Walker & Dunlop, Inc.
Form 10-Q
May 10, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**80-0629925**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7501 Wisconsin Avenue, Suite 1200E

Bethesda, Maryland 20814

(301) 215-5500

(Address, including zip code, and telephone number, including

area code, of registrant s principal executive offices)

Not Applicable

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

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

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

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

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

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

As of May 7, 2012 there were 22,436,039 total shares of common stock outstanding.

Table of Contents

Walker & Dunlop, Inc.
Form 10-Q
INDEX

		Page
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	2
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	28
Item 4.	Controls and Procedures	29
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3.	Defaults Upon Senior Securities	30
Item 4.	Mine Safety Disclosures	30
Item 5.	Other Information	30
Item 6.	Exhibits	30
	Signature	
	Exhibit Index	

EX-10.2
EX-10.3
EX-10.4
EX-10.5
EX-10.6
EX-31.1
EX-31.2
EX-32
EX-101.1
EX-101.2
EX-101.3
EX-101.4
EX-101.5
EX-101.6

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

March 31, 2012 and December 31, 2011

(In thousands, except share and per share data)

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	$ 40,811	$ 53,817
Restricted cash	5,083	7,164
Pledged securities, at fair value	19,599	18,959
Loans held for sale, at fair value	268,207	268,167
Loans held for investment	6,947	
Servicing fees and other receivables, net	15,140	18,501
Derivative assets	10,264	10,638
Mortgage servicing rights	142,621	137,079
Other assets	8,784	8,271
Total assets	$ 517,456	$ 522,596
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable and other accrued expenses	$ 56,216	$ 76,163
Performance deposits from borrowers	5,806	10,425
Derivative liabilities	762	5,223
Guaranty obligation, net of accumulated amortization	10,447	9,921
Allowance for risk-sharing obligations	14,522	14,917
Warehouse notes payable	236,685	218,426
Notes payable	22,969	23,869
Total liabilities	$ 347,407	$ 358,944
Equity		
Stockholders equity:		
Preferred shares, Authorized 50,000,000, none issued.	$	$
Common stock, $0.01 par value. Authorized 200,000,000; issued and outstanding 21,774,277 shares in 2012 and 21,748,598 in 2011	218	217

Additional paid-in capital		81,747		81,190
Retained earnings		88,084		82,245
Total stockholders equity	$	170,049	$	163,652
Commitments and contingencies				
Total liabilities and stockholders equity	$	517,456	$	522,596

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,	
	2012	**2011**
Revenues		
Gains from mortgage banking activities	$ 19,802	$ 16,827
Servicing fees	9,379	7,713
Net warehouse interest income	937	717
Escrow earnings and other interest income	539	370
Other	3,745	3,370
Total revenues	$ 34,402	$ 28,997
Expenses		
Personnel	$ 11,641	$ 9,207
Amortization and depreciation	7,259	4,907
Provision for risk-sharing obligations	1,224	746
Interest expense on corporate debt	168	252
Other operating expenses	4,616	3,020
Total expenses	$ 24,908	$ 18,132
Income from operations	$ 9,494	$ 10,865
Income tax expense	3,655	4,226
Net income	$ 5,839	$ 6,639
Basic and diluted earnings per share	$ 0.27	$ 0.31
Basic weighted average shares outstanding	21,750,573	21,582,746
Diluted weighted average shares outstanding	21,848,280	21,651,192

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	$ 5,839	$ 6,639
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gain attributable to fair value of future servicing rights, net of guaranty obligation	(9,523)	(9,469)
Gain on sale of MSR, less prepayment of MSR	(2)	165
Provision for risk-sharing obligations	1,224	746
Amortization and depreciation	7,259	4,907
Originations of loans held for sale	(648,055)	(440,971)
Sales of loans to third parties	641,398	631,103
Amortization of deferred loan fees and costs	(4)	
Stock compensation	681	423
Amortization of leasehold inducement	39	
Cash allowance received from landlord	1,301	
Cash paid to settle risk-sharing obligations	(1,619)	
Changes in:		
Restricted cash and pledged securities	1,441	(3,207)
Servicing fees and other receivables	3,305	343
Derivative fair value adjustment	29	413
Other assets	(85)	488
Accounts payable and other accruals	(19,986)	(10,219)
Performance deposits from borrowers	(4,619)	1,033
Net cash (used in) provided by operating activities	$ (21,377)	$ 182,394
Cash flows from investing activities:		
Capital expenditures	$ (1,922)	$ (265)
Net increase in loans held for investment	(6,943)	
Net cash used in investing activities	$ (8,865)	$ (265)
Cash flows from financing activities:		
Draws (repayments) of warehouse notes payable, net	$ 18,259	$ (173,025)
Repayments of notes payable, net	(900)	(1,052)
Proceeds from issuance of common stock	1	2,053
Repurchase of common stock	(124)	
Net cash provided by (used in) financing activities	$ 17,236	$ (172,024)
Net increase (decrease) in cash and cash equivalents	$ (13,006)	$ 10,105
Cash and cash equivalents at beginning of period	53,817	33,285
Cash and cash equivalents at end of period	$ 40,811	$ 43,390
Supplemental Disclosure of Cash Flow Information:		
Cash paid to third parties for interest	$ 1,180	$ 800
Cash paid for taxes	$ 3,314	$ 2,282

See accompanying notes to condensed consolidated financial statements.

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

These financial statements represent the condensed consolidated financial position and results of operations of Walker & Dunlop, Inc. and its subsidiaries. Unless the context otherwise requires, references to we, us, our, Walker & Dunlop and the Company mean the Walker & Dunlo consolidated companies. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012, or thereafter.

Walker & Dunlop is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. The Company originates, sells and services a range of multifamily and other commercial real estate financing products. The Company s clients are owners and developers of commercial real estate across the country. The Company originates and sells pursuant to the programs of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or 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), with which Walker & Dunlop has long-established relationships. The Company retains servicing rights and asset management responsibilities on nearly all loans that it sells to GSEs and HUD. Walker & Dunlop is approved as a Fannie Mae Delegated Underwriting and Servicing (DUS TM) lender nationally, a Freddie Mac Program Plus lender in seven states, the District of Columbia and the metropolitan New York area and a HUD Multifamily Accelerated Processing (MAP) lender nationally, and a Ginnie Mae issuer. The Company also originates and services loans for a number of life insurance companies and other institutional investors, in which cases it does not fund the loan but rather acts as a loan broker.

In July 2011, the Company launched its interim loan program offering floating-rate debt, for terms of up to two years, to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing. The Company closed its first loan under this program in February 2012. The Company underwrites all loans originated through the program. During the time that they are outstanding, the Company assumes the full risk of loss on the loans. In addition, the Company services and asset-manages loans originated through the program, with the ultimate goal of providing permanent financing on the properties. These loans are classified as held for investment on the Company s balance sheet during such time that they are outstanding.

