	

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<i>(dollars in thousands)</i> Facility ¹	December 31, 2018				Interest rate
	Committed Amount	Uncommitted Amount	Total Facility Capacity	Outstanding Balance	
Agency Warehouse Facility #1	\$ 425,000	\$ 200,000	\$ 625,000	\$ 57,572	30-day LIBOR plus 1.20%
Agency Warehouse Facility #2	500,000	300,000	800,000	62,830	30-day LIBOR plus 1.20%
Agency Warehouse Facility #3	500,000	265,000	765,000	451,549	30-day LIBOR plus 1.25%
Agency Warehouse Facility #4	350,000	—	350,000	225,538	30-day LIBOR plus 1.20%
Agency Warehouse Facility #5	30,000	—	30,000	12,484	30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	100,000	350,000	66,579	30-day LIBOR plus 1.20%
Total National Bank Agency Warehouse Facilities	\$ 2,055,000	\$ 865,000	\$ 2,920,000	\$ 876,552	
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	1,500,000	156,700	
Total agency warehouse facilities	\$ 2,055,000	\$ 2,365,000	\$ 4,420,000	\$ 1,033,252	
Interim Warehouse Facility #1	\$ 85,000	\$ —	\$ 85,000	\$ 68,390	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	100,000	37,899	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	—	75,000	23,250	30-day LIBOR plus 1.90% to 2.50%
Total interim warehouse facilities	\$ 260,000	\$ —	\$ 260,000	\$ 129,539	
Debt issuance costs	—	—	—	(1,409)	
Total warehouse facilities	\$ 2,315,000	\$ 2,365,000	\$ 4,680,000	\$ 1,161,382	

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

30-day LIBOR was 1.76% as of December 31, 2019 and 2.50% as of December 31, 2018. Interest expense under the warehouse notes payable for the years ended December 31, 2019, 2018, and 2017 aggregated to \$58.1 million, \$54.6 million, and \$52.0 million, respectively. Included in interest expense in 2019, 2018, and 2017 are the amortization of facility fees totaling \$4.9 million, \$5.0 million, and \$4.6 million, respectively. The warehouse notes payable are subject to various financial covenants, and the Company was in compliance with all such covenants at December 31, 2019.

Warehouse Facilities

Agency Warehouse Facilities

The following section provides a summary of the key terms related to each of the Agency Warehouse Facilities. During the third quarter of 2019, an Agency warehouse line with a \$30.0 million aggregate committed and uncommitted borrowing capacity expired according to its terms. The Company believes that the six remaining committed and uncommitted credit facilities from national banks and the uncommitted credit facility from Fannie Mae provide the Company with sufficient borrowing capacity to conduct its Agency lending operations.

Agency Warehouse Facility #1:

The Company has a warehousing credit and security agreement with a national bank for a \$350.0 million committed warehouse line that is scheduled to mature on October 26, 2020. The agreement provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance and borrowings under this line bear interest at the 30-day London Interbank Offered Rate (“LIBOR”) plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides \$200.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. The agreement contains certain affirmative and negative covenants that are binding on the Company’s operating subsidiary, Walker & Dunlop, LLC (which are in some cases subject to exceptions), including, but not limited to, restrictions on its ability to assume, guarantee, or become contingently liable for the obligation of another person, to undertake certain fundamental changes such as reorganizations, mergers, amendments to the Company’s certificate of formation or operating agreement, liquidations, dissolutions or dispositions or acquisitions of assets or businesses, to cease to be directly or indirectly wholly owned by the Company, to pay any subordinated debt in advance of its stated maturity or to take any action that would cause Walker & Dunlop, LLC to lose all or any part of

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its status as an eligible lender, seller, servicer or issuer or any license or approval required for it to engage in the business of originating, acquiring, or servicing mortgage loans.

In addition, the agreement requires compliance with certain financial covenants, which are measured for the Company and its subsidiaries on a consolidated basis, as follows:

- tangible net worth of the Company of not less than (i) \$200.0 million plus (ii) 75% of the net proceeds of any equity issuances by the Company or any of its subsidiaries after the closing date;
- compliance with the applicable net worth and liquidity requirements of Fannie Mae, Freddie Mac, Ginnie Mae, FHA, and HUD;
- liquid assets of the Company of not less than \$15.0 million;
- maintenance of aggregate unpaid principal amount of all mortgage loans comprising the Company's consolidated servicing portfolio of not less than \$20.0 billion or all Fannie Mae DUS mortgage loans comprising the Company's consolidated servicing portfolio of not less than \$10.0 billion, exclusive in both cases of mortgage loans which are 60 or more days past due or are otherwise in default or have been transferred to Fannie Mae for resolution;
- aggregate unpaid principal amount of Fannie Mae DUS mortgage loans within the Company's consolidated servicing portfolio which are 60 or more days past due or otherwise in default not to exceed 3.5% of the aggregate unpaid principal balance of all Fannie Mae DUS mortgage loans within the Company's consolidated servicing portfolio; and
- maximum indebtedness (excluding warehouse lines) to tangible net worth of 2.25 to 1.00.

The agreement contains customary events of default, which are in some cases subject to certain exceptions, thresholds, notice requirements, and grace periods. During the third quarter of 2019, the Company executed the third amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points as of September 30, 2019. During the fourth quarter of 2019, the Company executed the fourth amendment to the warehouse and security agreement that extended the maturity date to October 26, 2020. Additionally, at the Company's request, the committed amount was reduced to \$350.0 million. No other material modifications were made to the agreement in 2019.

Agency Warehouse Facility #2:

The Company has a warehousing credit and security agreement with a national bank for a \$500.0 million committed warehouse line that is scheduled to mature on September 8, 2020. The committed warehouse facility provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides \$300.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2019, the Company executed the fourth amendment to the warehouse and security agreement that extended the maturity date to September 8, 2020. No other material modifications were made to the agreement in 2019.

The negative and financial covenants of the amended and restated warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above, with the exception of the leverage ratio covenant, which is not included in the warehouse agreement for Agency Warehouse Facility #2.

Agency Warehouse Facility #3:

The Company has a \$500.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on April 30, 2020. The committed warehouse facility provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. In addition to the committed borrowing capacity, the agreement provides \$265.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2019, the Company executed the tenth amendment to the

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warehouse agreement that extended the maturity date to April 30, 2020 and decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 125 basis points. Additionally, the amendment provided for an uncommitted amount of \$265.0 million until January 31, 2020. No other material modifications were made to the agreement during 2019.

The negative and financial covenants of the warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above.

Agency Warehouse Facility #4:

The Company has a \$350.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on October 4, 2020. The committed warehouse facility provides the Company with the ability to fund Fannie Mae, Freddie Mac, HUD, FHA, and defaulted HUD and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. During the second quarter of 2019, the Company executed sixth amendment to the warehouse agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points. During the fourth quarter of 2019, the Company executed Amended and Restated Mortgage Loan and Security Agreement (the “Amended and Restated Agreement”). The Amended and Restated Agreement has the same terms and conditions as the agreement it replaced except that it provides the Company with the ability to fund defaulted HUD and FHA loans up to \$30.0 million and extends the maturity date to October 4, 2020. No other material modifications were made to the agreement during 2019.

The negative and financial covenants of the warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above, with the exception of the leverage ratio covenant, which is not included in the warehouse agreement for Agency Warehouse Facility #4.

Agency Warehouse Facility #5:

During the third quarter of 2019, the Company executed a warehousing and security agreement with a national bank to establish Agency Warehouse Facility #5. The facility, which is structured as a master repurchase agreement, has an uncommitted \$500.0 million maximum borrowing amount and is scheduled to mature on August 5, 2020. The Company can fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 115 basis points. No other material modifications were made to the agreement during 2019.

The negative and financial covenants of the warehouse agreement conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above.

Agency Warehouse Facility #6:

The Company had a \$250.0 million committed warehouse credit and security agreement with a national bank that was scheduled to mature on January 31, 2020. The warehouse facility provided the Company with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bore interest at a rate of LIBOR plus 115 basis points. The agreement provided \$100.0 million of uncommitted borrowing capacity that bore interest at the same rate as the committed facility. During the first quarter of 2019, the Company executed the second amendment to the warehouse and security agreement that extended the maturity date to January 31, 2020. During the fourth quarter of 2019, the Company executed the third amendment to the warehouse and security agreement that decreased the borrowing rate to 30-day LIBOR plus 115 basis points from 30-day LIBOR plus 120 basis points. No other material modifications were made to the agreement during 2019. The Agency Warehouse Facility expired on January 31, 2020 according to its terms. The Company believes that the five remaining committed and uncommitted credit facilities from national banks, the uncommitted credit facility from Fannie Mae, and the Company’s corporate cash provide the Company with sufficient borrowing capacity to conduct its Agency lending operations without this facility.