W&D Balanced Real Estate Fund I GP, LLC, a wholly owned subsidiary, has a general partnership interest in a partnership that invests in commercial real estate. The Company can be removed as general partner at the sole discretion of one of the limited partners. Walker & Dunlop Real Estate Opportunity Fund I Manager, LLC, a wholly owned subsidiary, is the managing member of a limited liability company that invests in commercial real estate. The Company can be removed as the managing member at the sole discretion of one of the members. In their respective capacities as general partner and managing member, the wholly owned subsidiaries of the Company earns fees pursuant to corporate services agreements under which they provide consulting and overhead services to the partnership and limited liability company.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The condensed consolidated financial statements include the accounts of the Company as defined in Note 1. All material intercompany transactions have been eliminated. The Company has evaluated all subsequent events.

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

Comprehensive Income For the three months ended March 31, 2012 and 2011, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

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 45 days from the date that a mortgage loan is funded.

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

There is no material counterparty risk with respect to the Company s funding commitments in that each potential borrower must make a non-refundable good faith deposit when the funding commitment is executed. The counterparty to the forward sale is generally an investment bank. There is a risk that the purchase price agreed to by Fannie Mae or the other 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, which generally is a risk mitigated by the non-refundable good faith deposit.

Loans Held for Sale Loans held for sale represent originated loans that are generally transferred or sold within 45 days from the date that a mortgage loan is funded. The Company initially measures all originated loans at fair value. Subsequent to initial measurement, the Company measures all mortgage 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 market 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 that were valued at the lower of cost or market or on a non-accrual status at March 31, 2012 and December 31, 2011.

Gains from Mortgage Banking Activities Mortgage banking activity income is recognized when the Company records a derivative asset upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan net of the estimated net future cash flows associated with any risk-sharing obligations. Loans originated in a brokerage capacity 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 ultimate institutional lender. Also included in gains from mortgage banking activities are changes to the fair value of loan commitments, forward sale commitments, and loans held for sale that occur during their respective holding periods. Upon sale of the loans, no gains or losses are recognized as such loans are recorded at fair value during their holding periods. Mortgage servicing rights and guaranty obligations are recognized as assets or liabilities, respectively, upon the sale of the loans.

The co-broker fees for the three months ended March 31, 2012 and 2011 were $3.5 million and $5.3 million, respectively.

Transfer of financial assets is reported as a sale when (a) the transferor surrenders control over those assets and (b) 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 has determined that all loans sold have met these specific conditions and accounts for all transfers of mortgage loans and mortgage participations as completed sales.

When a mortgage loan is sold, the Company retains the right to service the loan and initially recognizes the mortgage servicing right (MSR) at fair value. Subsequent to the initial measurement date, mortgage servicing assets are amortized using the effective interest method.

Guaranty obligation and allowance for risk-sharing obligations When a loan is sold under the Fannie Mae DUS program, the Company undertakes an obligation to partially guarantee the performance of the loan. At inception, a liability for the fair value of the obligation undertaken in issuing the guaranty is recognized. The fair value includes the Company s obligation to stand ready to perform over the term of the guaranty (the non-contingent guaranty), and the Company s obligation to make future payments should those triggering events or conditions occur (contingent guaranty).

Historically, the contingent guaranty recognized at inception has been de minimis. In determining the fair value of the guaranty obligation, we consider 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 future cash flows expected to be paid under the guaranty over the estimated life of the loan (historically three to five basis points per year) discounted using a 12-15 percent discount rate. The discount rate and estimated life used are consistent with those used for the calculation of the MSR for each loan.

Subsequent to the initial measurement date, the liability is amortized over the life of the guaranty period using the straight-line method. We evaluate the allowance for risk-sharing obligations by monitoring the performance of each loan for events or conditions which may signal a potential default. In instances where payment under the guaranty on a specific loan is determined to be probable and estimable, we record an additional liability for the estimated allowance for risk-sharing through a charge to the provision for risk-sharing obligations, along with a write-off of the associated loan-specific MSR (Note 4).

Loans Held for Investment Loans held for investment are interim loans originated by the Company for properties that currently do not qualify for permanent GSE or HUD financing. These loans have a maximum term of two years. The loans are carried at their unpaid principal balances adjusted for net unamortized loan fees and costs, and net of any allowance for loan losses. Interest income is accrued based on the actual coupon rate and is recognized as revenue when earned and deemed collectible.

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

The Company uses the interest method to determine an effective yield to amortize the loan fees and costs on real estate loans held for investment. The Company uses the initial coupon interest rate of the loans (without regard to future changes in the underlying indices) and anticipated principal payments, if any, to determine periodic amortization.

The Company will reclassify loans held-for-investment as loans held-for-sale if it determines that the loans will be sold or transferred to third parties.

Share-Based Payment The Company recognizes compensation costs for all share-based payment awards made to employees and directors, including restricted stock, employee stock options and other forms of equity compensation based on the grant date fair value.

Under the Walker & Dunlop, Inc. 2010 Equity Incentive Plan, the Company has granted restricted stock, unrestricted stock and stock option awards. Restricted stock awards were granted without cost to the Company s officers, employees and non-employee directors, for which the fair value of the award was calculated as the difference between the market value of the Company s common stock on the date of grant and the purchase price to be paid by the grantee. The Company s stock option and restricted stock awards for its officers and employees vest, predicated on continued employment, over a period of three years. Restricted stock awards for non-employee directors fully vest after one year.

Stock option awards were granted to officers and certain other employees, with an exercise price equal to the closing price of the Company s common stock on the date of the grant, and were granted for a ten-year term, vesting ratably over three years dependent solely on continued employment. To estimate the grant-date fair value of stock options, the Company uses 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 expected option term, the estimated dividend yield, a risk-free interest rate and the expected volatility. For the risk-free rate, the Company uses a U.S. Treasury strip due in a number of years equal to the option s expected term. To determine the expected volatility, the Company has calculated the volatility of the common stock price of a group of peer companies, as the Company has insufficient historical data for its common stock at this time to develop an expectation of volatility over the expected term of the options granted solely based on the historical volatility of its own common stock.

Compensation expense is adjusted for estimated forfeitures and is recognized on a straight-line basis, for the entire award, over the requisite service period of the award. Forfeiture assumptions are evaluated on a quarterly basis and updated as necessary. Compensation is recognized within the income statement as Personnel expense, the same expense line as the cash compensation paid to the respective employees.

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. Net deferred tax liabilities are included in Accounts payable and other accrued expenses in the accompanying condensed consolidated balance sheets.

We had no accruals for tax uncertainties as of March 31, 2012 or December 31, 2011.