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The negative and financial covenants of the warehouse agreement substantially conform to those of the warehouse agreement for Agency Warehouse Facility #1, described above.

Uncommitted Agency Warehouse Facility:

The Company has a \$1.5 billion uncommitted facility with Fannie Mae under its ASAP funding program. After approval of certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the loan balance. There is no expiration date for this facility. The uncommitted facility has no specific negative or financial covenants.

Interim Warehouse Facilities

The following section provides a summary of the key terms related to each of the Interim Warehouse Facilities.

Interim Warehouse Facility #1:

The Company has a \$135.0 million committed warehouse line agreement that is scheduled to mature on April 30, 2020. The facility provides the Company with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company and bear interest at 30-day LIBOR plus 190 basis points. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the first quarter of 2019, the Company executed the ninth amendment to the credit and security agreement that increased the maximum borrowing capacity to \$135.0 million. During the second quarter of 2019, the Company executed the tenth amendment to the credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications were made to the agreement during 2019.

The facility agreement requires the Company's compliance with the same financial covenants as Agency Warehouse Facility #1, described above, and also includes the following additional financial covenant:

- minimum rolling four-quarter EBITDA, as defined, to total debt service ratio of 2.00 to 1.00.

Interim Warehouse Facility #2:

The Company has a \$100.0 million committed warehouse line agreement that is scheduled to mature on December 13, 2021. The agreement provides the Company with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company. All borrowings originally bear interest at 30-day LIBOR plus 165 basis points. The lender retains a first priority security interest in all mortgages funded by such advances on a cross-collateralized basis. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the fourth quarter of 2019, the Company executed the fifth amendment to the warehouse and security agreement that decreased the borrowing rate to 30-day LIBOR plus 165 basis points from 30-day LIBOR plus 200 basis points and extended the maturity date to December 13, 2021. No other material modifications were made to the agreement during 2019.

The credit agreement requires the borrower and the Company to abide by the same financial covenants as Agency Warehouse Facility #1, described above, with the exception of the leverage ratio covenant, which is not included in the warehouse agreement for Interim Warehouse Facility #2. Additionally, Interim Warehouse Facility #2 has the following additional financial covenants:

- rolling four-quarter EBITDA, as defined, of not less than \$35.0 million and
- debt service coverage ratio, as defined, of not less than 2.75 to 1.00.

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Interim Warehouse Facility #3:

The Company has a \$75.0 million repurchase agreement with a national bank that is scheduled to mature on May 18, 2020. The agreement provides the Company with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company. The borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 1.90% to 2.50% (“the spread”). The spread varies according to the type of asset the borrowing finances. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2019, the Company executed the fourth amendment to the credit and security agreement that extended the maturity date to May 18, 2020 and provides for an uncommitted amount of \$75.0 million. No other material modifications were made to the agreement during 2019.

The Repurchase Agreement requires the borrower and the Company to abide by the following financial covenants:

- tangible net worth of the Company of not less than (i) \$200.0 million plus (ii) 75% of the net proceeds of any equity issuances by the Company or any of its subsidiaries after the closing date;
- liquid assets of the Company of not less than \$15.0 million;
- leverage ratio, as defined, of not more than 3.0 to 1.0; and
- debt service coverage ratio, as defined, of not less than 2.75 to 1.00.

Interim Warehouse Facility #4:

During the first quarter of 2019, the Company executed a warehousing credit and security agreement to establish an additional interim warehouse facility. The warehouse facility has a committed \$100.0 million maximum borrowing amount and is scheduled to mature on April 30, 2020. The Company can fund certain interim loans to a specific large institutional borrower, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 175 basis points. During the second quarter of 2019, the Company executed the first amendment to the warehousing credit and security agreement that extended the maturity date to April 30, 2020. No other material modifications were made to the agreement in 2019.

The facility agreement requires the Company’s compliance with substantially the same financial covenants as Agency Warehouse Facility #1, described above, and also includes the following additional financial covenant:

- leverage ratio, as defined, of not more than 2.25 to 1.00.

The warehouse agreements contain cross-default provisions, such that if a default occurs under any of the Company’s warehouse agreements, generally the lenders under the other warehouse agreements could also declare a default. As of December 31, 2019, the Company was in compliance with all of its warehouse line covenants.

Note Payable

On November 7, 2018, the Company entered into a senior secured credit agreement (the “Credit Agreement”) that amended and restated the Company’s prior credit agreement and provided for a \$300.0 million term loan (the “Term Loan”). The Term Loan was issued at a 0.5% discount, has a stated maturity date of November 7, 2025, and bears interest at 30-day LIBOR plus 200 basis points. At any time, the Company may also elect to request one or more incremental term loan commitments not to exceed \$150.0 million, provided that the total indebtedness would not cause the leverage ratio (as defined in the Credit Agreement) to exceed 2.00 to 1.00.

The Company used \$165.4 million of the Term Loan proceeds to repay in full the prior term loan. In connection with the repayment of the prior term loan, the Company recognized a \$2.1 million loss on extinguishment of debt related to unamortized debt issuance costs and unamortized debt discount, which is included in *Other operating expenses* in the Consolidated Statements of Income for the year ended December 31, 2018.

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The Company is obligated to repay the aggregate outstanding principal amount of the term loan in consecutive quarterly installments equal to \$0.8 million on the last business day of each of March, June, September, and December commencing on March 31, 2019. The term loan also requires certain other prepayments in certain circumstances pursuant to the terms of the Term Loan Agreement. The final principal installment of the term loan is required to be paid in full on November 7, 2025 (or, if earlier, the date of acceleration of the term loan pursuant to the terms of the Term Loan Agreement) and will be in an amount equal to the aggregate outstanding principal of the term loan on such date (together with all accrued interest thereon). During the fourth quarter of 2019, the Company executed the first amendment to the Term Loan that decreased the borrowing rate to 30-day LIBOR plus 200 basis points from 30-day LIBOR plus 225 basis points. No other material modifications were made to the agreement in 2019.

The obligations of the Company under the Credit Agreement are guaranteed by Walker & Dunlop Multifamily, Inc.; Walker & Dunlop, LLC; Walker & Dunlop Capital, LLC; and W&D BE, Inc., each of which is a direct or indirect wholly owned subsidiary of the Company (together with the Company, the "Loan Parties"), pursuant to the Amended and Restated Guarantee and Collateral Agreement entered into on November 7, 2018 among the Loan Parties and Wells Fargo, National Association, as administrative agent (the "Guarantee and Collateral Agreement"). Subject to certain exceptions and qualifications contained in the Credit Agreement, the Company is required to cause any newly created or acquired subsidiary, unless such subsidiary has been designated as an Excluded Subsidiary (as defined in the Credit Agreement) by the Company in accordance with the terms of the Credit Agreement, to guarantee the obligations of the Company under the Credit Agreement and become a party to the Guarantee and Collateral Agreement. The Company may designate a newly created or acquired subsidiary as an Excluded Subsidiary so long as certain conditions and requirements provided for in the Credit Agreement are met.

The Credit Agreement contains certain affirmative and negative covenants that are binding on the Loan Parties, including, but not limited to, restrictions (subject to specified exceptions and qualifications) on the ability of the Loan Parties to incur indebtedness, to create liens on their property, to make investments, to merge, consolidate or enter into any similar combination, or enter into any asset disposition of all or substantially all assets, or liquidate, wind-up or dissolve, to make asset dispositions, to declare or pay dividends or make related distributions, to enter into certain transactions with affiliates, to enter into any negative pledges or other restrictive agreements, to engage in any business other than the business of the Loan Parties as of the date of the Credit Agreement and business activities reasonably related or ancillary thereto, to amend certain material contracts or to enter into any sale leaseback arrangements. The Credit Agreement contains only one financial covenant, which requires the Company not to permit its asset coverage ratio (as defined in the Credit Agreement) to be less than 1.50 to 1.00.

The Credit Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods), including, but not limited to, non-payment of principal or interest or other amounts, misrepresentations, failure to perform or observe covenants, cross-defaults with certain other indebtedness or material agreements, certain change in control events, voluntary or involuntary bankruptcy proceedings, failure of the Credit Agreements or other loan documents to be valid and binding, certain ERISA events and judgments. As of December 31, 2019, the Company was in compliance with all covenants related to the Credit Agreement.