Net Warehouse Interest Income The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans that are held for sale. Substantially all loans that are held for sale are financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. Warehouse interest expense is incurred on borrowings used to fund loans solely while they are held for sale. Warehouse interest income and expense are earned or incurred after a loan is closed and before a loan is sold. Included in net warehouse interest income for the three months ended March 31, 2012 and 2011 are the following components (in thousands):

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

	For the three months ended March 31,	
	2012	2011
Warehouse interest income	$ 2,575	$ 1,721
Warehouse interest expense	1,638	1,004
Warehouse interest income, net	$ 937	$ 717

Recently Issued Accounting Pronouncements In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU No. 2011-04 was issued to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The adoption of ASU No. 2011-04 expanded our disclosures regarding fair value measurements but did not have a material impact on our financial statement disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* ASU No. 2011-05 allows an entity to have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU No. 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The adoption of ASU No. 2011-05 did not have a material impact on our financial statements.

NOTE 3 GAINS FROM MORTGAGE BANKING ACTIVITIES

The gains from mortgage banking activities consist of the following activity for the three months ended March 31, 2012 and 2011 (in thousands):

	For the three months ended March 31,	
	2012	2011
Contractual loan origination related fees, net	$ 10,279	$ 7,358
Fair value of expected net future cash flows from servicing recognized at commitment	10,083	10,055
Fair value of expected guaranty obligation	(560)	(586)
Total gains from mortgage banking activities	$ 19,802	$ 16,827

NOTE 4 MORTGAGE SERVICING RIGHTS

Mortgage servicing rights (MSR) represent the fair value of the servicing rights retained by the Company for mortgage loans originated and sold. The capitalized amount is equal to the estimated fair value of the future expected net cash flows associated with the servicing rights. The following describes the key assumptions used in calculating each loan s MSR:

Discount rate Depending upon loan type, the discount rate used is management s best estimate of market discount rates. The rates used for loans originated were 10% to 15% for each of the three month periods presented.

Estimated Life The estimated life of the MSRs approximates the stated maturity date of the underlying loan and may be reduced by 6 to 12 months based upon the expiration of various types of prepayment penalty and/or lockout provisions prior to that stated maturity date.

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

The fair value of the MSRs was $164.0 million and $158.5 million at March 31, 2012 and December 31, 2011, respectively. The Company uses a discounted static cash flow valuation approach and the key economic assumption is the discount rate. For example see the following sensitivities:

The impact of a 100 basis point increase in the discount rate at March 31, 2012, is a decrease in the fair value of $4.7 million.

The impact of a 200 basis point increase in the discount rate at March 31, 2012, is a decrease in the fair value of $9.1 million.

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

Activity related to capitalized MSRs for the three months ended March 31, 2012 and 2011 was as follows (in thousands):

	For the three months ended March 31,	
	2012	2011
Beginning balance	$ 137,079	$ 106,189
Additions, following sale of loan	13,027	11,895
Amortization	(6,350)	(4,969)
Prepayments and write-offs	(1,135)	(286)
Ending balance	$ 142,621	$ 112,829

The MSRs are being amortized in proportion to, and over the period, that net servicing income is expected to be received using the effective interest method. The Company reported write downs of MSRs related to loans that were repaid prior to the expected maturity or the servicing rights being sold. These write-offs are included with the amortization and depreciation expense in the accompanying condensed consolidated statements of income.

Management reviews the capitalized MSRs for impairment quarterly. MSRs are measured for impairment on an asset-by-asset basis, considering factors such as debt service coverage ratio, property location, loan-to-value ratio and property type. In addition, at each reporting period, we compare the aggregate carrying value of the MSR portfolio to the aggregate estimated fair value of the portfolio. No impairments other than write-offs discussed above have been recognized for the periods presented.

NOTE 5 GUARANTY OBLIGATION AND ALLOWANCE FOR RISK-SHARING OBLIGATIONS

When a loan is sold under the Fannie Mae DUS program, the Company typically agrees to guarantee a portion of the ultimate loss incurred on the loan should the borrower fail to perform. The compensation for this risk is a component of the servicing fee on the loan. No guaranty is provided for loans sold under the Freddie Mac or HUD loan programs.

A summary of our guaranty obligation for the three months ended March 31, 2012 and 2011 is as follows (in thousands):

	For the three months ended March 31,	
	2012	2011
Balance at January 1	$ 9,921	$ 8,928
Guaranty obligation recognized	1,002	589

Amortization of guaranty obligation		(476)		(381)
Balance at March 31	$	10,447	$	9,136

We evaluate the allowance for risk-sharing obligations by monitoring the performance of each loan for triggering events or conditions that may signal a potential default. In situations where payment under the guaranty is probable and estimable on a specific loan, we record an additional liability for the estimated allowance for risk-sharing through a charge to the provision for risk-sharing obligations in the income statement, along with a write-off of the loan-specific MSR. The amount of the provision reflects our assessment of the likelihood of payment by the borrower, the estimated disposition 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. A summary of our allowance for risk-sharing for the three months ended March 31, 2012 and 2011 is as follows (in thousands):

		For the three months ended March 31,		
		2012		**2011**
Balance at January 1	$	14,917	$	10,873
Write offs		(1,619)		
Provision for risk-sharing obligations		1,224		746
Balance at March 31	$	14,522	$	11,619

As of March 31, 2012, the maximum quantifiable contingent liability associated with the Company s guarantees under the Fannie Mae

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

DUS agreement was $1.6 billion. The maximum quantifiable contingent liability is not representative of the actual loss we would incur. We would be liable for this amount only if all of the loans we service for Fannie Mae, 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.

NOTE 6 SERVICING

The total amount of loans the Company was servicing for various institutional investors was $16.9 billion as of March 31, 2012.

NOTE 7 NOTES PAYABLE

Warehouse notes payable To provide financing to borrowers under GSE and HUD programs, and to assist in funding interim loans, the Company has arranged for committed warehouse lines of credit in the amount of $535 million with certain national banks and a $250 million uncommitted facility with Fannie Mae. In support of each of these credit facilities, the Company has pledged substantially all of its loans held for sale and all of its loan held for investment under the Company s approved programs. At March 31, 2012, borrowings aggregated $236.7 million under the warehouse facilities. The borrowing rates under these warehouse facilities continue to be computed based on the average 30-day LIBOR plus 1.15% to 2.50%.

For the three months ended March 31, 2012 and 2011, the Company incurred interest expense on its warehouse facilities of $1.5 million and $1.0 million, respectively. Included in interest expense were loan fees of $0.3 million and $0.2 million for the three months ended March 31, 2012 and 2011, respectively. The notes payable are subject to various financial covenants and the Company was in compliance with all such covenants at March 31, 2012.

On March 8, 2012, the Company amended its $150 million committed warehouse agreement that was scheduled to mature on June 29, 2012. The amendment extended the maturity date to February 28, 2013, increased the credit limit from $150 million to $350 million, and reduced the rate for borrowing from the average 30-day LIBOR plus 200 basis points to the average 30-day LIBOR plus 185 basis points.

The Company had an unlimited master purchase and sale agreement which expired on March 16, 2012. In anticipation of the expiration of the master purchase and sale agreement, the Company amended one of its committed warehouse lines as described above, and on March 16, 2012, the Company allowed the master purchase and sale agreement to expire.

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 MSRs are measured at fair value on a nonrecurring basis. That is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company s MSRs do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, precise terms and conditions vary with each transaction and are not readily available. Accordingly, the estimated fair value of MSRs was developed using discounted cash flow models that calculate the present value of estimated future net servicing income. The model considers contractually

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the model to reflect observable market conditions and assumptions that a market participant would consider in valuing an MSR asset. MSRs are carried at the lower of amortized cost or estimated fair value.

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

- *Derivative Instruments* The derivative positions consist of interest rate lock commitments and forward sale agreements. These instruments are valued using a discounted cash flow model developed based on changes in the U.S. Treasury rate and other observable market data. The value was determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company and are classified within Level 3 of the valuation hierarchy.

- *Loans held for sale* The loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using discounted cash flow models that incorporate quoted observable prices from market participants. Therefore, the Company classifies these loans held for sale as Level 2.

- *Pledged Securities* The pledged securities are valued using quoted market prices from recent trades. Therefore, the Company classifies pledged securities as Level 1.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2012, and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value (in thousands):

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
March 31, 2012				
Assets				
Loans held for sale	$	$ 268,207	$	$ 268,207
Pledged securities	19,599			19,599

Derivative assets			10,264	10,264
Total	$ 19,599	$ 268,207	$ 10,264	$ 298,070
Liabilities				
Derivative liabilities	$	$	$ 762	$ 762
Total	$	$	$ 762	$ 762
December 31, 2011				
Assets				
Loans held for sale	$	$ 268,167	$	$ 268,167
Pledged securities	18,959			18,959
Derivative assets			10,638	10,638
Total	$ 18,959	$ 268,167	$ 10,638	$ 297,764
Liabilities				
Derivative liabilities	$	$	$ 5,223	$ 5,223
Total	$	$	$ 5,223	$ 5,223

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

There were no transfers into or out of assets that are considered Level 1 or Level 2 fair value measurements.

Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 45 days) and are not outstanding for more than one quarter. A roll forward of derivative instruments which require valuations based upon significant unobservable inputs, is presented below (in thousands) for the three months ended March 31, 2012 and 2011:

		Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments March 31, 2012
Derivative assets and liabilities, net		
Beginning balance, December 31, 2011	$	5,415
Transfers in (out) of Level 3		
Purchases		
Sales		
Issuances		
Settlements		(15,715)
Realized gains (losses) recorded in earnings		10,300
Unrealized gains (losses) recorded in earnings		9,502
Ending balance, March 31, 2012	$	9,502

		Derivative Instruments March 31, 2011
Derivative assets and liabilities, net		
Beginning balance, December 31, 2010	$	4,900
Transfers in (out) of Level 3		
Purchases		
Sales		
Issuances		
Settlements		(15,271)
Realized gains (losses) recorded in earnings		10,371
Unrealized gains (losses) recorded in earnings		6,456
Ending balance, March 31, 2011	$	6,456

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

		Quantitative Information about Level 3 Measurements		
	Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	$ 10,264	Discounted cash flow	Counterparty credit risk	
Derivative liabilities	762	Discounted cash flow	Counterparty credit risk	

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

The carrying amounts and the fair values of the Company s financial instruments as of March 31, 2012, and December 31, 2011, are presented below (in thousands):

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

	March 31, 2012	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	$ 40,811	$ 40,811
Restricted cash	5,083	5,083
Pledged securities	19,599	19,599
Loans held for sale	268,207	268,207
Loans held for investment	6,947	7,000
Derivative assets	10,264	10,264
Total	$ 350,911	$ 350,964
Financial Liabilities:		
Derivative liabilities	$ 762	$ 762
Warehouse notes payable	236,685	236,685
Notes payable	22,969	22,969
Total	$ 260,416	$ 260,416

	December 31, 2011	
	Carrying Amount	Fair Value
Financial Assets:		
Cash and cash equivalents	$ 53,817	$ 53,817
Restricted cash	7,164	7,164
Pledged securities	18,959	18,959
Loans held for sale	268,167	268,167
Derivative assets	10,638	10,638
Total	$ 358,745	$ 358,745
Financial Liabilities:		
Derivative liabilities	$ 5,223	$ 5,223
Warehouse notes payable	218,426	218,426
Notes payable	23,869	23,869
Total	$ 247,518	$ 247,518

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

Cash and Cash Equivalents and Restricted Cash The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

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

Loans Held For Sale Consist of originated loans that are generally transferred or sold within 45 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.

Loans Held For Investment Consist of originated interim loans which the Company expects to hold for investment for periods of up to two years, 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

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

Company.

Warehouse Notes Payable Consist of borrowings outstanding under warehouse line agreements. The borrowing rates on the warehouse lines are based upon average 30-day LIBOR plus a margin. The carrying amounts approximate fair value because of the short maturity of these instruments.

Notes Payable Consist of borrowings outstanding under term note agreements. The borrowing rates on the notes payable are based upon average 30-day LIBOR plus a margin. We estimate the fair value by discounting the future cash flows of each instrument at market rates.

Fair Value of Derivative Instruments and Loans Held for Sale In the normal course of business, the Company enters into contractual commitments to originate (purchase) 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 credit worthiness 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 simultaneously with the rate lock commitment with the borrower. The sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the forward sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through other income and expenses. The fair value of the Company s rate lock commitments to borrowers and loans held for sale and the related input levels includes, as applicable:

- the assumed gain/loss of the expected resultant loan sale to the buyer;
- the expected net future cash flows associated with servicing the loan (Level 2);
- the effects of interest rate movements between the date of the rate lock and the balance sheet date (Level 2); and

- the nonperformance risk of both the counterparty and the Company (Level 3).

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

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon securitization of the loan. The fair value of the expected net future cash flows associated with servicing the loan is calculated pursuant to the valuation techniques described previously for mortgage servicing rights.

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.

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 rate lock and forward sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and forward sale contracts, and the Company s historical experience with the agreements, the risk of nonperformance by the Company s counterparties is not significant.

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

		Fair Value Adjustment Components			Balance Sheet Location		
(in thousands)	Notional or Principal Amount	Assumed Gain (Loss) on Sale	Interest Rate Movement Effect	Total Fair Value Adjustment	Derivative Contract Assets	Derivative Contract Liabilities	Fair Value Adjustment To Loans Held for Sale
March 31, 2012							
Rate lock commitments	$ 95,368	$ 3,986	$ (480)	$ 3,506	$ 3,506	$	$
Forward sale contracts	358,340		5,996	5,996	6,758	(762)	
Loans held for sale	262,972	10,751	(5,516)	5,235			5,235
Total		$ 14,737	$	$ 14,737	$ 10,264	$ (762)	$ 5,235
December 31, 2011							
Rate lock commitments	$ 226,455	$ 7,781	$ 2,785	$ 10,566	$ 10,566	$	$
Forward sale contracts	482,751		(5,151)	(5,151)	72	(5,223)	
Loans held for sale	256,296	9,505	2,366	11,871			11,871
Total		$ 17,286	$	$ 17,286	$ 10,638	$ (5,223)	$ 11,871