The following table shows the components of the note payable as of December 31, 2019 and 2018:

<i>(in thousands, unless otherwise specified)</i>	December 31,		Interest rate and repayments
	2019	2018	
Component			
Unpaid principal balance	\$ 297,750	\$ 300,000	Interest rate varies - see above for further details; quarterly principal payments of \$0.8 million
Unamortized debt discount	(1,245)	(1,466)	
Unamortized debt issuance costs	(2,541)	(2,524)	
Carrying balance	<u>\$ 293,964</u>	<u>\$ 296,010</u>	

The scheduled maturities, as of December 31, 2019, for the aggregate of the warehouse notes payable and the note payable are shown below. The warehouse notes payable obligations are incurred in support of the related loans held for sale and loans held for investment. Amounts advanced under the warehouse notes payable for loans held for sale are

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included in the subsequent year as the amounts are usually drawn and repaid within 60 days. The amounts below related to the note payable include only the quarterly and final principal payments required by the related credit agreement (i.e., the non-contingent payments) and do not include any principal payments that are contingent upon Company cash flow, as defined in the credit agreement (i.e., the contingent payments). The maturities below are in thousands.

Year Ending December 31,	Maturities
2020	\$ 825,802
2021	13,032
2022	76,986
2023	3,000
2024	3,000
Thereafter	282,750
Total	\$ 1,204,570

All of the debt instruments, including the warehouse facilities, are senior obligations of the Company. All warehouse notes payable balances associated with loans held for sale and outstanding as of December 31, 2019 were or are expected to be repaid in 2020.

NOTE 7—GOODWILL AND OTHER INTANGIBLE ASSETS

A summary of the Company's goodwill as of and for the year ended December 31, 2019 and 2018 follows:

Roll Forward of Goodwill (in thousands)	For the year ended December 31,	
	2019	2018
Beginning balance	\$ 173,904	\$ 123,767
Additions from acquisitions	6,520	50,137
Impairment	—	—
Ending balance	\$ 180,424	\$ 173,904

The additions from acquisitions during 2019 shown in the table above relate to an immaterial acquisition of a technology company, which was completed in the first quarter of 2019.

The Company has completed the accounting for all acquisitions completed in 2019. For all acquisitions completed in 2019, total revenues and income from operations since the acquisition and the pro-forma incremental revenues and earnings related to the acquired entities as if the acquisitions had occurred as of January 1, 2018 are immaterial.

During the first quarter of 2020, the Company acquired two debt brokerage companies for an aggregate consideration of \$70.5 million. The Company has not completed the accounting for the acquisitions as of the issuance date of these financial statements. Therefore, disclosures relating to the goodwill recognized, if any, the amount of contingent consideration recognized, if any, and the fair value of the assets acquired and liabilities assumed could not be presented.

As of December 31, 2019 and December 31, 2018, the balance of intangible assets acquired from acquisitions totaled \$2.5 million and \$3.2 million, respectively. As of December 31, 2019, the weighted-average period over which the Company expects the intangible assets to be amortized is 4.7 years.

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A summary of the Company's contingent consideration, which is included in *Other liabilities*, as of and for the years ended December 31, 2019 and 2018 follows:

Roll Forward of Contingent Consideration Liabilities (in thousands)	For the year ended December 31,	
	2019	2018
Beginning balance	\$ 11,630	\$ 14,091
Accretion	572	927
Payments	(6,450)	(5,150)
Adjustment to discounted disposition value	—	1,762
Ending balance	\$ 5,752	\$ 11,630

The contingent consideration above relates to an acquisition completed in 2017. The last of the three earn-out periods related to this contingent consideration ended in the first quarter of 2020.

NOTE 8—FAIR VALUE MEASUREMENTS

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

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

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

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

- *Derivative Instruments*—The derivative positions consist of interest rate lock commitments and forward sale agreements to the Agencies. The fair value of these instruments is estimated using a discounted cash flow model developed based on changes in the U.S. Treasury rate and other observable market data. The value was determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company, and are classified within Level 3 of the valuation hierarchy.
- *Loans Held for Sale*—All loans held for sale presented in the Consolidated Balance Sheets are reported at fair value. The Company determines the fair value of the loans held for sale using discounted cash flow models that incorporate quoted observable inputs from market participants such as changes in the U.S. Treasury rate. Therefore, the Company classifies these loans held for sale as Level 2.
- *Pledged Securities*—Investments in cash and money market funds are valued using quoted market prices from recent trades. Therefore, the Company classifies this portion of pledged securities as Level 1. The Company determines the fair value of its AFS investments in Agency debt securities using discounted cash flows that incorporate observable inputs from market participants and then compares the fair value to broker estimates of fair value. Consequently, the Company classifies this portion of pledged securities as Level 2.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value:

<i>(in thousands)</i>	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
December 31, 2019				
Assets				
Loans held for sale	\$ —	\$ 787,035	\$ —	\$ 787,035
Pledged securities	7,204	114,563	—	121,767
Derivative assets	—	—	15,568	15,568
Total	\$ 7,204	\$ 901,598	\$ 15,568	\$ 924,370
Liabilities				
Derivative liabilities	\$ —	\$ —	\$ 36	\$ 36
Total	\$ —	\$ —	\$ 36	\$ 36
December 31, 2018				
Assets				
Loans held for sale	\$ —	\$ 1,074,348	\$ —	\$ 1,074,348
Pledged securities	9,469	106,862	—	116,331
Derivative assets	—	—	35,536	35,536
Total	\$ 9,469	\$ 1,181,210	\$ 35,536	\$ 1,226,215
Liabilities				
Derivative liabilities	\$ —	\$ —	\$ 32,697	\$ 32,697
Total	\$ —	\$ —	\$ 32,697	\$ 32,697

There were no transfers between any of the levels within the fair value hierarchy during the year ended December 31, 2019.

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Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 60 days). A roll forward of derivative instruments is presented below for the years ended December 31, 2019 and 2018:

<i>(in thousands)</i>	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments December 31, 2019
Derivative assets and liabilities, net	
Beginning balance December 31, 2018	\$ 2,839
Settlements	(426,544)
Realized gains recorded in earnings (1)	423,705
Unrealized gains recorded in earnings (1)	15,532
Ending balance December 31, 2019	\$ 15,532

<i>(in thousands)</i>	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments December 31, 2018
Derivative assets and liabilities, net	
Beginning balance December 31, 2017	\$ 8,507
Settlements	(412,750)
Realized gains (losses) recorded in earnings (1)	404,243
Unrealized gains (losses) recorded in earnings (1)	2,839
Ending balance December 31, 2018	\$ 2,839

(1) Realized and unrealized gains from derivatives are recognized in *Loan origination and debt brokerage fees, net* and *Fair value of expected net cash flows from servicing, net* in the Consolidated Statements of Income.

The following table presents information about significant unobservable inputs used in the recurring measurement of the fair value of the Company's Level 3 assets and liabilities as of December 31, 2019:

<i>(in thousands)</i>	Quantitative Information about Level 3 Measurements			
	Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	\$ 15,568	Discounted cash flow	Counterparty credit risk	—
Derivative liabilities	\$ 36	Discounted cash flow	Counterparty credit risk	—

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

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The carrying amounts and the fair values of the Company's financial instruments as of December 31, 2019 and December 31, 2018 are presented below:

<i>(in thousands)</i>	December 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 120,685	\$ 120,685	\$ 90,058	\$ 90,058
Restricted cash	8,677	8,677	20,821	20,821
Pledged securities	121,767	121,767	116,331	116,331
Loans held for sale	787,035	787,035	1,074,348	1,074,348
Loans held for investment, net	543,542	546,033	497,291	503,549
Derivative assets	15,568	15,568	35,536	35,536
Total financial assets	\$ 1,597,274	\$ 1,599,765	\$ 1,834,385	\$ 1,840,643
Financial liabilities:				
Derivative liabilities	\$ 36	\$ 36	\$ 32,697	\$ 32,697
Secured borrowings	70,548	70,548	70,052	70,052
Warehouse notes payable	906,128	906,821	1,161,382	1,162,791
Note payable	293,964	297,750	296,010	300,000
Total financial liabilities	\$ 1,270,676	\$ 1,275,155	\$ 1,560,141	\$ 1,565,540

The following methods and assumptions were used for recurring fair value measurements as of December 31, 2019:

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

Pledged Securities—Consist of cash, highly liquid investments in money market accounts invested in government securities, and investments in Agency debt securities. The investments of the money market funds typically have maturities of 90 days or less and are valued using quoted market prices from recent trades. The fair value of the Agency debt securities incorporates the contractual cash flows of the security discounted at market-rate, risk-adjusted yields.

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

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

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

To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company's policy is to enter into a sale commitment with the investor simultaneous with the rate lock commitment with the borrower. The sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration

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date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the forward sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through *Loan origination and debt brokerage fees, net* in the Consolidated Statements of Income. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input levels includes, as applicable:

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

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

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

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

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

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

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The following table presents the components of fair value and other relevant information associated with the Company's derivative instruments and loans held for sale as of December 31, 2019 and 2018.