NOTE 9 LITIGATION, COMMITMENTS AND CONTINGENCIES

Fannie Mae DUS Related Commitments Commitments for the origination and subsequent sale and delivery of loans to Fannie Mae represent those mortgage loan transactions where the borrower has locked an interest rate and scheduled closing and the Company has entered into a mandatory delivery commitment to sell the loan to Fannie Mae. As discussed in Note 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 DUS risk-sharing obligations). The Company is required to secure this obligation by assigning restricted cash balances and securities to Fannie Mae. The reserve for loans may be posted over the first 48 months. As of March 31, 2012, the Company had pledged cash and securities in excess of these requirements. In 2010, Fannie Mae increased its collateral requirements for Tier II loans by approximately 25 basis points effective April 1, 2011. In January 2012, Fannie Mae notified its Multifamily DUS lenders that collateral requirements on Fannie Mae Tier II, III and IV loans will remain unchanged for 2012. However, collateral requirements for existing and new Fannie Mae Tier I loans will increase from 50 basis points to 90 basis points and that Level 2 and Level 3 loss sharing requirements will increase. We currently have an insignificant number of loans in our portfolio which will be affected by the announced collateral changes and do not expect it will have a material impact on our future operations; however, future changes to collateral requirements may adversely impact us. Based on our aggregate Fannie Mae portfolio as of March 31, 2012, the total incremental collateral required for all existing loans over the life of the portfolio, in accordance with Fannie Mae requirements, is expected to be approximately $17.9 million. Under the provisions of the DUS agreement, the Company must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. These requirements were

satisfied by the Company as of March 31, 2012 and March 31, 2011.

For most loans we service under the Fannie Mae DUS program, we are currently required to advance 100% of the principal and interest due to noteholders up to 5% of the unpaid principal balance if the borrower is delinquent in making loan payments. Under the HUD program, we are required to advance 100% of the principal and interest payments due to noteholders if the borrower is delinquent in making loan payments. Advances are included in loan origination related fees and other receivables to the extent such amounts are recoverable.

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 obligation under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the standards and the Company satisfied the requirements as of March 31, 2012. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At March 31, 2012, the net worth requirement was $50.2 million and the Company s net worth was $187.6 million. As of March 31, 2012, we were required to maintain at least $9.2 million of liquid assets to meet our operational liquidity requirements, as defined in the agreements, for Fannie Mae, Freddie Mac, HUD and Ginnie Mae. As of March 31, 2012, we had operational liquidity of $40.5 million.

Litigation Capital Funding litigation On February 17, 2010, Capital Funding Group, Inc. (Capital Funding) filed a lawsuit in the state Circuit Court of Montgomery County, Maryland against Walker & Dunlop, LLC, our wholly owned subsidiary, for alleged breach of contract, unjust enrichment and unfair competition arising out of an alleged agreement that Capital Funding had with Column Guaranteed, LLC (Column) to refinance a large portfolio of senior healthcare facilities located throughout the United States (the Golden Living

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

Facilities). Capital Funding alleges that a contract existed between it and Column (and its affiliates) whereby Capital Funding allegedly had the right to perform the HUD refinancing for the Golden Living Facilities and according to which Capital Funding provided certain alleged proprietary information to Column and its affiliates relating to the refinancing of the Golden Living Facilities on a confidential basis. Capital Funding further alleges that Walker & Dunlop, LLC, as the alleged successor by merger to Column, is bound by Column s alleged agreement with Capital Funding, and breached the agreement by taking for itself the opportunity to perform the HUD refinancing for the Golden Living Facilities.

Capital Funding further claims that Column and its affiliates and Walker & Dunlop, LLC breached the contract, were unjustly enriched, and committed unfair competition by using Capital Funding s alleged proprietary information for certain allegedly unauthorized purposes. Capital Funding also asserts a separate unfair competition claim against Walker & Dunlop, LLC in which it alleges that Walker & Dunlop, LLC is improperly taking credit on its website for certain work actually performed by Capital Funding. Capital Funding seeks damages in excess of $30 million on each of the three claims asserted against all defendants, and an unspecified amount of damages on the separate claim for unfair competition against Walker & Dunlop, LLC. Capital Funding also seeks injunctive relief in connection with its unjust enrichment and unfair competition claims.

Pursuant to an agreement, dated January 30, 2009 (the Column Transaction Agreement), among Column, Walker & Dunlop, LLC, W&D, Inc. and Green Park, Column generally agreed to indemnify Walker & Dunlop, LLC against liability arising from Column s conduct prior to Column s transfer of the assets to Walker & Dunlop, LLC. However, pursuant to the Column Transaction Agreement, Column s indemnification obligation arises only after Column receives a claim notice following the resolution of the litigation that specifies the amount of Walker & Dunlop, LLC s claim.

To provide for greater certainty regarding Column s indemnification obligations before the resolution of this litigation and to cap our total loss exposure, we secured a further agreement from Column in November 2010 confirming that it will indemnify us for any liabilities that arise as a result of this litigation. As part of this further indemnification agreement, in the event Column is required to pay us for any liabilities under the Capital Funding litigation that it otherwise would not have been obligated to pay under the Column Transaction Agreement, we will indemnify Column for an amount up to $3.0 million. Also as part of this further indemnification agreement, William Walker, our Chairman, President and Chief Executive Officer, and Mallory Walker, former Chairman and current stockholder, in their individual capacities, agreed that if Column is required to indemnify us under this agreement and otherwise would not have been obligated to pay such amounts under the Column Transaction Agreement, Messrs. William Walker and Mallory Walker will pay any such amounts in excess of $3.0 million but equal to or less than $6.0 million. As a result of this agreement, we will have no liability or other obligation for any damage amounts in excess of $3.0 million arising out of this litigation. Although Column has assumed defense of the case for all defendants, and is paying applicable counsel fees, as a result of the indemnification claim procedures described above, we could be required to bear the significant costs of the litigation and any adverse judgment unless and until we are able to prevail on our indemnification claim. We believe that we will fully prevail on our indemnification claims against Column, and that we ultimately will incur no material loss as a result of this litigation, although there can be no assurance that this will be the case.

On July 19, 2011, the Circuit Court for Montgomery County, Maryland issued an order granting the defendants motion to dismiss the case; without prejudice. After the initial case was dismissed without prejudice, Capital Funding filed an amended complaint. In November 2011, the

Circuit Court of Montgomery County rejected our motion to dismiss the amended complaint and the case is currently in the discovery stage. Trial is scheduled to begin on July 9, 2012.

As a result of the indemnification listed above, the Company s loss exposure is limited to $3.0 million.

We cannot predict the outcome of any pending litigation and may be subject to consequences that could include fines, penalties and other costs, and our reputation and business may be impacted. Our management believes that any liability that could be imposed on us in connection with the disposition of any pending lawsuits would not have a material adverse effect on our business, results of operations, liquidity or financial condition.

In the normal course of business, the Company may be party to various claims and litigation.