	Fair Value Adjustment Components			Balance Sheet Location			
	Notional or Principal Amount	Estimated Gain on Sale	Interest Rate Movement	Total Fair Value Adjustment	Derivative Assets	Derivative Liabilities	Fair Value Adjustment To Loans Held for Sale
<i>(in thousands)</i>							
December 31, 2019							
Rate lock commitments	\$ 511,114	\$ 12,199	\$ (1,975)	\$ 10,224	\$ 10,247	\$ (23)	\$ —
Forward sale contracts	1,285,656	—	5,308	5,308	5,321	(13)	—
Loans held for sale	774,542	15,826	(3,333)	12,493	—	—	12,493
Total		<u>\$ 28,025</u>	<u>\$ —</u>	<u>\$ 28,025</u>	<u>\$ 15,568</u>	<u>\$ (36)</u>	<u>\$ 12,493</u>
December 31, 2018							
Rate lock commitments	\$ 891,514	\$ 20,285	\$ 10,627	\$ 30,912	\$ 30,976	\$ (64)	\$ —
Forward sale contracts	1,927,017	—	(28,073)	(28,073)	4,560	(32,633)	—
Loans held for sale	1,035,503	21,399	17,446	38,845	—	—	38,845
Total		<u>\$ 41,684</u>	<u>\$ —</u>	<u>\$ 41,684</u>	<u>\$ 35,536</u>	<u>\$ (32,697)</u>	<u>\$ 38,845</u>

NOTE 9—FANNIE MAE COMMITMENTS AND PLEDGED SECURITIES

Fannie Mae DUS Related Commitments—Commitments for the origination and subsequent sale and delivery of loans to Fannie Mae represent those mortgage loan transactions where the borrower has locked an interest rate and scheduled closing and the Company has entered into a mandatory delivery commitment to sell the loan to Fannie Mae. As discussed in NOTE 8, the Company accounts for these commitments as derivatives recorded at fair value.

The Company is generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. The Company is required to secure these obligations by assigning restricted cash balances and securities to Fannie Mae, which are classified as *Pledged securities, at fair value* on the Consolidated Balance Sheets. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, which is funded over a 48 month period that begins upon delivery of the loan to Fannie Mae. Pledged securities held in the form of money market funds holding U.S. Treasuries are discounted 5%, and multifamily Agency mortgage-backed securities (“Agency MBS”) are discounted 4% for purposes of calculating compliance with the restricted liquidity requirements. As seen below, the Company held substantially all of its pledged securities in Agency MBS as of December 31, 2019. The majority of the loans for which the Company has risk sharing are Tier 2 loans.

The Company is in compliance with the December 31, 2019 collateral requirements as outlined above. As of December 31, 2019, reserve requirements for the December 31, 2019 DUS loan portfolio will require the Company to fund \$63.9 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within the at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. The Company generates sufficient cash flow from its operations to meet these capital standards and does not expect any future changes to have a material impact on its future operations; however, any future increases to collateral requirements may adversely impact the Company's available cash.

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate the Company's servicing authority for all or some of the portfolio if at any time it determines that the Company's financial condition is not adequate to support its obligations under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of December 31, 2019. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk sharing. At December 31, 2019, the net worth requirement was \$194.6 million, and the Company's net worth was \$710.6 million.

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as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of December 31, 2019, the Company was required to maintain at least \$38.3 million of liquid assets to meet operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, and Ginnie Mae. As of December 31, 2019, the Company had operational liquidity of \$227.0 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

Pledged Securities—Pledged securities, at fair value consisted of the following balances as of December 31, 2019, 2018, 2017, and 2016:

<i>(in thousands)</i>	December 31,			
	2019	2018	2017	2016
<i>Pledged cash and cash equivalents:</i>				
Restricted cash	\$ 2,150	\$ 3,029	\$ 2,201	\$ 4,358
Money market funds	5,054	6,440	86,584	78,384
Total pledged cash and cash equivalents	\$ 7,204	\$ 9,469	\$ 88,785	\$ 82,742
Agency MBS	114,563	106,862	9,074	2,108
Total pledged securities, at fair value	\$ 121,767	\$ 116,331	\$ 97,859	\$ 84,850

The information in the preceding table is presented to reconcile beginning and ending cash, cash equivalents, restricted cash, and restricted cash equivalents in the Consolidated Statements of Cash Flows as more fully discussed in NOTE 2.

The following table provides additional information related to the AFS Agency MBS as of December 31, 2019 and 2018:

Fair Value and Amortized Cost of Agency MBS <i>(in thousands)</i>	December 31, 2019	December 31, 2018
Fair value	\$ 114,563	\$ 106,862
Amortized cost	113,580	106,963
Total gains for securities with net gains in AOCI	1,145	77
Total losses for securities with net losses in AOCI	(162)	(178)

As of December 31, 2019, the Company did not intend to sell any of the Agency MBS, nor did the Company believe that it was more likely than not that it would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity.

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

Detail of Agency MBS Maturities <i>(in thousands)</i>	December 31, 2019	
	Fair Value	Amortized Cost
Within one year	\$ —	\$ —
After one year through five years	2,812	2,815
After five years through ten years	92,040	92,153
After ten years	19,711	18,612
Total	\$ 114,563	\$ 113,580

NOTE 10—SHARE-BASED PAYMENT

As of December 31, 2019, there were 8.5 million shares of stock authorized for issuance to directors, officers, and employees under the 2015 Equity Incentive Plan (and predecessor plans). At December 31, 2019, 0.8 million shares remain available for grant under the 2015 Equity Incentive Plan.

Under the 2015 Equity Incentive Plan, the Company granted stock options to executive officers during 2017 and restricted shares to executive officers, employees, and non-employee directors during 2019, 2018, and 2017, all without cost to the grantee. During 2019, 2018, and 2017, the Company also granted 0.3 million, 0.3 million, and 0.3 million RSUs,

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respectively, to the executive officers and certain other employees in connection with PSPs (“performance awards”). The Company granted the RSUs at the maximum performance thresholds for each metric each year. As of December 31, 2019, the RSUs issued in connection with the 2019, 2018, and 2017 PSPs are unvested and outstanding.

The performance period for the 2016 PSP concluded on December 31, 2018. The three performance goals related to the 2016 PSP were met at varying levels. Accordingly, 0.5 million shares related to the 2016 PSP vested in the first quarter of 2019. As of December 31, 2019, the Company concluded that the three performance targets related to the 2017 PSP and 2019 PSP were probable of achievement at varying levels and one performance target related to the 2018 PSP was probable of achievement at the target level. As of December 31, 2018, the Company concluded that the three performance targets related to the 2016 PSP and 2017 PSP were probable of achievement at varying levels and one performance target related to the 2018 PSP was probable of achievement at the target level.

The following table summarizes stock compensation expense for the years ended December 31, 2019, 2018, and 2017:

Components of stock compensation expense (in thousands)	2019	2018	2017
Restricted shares	\$ 17,818	\$ 14,741	\$ 12,336
Stock options	625	1,124	1,570
PSP "RSUs"	5,632	8,094	7,228
Total stock compensation expense	\$ 24,075	\$ 23,959	\$ 21,134
Excess tax benefit recognized	\$ 4,632	\$ 6,848	\$ 9,545

The amounts attributable to restricted shares in the table above include both equity-classified awards granted in restricted shares and liability-classified awards to be granted in restricted shares. The excess tax benefits recognized above reduced income tax expense.

The following table summarizes restricted share activity for the year ended December 31, 2019:

Restricted Shares Activity	Shares	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2019	1,171,018	\$ 37.32
Granted	486,173	54.52
Vested	(563,736)	30.81
Forfeited	(8,079)	41.17
Nonvested at December 31, 2019	1,085,376	\$ 48.39

The fair value of restricted share awards granted during 2019 was estimated using the closing price on the date of grant. The weighted average grant date fair values of restricted shares granted in 2018 and 2017 were \$52.25 per share and \$41.15 per share, respectively. The fair values of the restricted shares that vested during the years ended December 31, 2019, 2018, and 2017 were \$30.5 million, \$29.6 million, and \$21.2 million, respectively.

As of December 31, 2019, the total unrecognized compensation cost for outstanding restricted shares was \$28.7 million. As of December 31, 2019, the weighted-average period over which this unrecognized compensation cost will be recognized is 3.1 years.

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The following table summarizes activity related to performance awards for the year ended December 31, 2019:

Restricted Share Units Activity	Share Units	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2019	1,098,612	\$ 35.54
Granted	295,851	52.84
Vested	(488,787)	23.92
Forfeited	(15,627)	23.92
Nonvested at December 31, 2019	890,049	\$ 47.87

The fair value of performance awards granted during 2019 was estimated using the closing price on the date of grant. The weighted average grant date fair values of performance awards granted in 2018 and 2017 were \$49.72 per share and \$41.79 per share, respectively. The fair value of the performance awards that vested during the year ended December 31, 2019 was \$26.6 million. The fair value of the performance awards that vested during the year ended December 31, 2017 was \$23.1 million. There were no performance awards that vested during the year ended December 31, 2018.

As of December 31, 2019, the total unrecognized compensation cost for outstanding performance awards was \$6.5 million. As of December 31, 2019, the weighted-average period over which this unrecognized compensation cost will be recognized is 3.0 years. The unrecognized compensation cost is based on the achievement levels that are probable as of December 31, 2019.

The following table summarizes stock options activity for the year ended December 31, 2019:

Stock Options Activity	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2019	1,048,264	\$ 19.76		
Granted	—	—		
Exercised	(65,182)	20.29		
Forfeited	—	—		
Expired	—	—		
Outstanding at December 31, 2019	983,082	\$ 19.72	4.6	\$ 44,199
Exercisable at December 31, 2019	945,506	\$ 18.92	4.5	\$ 43,265

The total intrinsic value of the stock options exercised during the years ended December 31, 2019, 2018, and 2017 was \$2.7 million, \$13.5 million, and \$0.4 million, respectively. We received no cash from the exercise of options for each of the years ended December 31, 2019, 2018, and 2017.

As of December 31, 2019, the total unrecognized compensation cost for outstanding options was \$0.1 million. As of December 31, 2019, the weighted-average period over which the unrecognized compensation cost will be recognized is 0.1 years.

Walker & Dunlop, Inc. and Subsidiaries
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The Company did not grant any stock option awards in 2019 or 2018. The fair value of stock option awards granted during 2017 was estimated on the grant date using the Black-Scholes option pricing model, based on the following inputs:

Inputs into Black-Scholes Option Pricing Model	2017
Estimated option life (years)	6.00
Risk free interest rate	2.04 %
Expected volatility	35.34 %
Expected dividend rate	0.00 %
Strike price	\$ 39.82
Weighted average grant date fair value per share of options granted	\$ 14.98

NOTE 11—EARNINGS PER SHARE AND STOCKHOLDERS' EQUITY

EPS is calculated under the two-class method. The two-class method allocates all earnings (distributed and undistributed) to each class of common stock and participating securities based on their respective rights to receive dividends. The Company grants share-based awards to various employees and nonemployee directors under the 2015 Equity Incentive Plan that entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. These unvested awards meet the definition of participating securities.

The following table presents the calculation of basic and diluted EPS for the years ended December 31, 2019, 2018, and 2017 under the two-class method. Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the treasury-stock method.

	For the year ended December 31,		
	2019	2018	2017
EPS Calculations (in thousands, except per share amounts)			
<i>Calculation of basic EPS</i>			
Walker & Dunlop net income	\$ 173,373	\$ 161,439	\$ 211,127
Less: dividends and undistributed earnings allocated to participating securities	5,649	5,790	8,443
Net income applicable to common stockholders	\$ 167,724	\$ 155,649	\$ 202,684
Weighted-average basic shares outstanding	29,913	30,202	30,176
Basic EPS	\$ 5.61	\$ 5.15	\$ 6.72
<i>Calculation of diluted EPS</i>			
Net income applicable to common stockholders	\$ 167,724	\$ 155,649	\$ 202,684
Add: reallocation of dividends and undistributed earnings based on assumed conversion	126	170	313
Net income allocated to common stockholders	\$ 167,850	\$ 155,819	\$ 202,997
Weighted-average basic shares outstanding	29,913	30,202	30,176
Add: weighted-average diluted non-participating securities	902	1,182	1,210
Weighted-average diluted shares outstanding	30,815	31,384	31,386
Diluted EPS	\$ 5.45	\$ 4.96	\$ 6.47

The assumed proceeds used for calculating the dilutive impact of restricted stock awards under the treasury method includes the unrecognized compensation costs associated with the awards. An immaterial number of average outstanding options to purchase common stock and average restricted shares were excluded from the computation of diluted earnings per share under the treasury method for the years ended December 31, 2019, 2018, and 2017 because the effect would have been anti-dilutive (the exercise price of the options or the grant date market price of the restricted shares was greater than the average market price of the Company's shares during the periods presented).

Under the 2015 Equity Incentive Plan, subject to the Company's approval, grantees have the option of electing to satisfy tax withholding obligations at the time of vesting or exercise by allowing the Company to withhold and purchase

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the shares of stock otherwise issuable to the grantee. For the years ended December 31, 2019, 2018, and 2017, the Company repurchased and retired 0.2 million, 0.2 million, and 0.2 million restricted shares at a weighted average market price of \$54.02, \$51.86, and \$41.21, upon grantee vesting, respectively. For the year ended December 31, 2019, the Company repurchased and retired 0.2 million restricted share units at a weighted average market price of \$54.49. For the year ended December 31, 2017, the Company repurchased and retired 0.3 million restricted share units at a weighted average market price of \$39.82. The Company did not repurchase any restricted share units during the year ended December 31, 2018.

During 2017, the Company repurchased 0.3 million shares of its common stock under a share repurchase program at a weighted average price of \$47.10 per share and immediately retired the shares, reducing stockholders' equity by \$16.0 million.

During 2018, the Company repurchased 1.2 million shares of its common stock under a share repurchase program at a weighted average price of \$45.64 per share and immediately retired the shares, reducing stockholders' equity by \$57.0 million.

In February 2019, the Company's Board of Directors authorized the Company to repurchase up to \$50.0 million of its common stock over a 12-month period beginning on February 11, 2019. During 2019, the Company repurchased 0.1 million shares of its common stock under the share repurchase program at a weighted average price of \$48.52 per share and immediately retired the shares, reducing stockholders' equity by \$6.6 million. The Company had \$45.8 million of authorized share repurchase capacity remaining under the 2019 share repurchase program as of December 31, 2019.

In February 2020, the Company's Board of Directors approved a new stock repurchase program that permits the repurchase of up to \$50.0 million of the Company's common stock over a 12-month period beginning on February 11, 2020.

In 2018, the Company's Board of Directors declared, and the Company paid, aggregate cash dividends of \$1.00 per share (\$0.25 per share for each quarter). The dividends were paid to all holders of record of our restricted and unrestricted common stock.

In 2019, the Company's Board of Directors declared, and the Company paid, aggregate cash dividends of \$1.20 per share (\$0.30 per share for each quarter). The dividends were paid to all holders of record of our restricted and unrestricted common stock. The dividends paid during the year ended December 31, 2019 are an insignificant portion of the Company's net income for the year ended December 31, 2019 and retained earnings and cash and cash equivalents as of December 31, 2019.

On February 4, 2020, our Board of Directors declared a quarterly dividend of \$0.36 per share. The dividend will be paid March 9, 2020 to all holders of record of our restricted and unrestricted common stock as of February 21, 2020.

During 2019, the Company made an advance to one of the noncontrolling interest holders in the amount of \$1.7 million to allow the noncontrolling interest holder to make a required contribution to WDIS. As this was a non-cash transaction, the amounts are not presented in the Consolidated Statements of Cash Flows.

The Term Loan contains direct restrictions to the amount of dividends the Company may pay, and the warehouse debt facilities and agreements with the Agencies contain minimum equity, liquidity, and other capital requirements that indirectly restrict the amount of dividends the Company may pay. The Company does not believe that these restrictions currently limit the amount of dividends the Company can pay for the foreseeable future.

NOTE 12—INCOME TAXES

Income Tax Expense

The Company calculates its provision for federal and state income taxes based on current tax law. The reported tax provision differs from the amounts currently receivable or payable because some income and expense items are recognized

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in different time periods for financial reporting purposes than for income tax purposes. The following is a summary of income tax expense for the years ended December 31, 2019, 2018, and 2017:

Components of Income Tax Expense <i>(in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
<i>Current</i>			
Federal	\$ 28,150	\$ 26,850	\$ 45,726
State	6,959	7,575	7,062
Total current expense	\$ 35,109	\$ 34,425	\$ 52,788
<i>Deferred</i>			
Federal	\$ 17,484	\$ 13,964	\$ 25,055
State	4,528	3,519	2,297
Revaluation of deferred tax liabilities, net	—	—	(58,313)
Total deferred expense (benefit)	\$ 22,012	\$ 17,483	\$ (30,961)
Total income tax expense	\$ 57,121	\$ 51,908	\$ 21,827

Excess tax benefits recognized for the years ended December 31, 2019, 2018, and 2017 reduced income tax expense by \$4.6 million, \$6.8 million, and \$9.5 million, respectively. In the reconciliation of income tax expense presented below, the reduction of income tax expense from excess tax benefits recognized is included as a component of the “Other” line item.