NOTE 10 SHARE-BASED PAYMENT

In 2010, the Company s shareholders approved the adoption of the Walker & Dunlop, Inc. 2010 Equity Incentive Plan (the 2010 Equity Incentive Plan). There are 2,140,000 shares of stock authorized and available for issuance under the 2010 Equity Incentive Plan to directors, officers and employees. An additional 1,353,227 shares remain available for grant under the 2010 Equity Incentive Plan as of March 31, 2012.

The following table provides additional information regarding the Company s share-based payment plan for the three months ended March 31, 2012 (dollars in thousands, except per share amounts):

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

	Options / Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value
Restricted Stock				
Nonvested at beginning of period	449,236			
Granted				
Vested	(35,572)			
Forfeited	(35,058)			
Nonvested at end of period	378,606	$		$ 4,770
Stock Options				
Outstanding at beginning of period	214,987			
Granted				
Exercised				
Forfeited				
Expired				
Outstanding at end of period	214,987	$ 12.52	9.0	$ 17
Vested and exercisable at end of period	71,660	$ 12.52	9.0	$ 6

For the three months ended March 31, 2012, there were no restricted stock or stock option awards granted.

The fair values of the restricted stock that vested during the three months ended March 31, 2012 and 2011 (in thousands) were as follows:

	March 31,	
	2012	2011
Restricted stock	$ 445	$

For the three months ended March 31, 2012 and 2011, share based payment expense was $0.7 million and $0.4 million, respectively. As of March 31, 2012, the total unrecognized compensation cost for outstanding restricted stock and options was $4.2 million, net of estimated forfeitures. The unrecognized compensation cost will be recognized over each grant s applicable vesting period, with the latest vesting date being August 2, 2014.

NOTE 11 EARNINGS PER SHARE

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three months ended March 31, 2012 and 2011:

	For the three months ended March 31,	
	2012	**2011**
Weighted average number of shares outstanding used to calculate basic earnings per share	21,750,573	21,582,746
Dilutive securities:		
Unvested restricted shares	97,707	68,446
Weighted average number of shares and share equivalents outstanding used to calculated diluted earnings per share	21,848,280	21,651,192

The assumed proceeds used in the treasury method used for calculating the dilutive impact of restricted stock awards includes the unrecognized compensation costs and excess tax benefits associated with the awards. Options issued under the 2010 Equity Incentive Plan to

Table of Contents

Walker & Dunlop, Inc.

Notes to Condensed Consolidated Financial Statements

purchase 214,987 shares of common stock were outstanding during the three months ended March 31, 2012 and 2011, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

NOTE 12 STOCKHOLDERS EQUITY

A summary of changes in stockholders equity is presented below (dollars in thousands):

	Common Stock		Additional Paid-In	Retained	Total Stockholders'
	Shares	Amount	Capital	Earnings	Equity
Balances at December 31, 2011	21,748,598	$ 217	$ 81,190	$ 82,245	$ 163,652
Net income				5,839	5,839
Issuance of common stock in connection with equity incentive plans	35,572	1			1
Repurchase and retirement of common stock	(9,893)		(124)		(124)
Stock-based compensation			681		681
Balances at March 31, 2012	21,774,277	$ 218	$ 81,747	$ 88,084	$ 170,049

NOTE 13 TRANSACTIONS WITH RELATED PARTIES

As of March 31, 2012, Credit Suisse Securities (USA) LLC, through its ownership of Column, owns a 23% interest in the Company. From time to time, Credit Suisse refers HUD related financing opportunities to the Company, for which it receives fees. For the three months ended March 31, 2012, Credit Suisse earned fees of $0.8 million for the referral of HUD transactions to the Company (co-broker fees). At March 31, 2012, the Company had accrued $0.8 million of co-broker fees payable to Credit Suisse.

On February 9, 2012, the Company entered into an amendment to the agreement regarding the allocation of origination fees and trade premiums generated by certain transactions, amending the terms of the allocation of origination fees and trade premiums between Credit Suisse and the Company and providing for other terms and conditions with respect to future loan origination opportunities. The amendment resulted in a $2.5 million reduction in the amount the Company owed to Credit Suisse at December 31, 2011, which was recognized as Other revenues in the three months ended March 31, 2012.

A subsidiary of the Company has contracted with Walker & Dunlop Fund Management, LLC (the Advisor), a registered investment advisor, of which Mr. Walker, our Chairman, President and Chief Executive Officer, is the sole member, for the Advisor to provide investment advisory services to a real estate fund pursuant to an investment advisory agreement. We provide consulting, overhead and other corporate services to the Advisor pursuant to a corporate services agreement for a fee which approximates our costs for such services.

A third party entity, Walker & Dunlop Multifamily Equity I, LLC (the Managing Member), in which Mr. Walker and other individuals hold ownership, is the managing member of an investment fund. The Company provides consulting and related services to the Managing Member pursuant to a corporate services agreement for a fee which approximates our cost for such services.

The amount of such fees for the three months ended March 31, 2012 and 2011 were approximately $0.2 million and $0.2 million, respectively.

Table of Contents

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

The following discussion should be read in conjunction with the historical financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q.

Forward-Looking Statements

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

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

- the future of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs) and their impact on our business;
- our growth strategy;
- our projected financial condition, liquidity and results of operations;
- our ability to obtain and maintain warehouse and other loan funding arrangements;
- availability of and our ability to retain qualified personnel and our ability to develop relationships with borrowers, key principals and lenders;
- degree and nature of our competition;
- the outcome of pending litigation;
- changes in governmental regulations and policies, tax laws and rates, and similar matters and the impact of such regulations, policies and actions;

- our ability to comply with the laws, rules and regulations applicable to us;

- trends in the commercial real estate finance market, interest rates, commercial real estate values, the credit and capital markets or the general economy; 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.

Business

We are one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. We originate, sell and service a range of multifamily and other commercial real estate financing products. Our clients are owners and developers of commercial real estate across the country. We originate and sell loans through the programs of Fannie Mae, Freddie Mac, 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), with which we have long-established relationships. We retain servicing rights and asset management responsibilities on nearly all loans that we originate for GSE and HUD programs. We are approved as a Fannie Mae Delegated Underwriting and Servicing (DUS) lender nationally, a Freddie Mac Program Plus lender in seven states, the District of Columbia and the metropolitan New York area, a HUD Multifamily Accelerated Processing (MAP) lender nationally, and a Ginnie Mae issuer. We also originate and service loans for a number of life insurance companies, commercial banks and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. Additionally, through our subsidiary entities, we provide institutional advisory, asset management and investment management services specializing in debt, structured debt and equity.

Table of Contents

We fund loans for GSE and HUD programs, generally through warehouse facility financings, and sell them to investors in accordance with the related loan sale commitment, which we obtain prior to loan closing. Proceeds from the sale of the loan are used to pay off the warehouse facility. The sale of the loan is typically completed within 45 days after the loan is closed. In cases where we do not fund the loan, we act as a loan broker and service some of the loans. Our originators who focus on loan brokerage are engaged by borrowers to work with a variety of institutional lenders to find the most appropriate loan instrument for the borrowers needs. These loans are then funded directly by the institutional lender and we receive an origination fee for placing the loan and a servicing fee for any loans we service.