In December 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted. The Tax Reform significantly reduced the federal income tax rate from 35.0% to 21.0%. GAAP requires an entity to account for the impact of a tax law change in the period of enactment. Accordingly, as of December 31, 2017, the Company revalued its deferred tax assets and deferred tax liabilities using the new federal income tax rate of 21.0%, which is the rate at which the Company expects the deferred assets and liabilities to reverse in the future. Deferred tax assets decreased as the future benefit from these assets will be less than previously expected, resulting in an increase to deferred tax expense for the year ended December 31, 2017. Deferred tax liabilities also decreased as the future payment of taxes from these liabilities will be less than previously expected, resulting in a decrease to deferred tax expense for the year ended December 31, 2017. As the Company had more deferred tax liabilities than deferred tax assets as of December 31, 2017, the impact of Tax Reform on deferred tax expense for the year ended December 31, 2017 was an overall significant decrease in deferred tax expense as shown above.

Tax Reform changed the rules related to the deductibility of executive compensation under the provisions of Section 162(m) of the Internal Revenue Code (“162(m)”). Tax Reform also contains provisions for determining whether compensation agreements executed prior to Tax Reform follow the 162(m) guidance prior or subsequent to Tax Reform. During the third quarter of 2018, the Treasury Department issued initial guidance for determining, among other things, whether a compensation agreement in place prior to Tax Reform follows the 162(m) guidance prior or subsequent to Tax Reform. Based on the information available as of December 31, 2019 and 2018, the Company believed that it may be more likely than not these compensation agreements will follow the guidance subsequent to Tax Reform, resulting in no tax deductibility for the book expense associated with these compensation agreements. Accordingly, as of December 31, 2018, the Company recorded a 100% valuation allowance on the associated deferred tax assets, resulting in a \$2.8 million charge to deferred tax expense for the year ended December 31, 2018, which increased the effective tax rate by 1.3%. During the year ended December 31, 2019, performance awards for executives for which the Company had previously recorded a valuation allowance vested, resulting in a decrease in deferred tax assets and the reversal of the corresponding valuation allowance of \$1.8 million.

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A reconciliation of the statutory federal tax expense to the income tax expense in the accompanying statements of income follows:

<i>(in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Statutory federal expense (1)	\$ 48,374	\$ 44,699	\$ 81,781
Statutory state income tax expense, net of federal tax benefit	9,281	8,744	7,594
Revaluation of deferred tax liabilities, net	—	—	(58,313)
Other	(534)	(1,535)	(9,235)
Income tax expense	\$ 57,121	\$ 51,908	\$ 21,827

(1) The statutory federal rate was 21% for the year ended December 31, 2019 and 2018 and 35% for the year ended December 31, 2017.

Deferred Tax Assets/Liabilities

The tax effects of temporary differences between reported earnings and taxable earnings consisted of the following:

Components of Deferred Tax Liabilities, Net <i>(in thousands)</i>	As of December 31,	
	2019	2018
<i>Deferred Tax Assets</i>		
Compensation related	\$ 8,227	\$ 16,753
Credit losses	3,133	1,202
Valuation allowance	(1,049)	(2,838)
<i>Total deferred tax assets</i>	<i>\$ 10,311</i>	<i>\$ 15,117</i>
<i>Deferred Tax Liabilities</i>		
Mark-to-market of derivatives and loans held for sale	\$ (5,396)	\$ (8,582)
Mortgage servicing rights related	(139,115)	(125,084)
Acquisition related (1)	(7,292)	(4,396)
Depreciation	(1,812)	(2,005)
Other	(3,507)	(592)
<i>Total deferred tax liabilities</i>	<i>\$ (157,122)</i>	<i>\$ (140,659)</i>
Deferred tax liabilities, net	\$ (146,811)	\$ (125,542)

(1) Acquisition-related deferred tax liabilities consist of book-to-tax differences associated with basis step ups related to the amortization of goodwill recorded from acquisitions, acquisition-related costs capitalized for tax purposes, and book-to-tax differences in intangible asset amortization.

The Company believes it is more likely than not that it will generate sufficient taxable income in future periods to realize the deferred tax assets.

Tax Uncertainties

The Company periodically assesses its liabilities and contingencies for all periods open to examination by tax authorities based on the latest available information. Where the Company believes it is more likely than not that a tax position will not be sustained, management records its best estimate of the resulting tax liability, including interest, in the consolidated financial statements. As of December 31, 2019, based on all known facts and circumstances and current tax law, management believes that there are no tax positions for which it is reasonably possible that the unrecognized tax benefits will significantly increase or decrease over the next 12 months, producing, individually or in the aggregate, a material effect on the Company's results of operations, financial condition, or cash flows.

Walker & Dunlop, Inc. and Subsidiaries
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NOTE 13—SEGMENTS

The Company is one of the leading commercial real estate services and finance companies in the United States, with a primary focus on multifamily lending. The Company originates a range of multifamily and other commercial real estate loans that are sold to the Agencies or placed with institutional investors. The Company also services nearly all of the loans it sells to the Agencies and some of the loans that it places with institutional investors. Substantially all of the Company's operations involve the delivery and servicing of loan products for its customers. Management makes operating decisions and assesses performance based on an ongoing review of these integrated operations, which constitute the Company's only operating segment for financial reporting purposes.

The Company evaluates the performance of its business and allocates resources based on a single-segment concept. No one borrower/key principal accounts for more than 4% of our total risk-sharing loan portfolio.

An analysis of the product concentrations and geographic dispersion that impact the Company's servicing revenue is shown in the following tables. This information is based on the distribution of the loans serviced for others. The principal balance of the loans serviced for others, by product, as of December 31, 2019, 2018, and 2017 follows:

Components of Loan Servicing Portfolio <i>(in thousands)</i>	As of December 31,		
	2019	2018	2017
Fannie Mae	\$ 40,049,095	\$ 35,983,178	\$ 32,075,617
Freddie Mac	32,583,842	30,350,724	26,782,581
Ginnie Mae-HUD	9,972,989	9,944,222	9,640,312
Life insurance companies and other	10,619,243	9,411,138	5,811,481
Total	\$ 93,225,169	\$ 85,689,262	\$ 74,309,991

The percentage of unpaid principal balance of the loans serviced for others as of December 31, 2019, 2018, and 2017 by geographical area is as shown in the following table. No other state accounted for more than 5% of the unpaid principal balance and related servicing revenues in any of the years presented. The Company does not have any operations outside of the United States.

Loan Servicing Portfolio Concentration by State	Percent of Total UPB as of December 31,		
	2019	2018	2017
California	16.2 %	16.3 %	18.4 %
Florida	9.4	9.0	9.4
Texas	9.3	9.7	9.2
Georgia	5.8	6.1	4.9
All other states	59.3	58.9	58.1
Total	100.0 %	100.0 %	100.0 %

NOTE 14—LEASES

ROU assets and lease liabilities associated with our operating leases are recorded under *Other assets* and *Other liabilities*, respectively, in the Consolidated Balance Sheet as of December 31, 2019. Single lease cost was \$7.6 million for the year ended December 31, 2019. Rent expense was \$8.1 million and \$7.1 million for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2019, ROU assets and lease liabilities were \$22.3 million and \$28.2 million, respectively. As of December 31, 2019, the weighted-average remaining lease term and the weighted-average discount rate of the Company's leases were 3.7 years and 4.74%, respectively. During the year ended December 31, 2019, cash paid for amounts included in the measurement of lease liabilities was \$8.2 million, and \$3.0 million of ROU assets were obtained in exchange for new lease obligations.

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Maturities of lease liabilities as of December 31, 2019 follow (in thousands):

Year Ending December 31,	
2020	8,607
2021	8,280
2022	7,585
2023	5,995
Thereafter	324
Total lease payments	<u>\$ 30,791</u>
Less imputed interest	<u>(2,635)</u>
Total	<u>\$ 28,156</u>

Minimum cash basis operating lease commitments as of December 31, 2018 follow (in thousands):

Year Ending December 31,	
2019	\$ 7,700
2020	7,789
2021	7,450
2022	6,738
2023	5,200
Thereafter	90
Total	<u>\$ 34,967</u>

NOTE 15—OTHER OPERATING EXPENSES

The following is a summary of the major components of other operating expenses for the years ended December 31, 2019, 2018, and 2017.

Components of Other Operating Expenses <i>(in thousands)</i>	For the year ended December 31,		
	2019	2018	2017
Professional fees	\$ 20,896	\$ 16,365	\$ 12,154
Travel and entertainment	10,759	10,003	8,038
Rent (1)	9,136	8,107	7,057
Marketing and preferred broker	8,534	7,951	7,819
Office expenses	9,972	8,028	6,776
All other	7,299	11,567	6,327
Total	<u>\$ 66,596</u>	<u>\$ 62,021</u>	<u>\$ 48,171</u>

- (1) 2019 includes single lease cost and other related expenses (common-area maintenance charges and other miscellaneous charges). 2018 and 2017 include rent costs and other related expenses (common-area maintenance charges and other miscellaneous charges).

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NOTE 16—QUARTERLY RESULTS (UNAUDITED)

The following tables set forth unaudited selected financial data and operating information on a quarterly basis as of and for the years ended December 31, 2019 and 2018:

Selected Quarterly Financial Data <i>(in thousands, except per share data)</i>	As of and for the year ended December 31, 2019			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Loan origination and debt brokerage fees, net	\$ 69,921	\$ 65,144	\$ 65,610	\$ 57,797
Fair value of expected net cash flows from servicing, net	47,771	50,785	41,271	40,938
Servicing fees	55,126	54,219	53,006	52,199
Total revenues	217,190	212,267	200,325	187,437
Personnel	97,082	93,057	84,398	71,631
Amortization and depreciation	39,552	37,636	37,381	37,903
Total expenses	159,216	152,952	143,347	131,353
Income from operations	159,216	59,315	56,978	56,084
Walker & Dunlop net income	42,916	44,043	42,196	44,218
Basic EPS	\$ 1.38	\$ 1.42	\$ 1.36	\$ 1.44
Diluted EPS	1.34	1.39	1.33	1.39
Total transaction volume	\$ 9,812,055	\$ 8,907,336	\$ 7,306,369	\$ 5,941,304
Servicing portfolio	\$ 93,225,169	\$ 91,754,499	\$ 89,897,025	\$ 87,691,682

Selected Quarterly Financial Data <i>(in thousands, except per share data)</i>	As of and for the year ended December 31, 2018			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Loan origination and debt brokerage fees, net	\$ 71,078	\$ 59,594	\$ 55,193	\$ 48,816
Fair value of expected net cash flows from servicing, net	53,088	39,576	47,044	32,693
Servicing fees	52,092	50,781	49,317	48,040
Total revenues	214,933	184,657	178,204	147,452
Personnel	90,828	79,776	71,426	55,273
Amortization and depreciation	36,271	36,739	35,489	33,635
Total expenses	149,603	133,998	125,234	103,561
Income from operations	65,330	50,659	52,970	43,891
Walker & Dunlop net income	45,750	37,716	41,112	36,861
Basic EPS	\$ 1.47	\$ 1.20	\$ 1.31	\$ 1.18
Diluted EPS	1.41	1.15	1.26	1.14
Total transaction volume	\$ 9,353,456	\$ 7,651,791	\$ 6,193,023	\$ 4,849,262
Servicing portfolio	\$ 85,689,262	\$ 80,485,634	\$ 77,820,741	\$ 75,836,280

**DESCRIPTION OF SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

Walker & Dunlop, Inc., a Maryland corporation (the “Company,” “we,” “us” or “our”), currently has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, the Company’s common stock, par value \$0.01 per share (“common stock”). The following summary includes a brief description of the common stock as well as certain related information.

The following summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the full text of our Articles of Amendment and Restatement (our “Charter”) and our Amended and Restated Bylaws (the “Bylaws”), copies of which are incorporated by reference as exhibits to our Annual Report on Form 10-K, and the applicable provisions of Maryland law.

General

Our Charter provides that we may issue up to two hundred million (200,000,000) shares of common stock and fifty million (50,000,000) shares of preferred stock, \$0.01 par value per share (“preferred stock”). Our Charter authorizes our board of directors to amend our Charter to increase or decrease the aggregate number of authorized shares of common stock or the number of shares of stock of any class or series and to classify and reclassify any unissued shares of our common or preferred stock into other classes or series of shares of stock, without stockholder approval. No shares of our preferred stock are presently outstanding.

Under Maryland law, stockholders generally are not personally liable for our debts or obligations solely as a result of their status as stockholders.

Shares of Common Stock

Voting Rights of Common Stock

Except as may otherwise be specified in the terms of any class or series of shares of common stock, each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors, and, except as provided with respect to any other class or series of shares of capital stock, the holders of such shares of common stock will possess the exclusive voting power. There is no cumulative voting in the election of directors. Directors are elected by a majority of the votes cast for, against or affirmatively withheld at a meeting at which a quorum is present, except that directors shall be elected by a plurality of the votes cast at a meeting of stockholders where there are more nominees for director than directors to be elected.

Under the Maryland General Corporation Law (“MGCL”), a Maryland corporation generally cannot dissolve, amend its charter, merge, consolidate, sell all or substantially all of its assets, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless declared advisable by the board of directors and approved by the affirmative vote of stockholders holding at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in the corporation’s charter. Our Charter provides that these actions may be taken if declared advisable by a majority of our board of directors and approved by the vote of stockholders holding a majority of the votes entitled to be cast on the matter, except that the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast generally in the election of directors is required to amend provisions of our Charter relating to director removal. Maryland law also permits a corporation to transfer all or substantially all of its assets without the approval of its stockholders to an entity if all of the equity interests of that entity are owned, directly or indirectly, by the corporation. In addition, because operating assets may be held by a corporation’s subsidiaries, as in our situation, these subsidiaries may be able to transfer all or substantially all of such assets without the approval of our stockholders.

Dividends, Distributions, Liquidation and Other Rights

Subject to the preferential rights of any other class or series of our stock, holders of shares of our common stock are entitled to receive dividends on such shares of common stock if, as and when authorized by our board of directors, and declared by us out of assets legally available therefore. If we fail to pay dividends on any shares of our preferred stock, if any are then outstanding, generally we may not pay dividends on or repurchase shares of our common stock until such time as we have paid dividends on any outstanding shares of our preferred stock.

Holders of shares of our common stock are also entitled to share ratably in the assets of the Company legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment or establishment of reserves for all debts and liabilities of the Company and the preferential amounts owing with respect to any outstanding preferred shares.

Holders of shares of common stock have no preference, conversion, exchange, sinking fund or redemption rights, have no preemptive rights to subscribe for any securities of the Company and generally have no appraisal rights, unless our board of directors determines prospectively that appraisal rights will apply to one or more transactions in which holders of our common stock would otherwise be entitled to exercise appraisal rights. Holders of shares of our common stock have equal dividend, liquidation and other rights.

Power to Reclassify Our Unissued Shares of Stock

Our Charter authorizes our board of directors to classify and reclassify any unissued shares of our common or preferred stock into other classes or series of shares of stock and to establish the number of shares in each class or series and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications or terms or conditions of redemption for each such class or series. As a result, our board of directors could authorize the issuance of shares of preferred stock that have priority over the shares of our common stock with respect to dividends, distributions and rights upon liquidation and with other terms and conditions that could have the effect of delaying, deterring or preventing a transaction or a change in control of our company that might involve a premium price for holders of shares of our common stock or otherwise might be in their best interest. No shares of our preferred stock are presently outstanding.

Power to Increase or Decrease Authorized Shares of Common Stock and Issue Additional Shares of Common and Preferred Stock.

We believe that the power of our board of directors to amend our Charter to increase or decrease the aggregate number of authorized shares of stock, to issue additional authorized but unissued shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to cause to issue such classified or reclassified shares of stock provides us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series of stock, as well as the additional shares of stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed, traded or quoted. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series that, depending upon the terms of the particular class or series, delays, defers or prevents a transaction or a change in control of the Company that might involve a premium price for holders of our shares of stock or otherwise be in the best interest of our stockholders.

Preferred Stock.

Our Charter authorizes our board of directors to designate and issue one or more classes or series of preferred stock without stockholder approval. Our board of directors may determine the relative rights, preferences and privileges of each class or series of preferred stock so issued, which may be more beneficial than the rights, preferences and privileges attributable to our common stock with respect to dividends, distributions, rights upon liquidation, and otherwise. The issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change in control of our Company that might involve a premium price for holders of shares of our common stock

or otherwise be in the best interests of the stockholders. The rights, preferences and privileges of holders of shares of our common stock are subject to, and may be adversely affected by, the rights of the holders of preferred stock.

Certain Provisions of Maryland General Corporation Law and Our Charter and Bylaws

Our Board of Directors

Our Charter and Bylaws provide that the number of directors of our Company may be established, increased or decreased only by a majority of our entire board of directors, but may not be fewer than the minimum number required under the MGCL (which is one) nor more than 15.

Our Charter provides that any vacancy, including a vacancy created by an increase in the number of directors, may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum. Any individual elected to fill such vacancy will serve for the remainder of the full term and until a successor is duly elected and qualifies.

Each of our directors is elected by our stockholders to serve until the next annual meeting of stockholders and until his or her successor is duly elected and qualifies under the MGCL. Holders of shares of our common stock will have no right to cumulative voting in the election of directors. Directors are elected by a majority of the votes cast for, against or affirmatively withheld at a meeting at which a quorum is present, except that directors shall be elected by a plurality of the votes cast at a meeting of stockholders where there are more nominees for director than directors to be elected.

Our Bylaws provide that at least a majority of our directors must be “independent,” with independence being defined in the manner established by our board of directors and in a manner consistent with listing standards established by the NYSE.

Removal of Directors

Our Charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for cause (as defined in our Charter) and only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors and that our board of directors has the exclusive power to fill vacant directorships. This provision combined with the provision governing the filling of vacancies on our board of directors may preclude stockholders from removing incumbent directors and filling the vacancies created by such removal with their own nominees.