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

We retain servicing rights on substantially all of the loans we originate and sell, and generate revenues from the fees we receive for servicing the loans, interest income from escrow deposits held on behalf of borrowers, late charges and other ancillary fees. Servicing fees are set at the time an investor agrees to purchase the loan and are generally paid monthly for the duration of the loan. Our Fannie Mae and Freddie Mac servicing engagements generally provide for prepayment penalties to the Company 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 interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to establishing the coupon rate for the loan. We also seek to mitigate the risk of a loan not closing. We have agreements in place with the GSEs and HUD that specify the cost of a failed loan delivery, also known as a pair off fee, in the event we fail to deliver the loan to the investor. The pair off fee is typically less than the deposit we collect from the borrower. 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 any failure to close by an investor. We have experienced only one failed delivery in our history and did not incur any loss.

We have risk-sharing obligations on most 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, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the unpaid principal balance of a loan (subject to doubling or tripling if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). We may, however, request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above. We regularly request modified risk-sharing based on such factors as the size of the loan, market conditions and loan pricing. We may also request modified risk-sharing on large transactions if we do not believe that we are being fully compensated for the risks of the transactions or to manage overall risk levels. Except for the Fannie Mae DUS loans acquired in the Column transaction, which were acquired subject to their existing Fannie Mae DUS risk-sharing levels, our current credit management policy is to cap each loan balance subject to full risk-sharing at $60 million. Accordingly, we currently elect to use modified risk-sharing for loans of more than $60 million in order to limit our maximum loss exposure on any one loan to $12 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss).

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

In July 2011, we launched our interim loan program offering floating-rate debt, for terms of up to two years, to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing. We closed our first loan under this program in February 2012. We underwrite all loans originated through the program. During the time that they are outstanding, we assume the full risk of loss on the loans. In addition, we service and asset-manage loans originated through the program, with the ultimate goal of providing permanent financing on the properties.

Basis of Presentation

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

Critical Accounting Policies

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, 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

Table of Contents

estimates are used in the preparation of our condensed consolidated financial statements.

Mortgage Servicing Rights and Guaranty Obligations. MSRs are recorded at fair value the day we sell a loan. We only recognize MSRs for GSE and HUD originations. Our servicing contracts with non-governmental originations are cancelable with limited notice and as a result, have a de minimis fair value. The fair value is based on the expected future net cash flows associated with the servicing rights. The expected net cash flows are discounted at a rate that reflects the credit and liquidity risk of the MSR over the estimated life of the underlying loan.

In addition to the MSR, for all Fannie Mae DUS loans with risk-sharing obligations, upon sale we record the fair value of the obligation to stand ready to perform over the term of the guaranty (non-contingent obligation), and the fair value of the expected loss from the risk-sharing obligations in the event of a borrower default (contingent obligation). In determining the fair value of the guaranty obligation, we consider 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 future cash flows expected to be paid under the guaranty over the life of the loan (historically three to five basis points annually), discounted using a 12-15 percent discount rate. Historically, the contingent obligation recognized has been de minimis. The estimated life and discount rate used to calculate the guaranty obligation are consistent with those used to calculate the corresponding MSR.

The MSR and associated guaranty obligation are amortized into expense over the estimated life of the loan. The MSR is amortized in proportion to, and over the period, that net servicing income is expected to be received. The guaranty obligation is amortized evenly over the same period. If a loan defaults and is not expected to become current or pays off prior to the estimated life, the unamortized MSR and guaranty obligation balances are expensed.

We carry the MSRs at the lower of amortized value or fair market value and evaluate the carrying value quarterly. We engage a third party to assist in valuing our MSRs on a semi-annual basis.

The Provision for Risk-Sharing Obligations. The amount of the provision considers our assessment of the likelihood of payment by the borrower or key principal(s), the estimated disposition value of the underlying collateral and the level of risk-sharing. Historically, initial loss recognition occurs at or before the loan becoming 60 days delinquent. We regularly monitor our risk-sharing obligations on all loans and update loss estimates as current information is received.

Overview of Current Business Environment

In 2011, and to this point in 2012, U.S. multifamily market fundamentals have continued their improvement following the macroeconomic instability experienced in recent years. Occupancy rates and effective rents appear to have increased based upon increased rental market demand, both of which aid loan performance due to their importance to the cash flows of the underlying properties. Despite this improvement in some market fundamentals, recovery of the overall real estate market continues to be challenged by the slow recovery of the broader economy.

The passage of Dodd-Frank introduced complex, comprehensive legislation into the financial and real estate recoveries, which will have far reaching effects on the industry and its participants. While we are not a banking institution, there is uncertainty as to how, in the coming years, Dodd-Frank may affect us or our competitors. In addition, the scope, extent and timing of GSE reform continues to be uncertain. Although we cannot predict what actions Congress or other governmental agencies may take affecting the GSEs and/or HUD, we expect some regulatory change is likely. In the interim, the GSEs and HUD continue to supply a significant level of capital to the multifamily market and are expected to do so again in 2012 as commercial and multifamily debt refinancing activity is expected to increase.

Results of Operations

Following is a discussion of our results of operation for the three months ended March 31, 2012 and 2011. The financial results are not necessarily indicative of future results. Our business is not typically subject to seasonal trends. However, our quarterly results have fluctuated in the past and are expected to fluctuate in the future, reflecting the interest rate environment, the volume of transactions and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

Table of Contents

Dollars in thousands	For the three months ended March 31, 2012	2011
Origination Data:		
Origination Volumes by Investor		
Fannie Mae	$ 267,901	$ 303,825
Freddie Mac	84,517	51,406
Ginnie Mae - HUD	112,603	82,316
Other (1)	209,435	69,950
Total	$ 674,456	$ 507,497
Key Expense Metrics (as a percentage of total revenues)		
Personnel expenses	34%	32%
Other operating expenses	13%	10%
Total expenses	72%	63%
Operating margin	28%	37%
Key Origination Metrics (as a percentage of origination volume):		
Origination related fees	1.52%	1.45%
Fair value of MSRs created, net	1.41%	1.87%
Fair value of MSRs created, net as a percentage of GSE and HUD origination volume(2)	2.05%	2.16%

	As of March 31, 2012	2011
Servicing Portfolio by Type		
Fannie Mae	$ 10,277,105	$ 9,600,772
Freddie Mac	3,200,241	2,485,301
Ginnie Mae - HUD	1,478,202	920,946
Other (1)	1,895,397	1,849,491
Total	$ 16,850,945	$ 14,856,510
Key Servicing Metrics (end of period):		
Weighted average servicing fee rate	0.23%	0.21%

(1) CMBS, life insurance companies, commercial banks and interim loans. 2012 origination volume includes $7 million interim loan volume, which is classified as held for investment and therefore not reflected in the Other servicing portfolio balance at March 31, 2012.