Business Combinations

Under the MGCL, certain “business combinations” (including a merger, consolidation, share exchange or, in certain circumstances specified under the statute, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and any interested stockholder, or an affiliate of such an interested stockholder, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Maryland law defines an interested stockholder as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation’s voting stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approve in advance the transaction by which the person otherwise would have become an interested stockholder. In approving a transaction, however, the board of directors may provide that its approval is subject to compliance, at or after the time of the approval, with any terms and conditions determined by it.

After such five-year prohibition, any business combination between our Company and an interested stockholder must be recommended by the board of directors and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares of stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting shares of 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 shares held by an affiliate or associate of the interested stockholder.

These supermajority approval requirements do not apply if, among other conditions, the corporation's common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or 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 corporation's board of directors prior to the time that the interested stockholder becomes an interested stockholder.

Control Share Acquisitions

The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved at a special meeting of stockholders by the affirmative vote of at least two-thirds of the votes entitled to be cast by stockholders entitled to exercise or direct the exercise of the voting power in the election of directors generally but excluding: (i) a person who makes or proposes to make a control share acquisition, (ii) an officer of the corporation or (iii) an employee of the corporation who is also a director of the corporation. "Control shares" are voting shares of stock that, if aggregated with all other such shares of stock previously acquired by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A "control share acquisition" means the acquisition, directly or indirectly, of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses and making an "acquiring person statement" as described in the MGCL), may compel our board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the control shares. If no request for a special meeting is made, we may present the question at any stockholders meeting.

If voting rights of control shares are not approved at the meeting or if the acquiring person does not deliver an "acquiring person statement" as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of any meeting of stockholders at which the voting rights of such shares are considered and not approved or, if no such meeting is held, as of the date of the last control share acquisition by the acquirer. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The control share acquisition statute does not apply (i) to shares acquired in a merger, consolidation or statutory share exchange if we are a party to the transaction or (ii) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of the following five provisions:

- a classified board;
- a two-thirds stockholder vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the directors;
- a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a majority requirement for the calling of a special meeting of stockholders.

We have elected through a provision in our Charter to be subject to the provisions of Subtitle 8 relating to the filling of vacancies on our board of directors. Through provisions in our Charter and Bylaws unrelated to Subtitle 8, we already (i) require the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors for the removal of any director from the board, which removal will be allowed only for cause; (ii) vest in the board the exclusive power to fix the number of directorships, subject to limitations set forth in our Charter and Bylaws, and fill vacancies; and (iii) require, unless called by the chairman of our board of directors, our president or chief executive officer or a majority of our directors then in office, the written request of stockholders entitled to cast no less than a majority of all votes entitled to be cast at such meeting to call a special meeting to consider and vote on any matter that may properly be considered at a meeting of stockholders. We have not elected to create a classified board. In the future, our board of directors may elect, without stockholder approval, to create a classified board or adopt one or more of the other provisions of Subtitle 8.

Amendment of Our Charter and Bylaws and Approval of Extraordinary Actions

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter unless a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter, is set forth in the corporation's charter. Our Charter provides that these actions (other than certain amendments to the provisions of our Charter related to the removal of directors and indemnification of directors and officers) may be taken if declared advisable by a majority of our board of directors and approved by the vote of stockholders holding a majority of all votes entitled to be cast on the matter.

Our board of directors has the power to adopt, alter or repeal any provision of our Bylaws and to make new bylaws. In addition, the stockholders may alter or repeal any provision of our Bylaws and adopt new bylaws if any such alteration, repeal or adoption is approved by the affirmative vote of a majority of the votes entitled to be cast on the matter.

Meetings of Stockholders

Under our Bylaws, annual meetings of stockholders are to be held each year at a date and time as determined by our board of directors. Special meetings of stockholders may be called by a majority of the directors

then in office, by the chairman of our board of directors, our president or our chief executive officer. Additionally, subject to the provisions of our Bylaws, special meetings of the stockholders must be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all votes entitled to be cast at such meeting. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting. Maryland law and our Bylaws provide that any action required or permitted to be taken at a meeting of stockholders may be taken without a meeting by unanimous written consent, if that consent sets forth that action and is given in writing or by electronic transmission by each stockholder entitled to vote on the matter.

Advance Notice of Director Nominations and New Business

Our Bylaws provide that, with respect to an annual meeting of stockholders, nominations of persons for election to our board of directors and the proposal of business to be considered by stockholders at the annual meeting may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of our board of directors; or
- by a stockholder who was a stockholder of record both at the time of giving of the notice of the meeting and at the time of the annual meeting, who is entitled to vote at the meeting in the election of directors or on the proposal of other business, as the case may be, and who has complied with the advance notice procedures set forth in, and provided the information and certifications required by, our Bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting of stockholders. Nominations of persons for election to our board of directors may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of our board of directors; or
- provided that our board of directors has determined that directors shall be elected at such meeting, by a stockholder who is a stockholder of record both at the time of giving of the notice required by our Bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of directors or on the proposal of other business, as the case may be, and who has complied with the advance notice provisions set forth in, and provided information and certificates required by, our Bylaws.

The purposes of requiring stockholders to give advance notice of nominations and other proposals is to afford our board of directors the opportunity to consider the qualifications of the proposed nominees and the advisability of the other proposals and, to the extent considered necessary by our board of directors, to inform stockholders and make recommendations regarding the nominations or other proposals. The advance notice procedures also permit a more orderly procedure for conducting our stockholder meetings. Although our Bylaws do not give our board of directors the power to disapprove timely stockholder nominations and proposals, our Bylaws may have the effect of precluding a contest for the election of directors or proposals for other action if the proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors to our board of directors or to approve its own proposal.

Anti-takeover Effect of Certain Provisions of Maryland Law and Our Charter and Bylaws

The business combination statute, control share acquisition statute, the provisions of our Charter on removal of directors and the advance notice provisions of the Bylaws could delay, defer or prevent a transaction or a change in control of our Company that might involve a premium price for holders of our common stock or otherwise be in the best interests of our stockholders.

Indemnification and Limitation of Directors' and Officers' Liability

The MGCL permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its 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 established by a final judgment as being material to the cause of action. Our Charter contains such a provision that eliminates such liability to the maximum extent permitted by Maryland law.

The MGCL requires a corporation (unless its charter provides otherwise, which our Charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify a director or officer for an adverse judgment in a suit by or in the right of the corporation or if the director or officer was adjudged liable on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses.

In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by the director or officer on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that he or she did not meet the standard of conduct.

Our Charter and Bylaws obligate us, to the fullest extent permitted by Maryland law in effect from time to time, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former director or officer against any claim or liability to which he or she may become subject by reason of his or her service in such capacity; and
- any individual who, while a director or officer of the Company and at the request of the Company, serves or has served as a director, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan, limited liability company or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his or her service in such capacity.

We have entered into indemnification agreements with each of our directors and executive officers that provide for indemnification to the maximum extent permitted by Maryland law.

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

LIST OF SUBSIDIARIES OF THE REGISTRANT

Company	State of Incorporation or Registration
Walker & Dunlop Multifamily, Inc.	Delaware
Walker & Dunlop, LLC	Delaware
W&D Interim Lender LLC	Delaware
W&D Interim Lender II LLC	Delaware
Walker & Dunlop Capital, LLC	Massachusetts
W&D Interim Lender III, Inc.	Delaware
W&D Interim Lender IV, LLC	Delaware
W&D Interim Lender V, Inc.	Delaware
Walker & Dunlop Investment Sales, LLC	Delaware
JCR Capital Investment Corporation	Delaware

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Walker & Dunlop, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-178878 and 333-184297) on Form S-3 and (Nos. 333-171205, 333-183635, 333-188533, and 333-204722) on Form S-8 of Walker & Dunlop, Inc. of our reports dated February 26, 2020, with respect to the consolidated balance sheets of Walker & Dunlop Inc. and subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 Annual Report on Form 10-K of Walker & Dunlop, Inc.

/s/ KPMG LLP

McLean, Virginia
February 26, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William M. Walker, certify that:

1. I have reviewed this Annual Report on Form 10-K of Walker & Dunlop, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

By: /s/ William M. Walker

William M. Walker
Chairman and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen P. Theobald, certify that:

1. I have reviewed this Annual Report on Form 10-K of Walker & Dunlop, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

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

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Walker & Dunlop, Inc. for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of Walker & Dunlop, Inc., hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Walker & Dunlop, Inc.

Date: February 26, 2020

By: /s/ William M. Walker

William M. Walker

Chairman and Chief Executive Officer

Date: February 26, 2020

By: /s/ Stephen P. Theobald

Stephen P. Theobald

Executive Vice President and Chief Financial Officer