(2) The fair value of the expected net future cash flows associated with the servicing of the loan, net of any guaranty obligation retained, as a percentage of GSE and HUD volume reflects revenue recognized, as a percentage of loan origination volume, on those loans which the Company will record an MSR upon sale of the loan. No MSRs are recorded on Other originations or interim loan originations. For the three months ended March 31, 2012, interim loan volume was $7 million.

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Overview

Our net income was $5.8 million for the three months ended March 31, 2012, compared to $6.6 million for the same period in 2011, a 12% decrease. Our total revenues were $34.4 million for the three months ended March 31, 2012, compared to $29.0 million for the three months ended March 31, 2011, a 19% increase. The increase in revenues for the three months ended March 31, 2012, was primarily attributable to the 33% increase in origination volumes and 22% increase in servicing fees, when compared to the same period in the prior year. Our total expenses were $24.9 million for the three months ended March 31, 2012, compared to $18.1 million for the three months ended March 31, 2011, a 37% increase. Our consolidated income from operations was $9.5 million for the three months ended March 31, 2012, compared to $10.9 million for the three months ended March 31, 2011, a 13% decrease. Our operating margin was 28% for the three months ended March 31, 2012, compared to 37% for the three months ended March 31, 2011. Operating margin was impacted by an increase in personnel expense as we grow our origination platform, an increase in amortization expense due to the growth of our servicing portfolio and the write-off of a mortgage servicing right due to the prepayment of a large portfolio of loans and an increase in our provision for risk-

Table of Contents

sharing obligations.

Revenues

Gains From Mortgage Banking Activities. Gains from mortgage banking activities were $19.8 million for the three months ended March 31, 2012, compared to $16.8 million for the three months ended March 31, 2011, an 18% increase. Gains from mortgage banking activities reflect the fair value of loan origination fees, premiums or losses on the sale of loans, net of any co-broker fees, and the fair value of the expected net future cash flows associated with the servicing of the loan, net of any guaranty obligations retained.

Loan origination related fees were $10.3 million for the three months ended March 31, 2012, compared to $7.4 million for the three months ended March 31, 2011, a 40% increase. This increase was primarily attributable to a 33% increase in origination volumes, coupled with increases in the origination fees, as a percentage of loan volumes, received on Freddie Mac and HUD originations. Origination volumes were $674 million for the three months ended March 31, 2012, compared to $507 million for the three months ended March 31, 2011, a 33% increase. Our origination fees as a percentage of origination volumes were 152 basis points for the three months ended March 31, 2012, up from 145 basis points for the same period in 2011, a 5% increase. The GSEs and HUD comprised 69% and 86% of originations in the three months ended March 31, 2012 and 2011, respectively.

The fair value of the expected net future cash flows associated with the servicing of originated loans was $9.5 million for the three months ended March 31, 2012, compared to $9.5 million for the three months ended March 31, 2011, a 1% increase. While origination volumes increased $167 million and 33%, Other originations represented $139 million of the increase. As previously noted, we do not recognize mortgage servicing rights, or the fair value of the expected net future cash flows associated with servicing, for Other originations due to the contractual terms of the servicing agreements. As a result, the fair value of the expected net future cash flows associated with the servicing of originated loans for the three months ended March 31, 2012 was flat, when compared to the three months ended March 31, 2011. The fair value of the expected net future cash flows associated with the servicing of originated loans, as a percentage of origination volumes, was 141 basis points for the three months ended March 31, 2012, compared to 187 basis points for the three months ended March 31, 2011, due to the higher percentage of Other originations for the three months ended March 31, 2012 when compared to the same period in 2011. The fair value of the expected net future cash flows associated with the servicing of originated GSE and HUD loans, as a percentage of origination volumes, was 205 basis points for the three months ended March 31, 2012, compared to 216 basis points for the three months ended March 31, 2011.

Servicing Fees. Servicing fees were $9.4 million for the three months ended March 31, 2012, compared to $7.7 million for the three months ended March 31, 2011, a 22% increase. This increase was primarily attributable to a 13% increase in the servicing portfolio to $16.9 billion at March 31, 2012 from $14.9 billion at March 31, 2011, coupled with an increase in the weighted average servicing fee rate to 23 basis points at March 31, 2012 from 21 basis points at March 31, 2011, a 10% increase. The increase in the weighted average servicing fee rate is attributed to turnover within the portfolio and the resulting increase in higher servicing fee revenue loans, as a percentage of the overall portfolio.

Net Warehouse Interest Income. Net warehouse interest income was $0.9 million for the three months ended March 31, 2012, compared to $0.7 million for the three months ended March 31, 2011, a 31% increase. The increase in the three months ended March 31, 2012 is primarily attributed to the increase in loan origination volume and corresponding warehouse transactions. The components of net warehouse interest income are (in thousands):

	For the three months ended March 31,	
	2012	2011
Warehouse interest income	$ 2,575	$ 1,721
Warehouse interest expense	1,638	1,004
Warehouse interest income, net	$ 937	$ 717

Escrow Earnings and Other Interest Income. Escrow earnings and other interest income was $0.5 million for the three months ended March 31, 2012, compared to $0.4 million for the three months ended March 31, 2011, a 46% increase. The increase was primarily attributable to an increase in the rate earned on certain escrow holdings, coupled with greater escrow balances associated with the growth in the servicing portfolio.

Other. Other revenues were $3.7 million for the three months ended March 31, 2012, compared to $3.4 million for the three months ended March 31, 2011, an 11% increase. For the three months ended March 31, 2012, we recognized a $2.5 million gain resulting from an amendment to the contract that specified the allocation of origination fees and trade premiums for the refinance of a portfolio of loans. While there was no similar transaction for the three months ended March 31, 2011, during that period we recognized $2.5 million assumption fee received pursuant to the transfer of a credit facility. As a result, the increase in Other revenues was primarily related to prepayment penalty

Table of Contents

and advisory fee revenues for the three months ended March 31, 2012, when compared to the three months ended March 31, 2011.

Expenses

Personnel. Personnel expense was $11.6 million for the three months ended March 31, 2012, compared to $9.2 million for the three months ended March 31, 2011, a 26% increase. Personnel expense as a percentage of total revenues was 34% for the three months ended March 31, 2012, compared to 32% for the same period in 2011. These increases were primarily attributable to investments made to attract origination talent and the professionals necessary to originate and process greater loan volume; as well as increases in producer commissions related to the growth in origination related fees.

Amortization and Depreciation. Amortization and depreciation expense was $7.3 million for the three months ended March 31, 2012, compared to $4.9 million for the three months ended March 31, 2011, a 48% increase. This increase was primarily attributable to an increase in the mortgage servicing rights portfolio balance due to increases in the loan origination volume and capitalized mortgage servicing rights in the preceding periods. In addition, for the three months ended March 31, 2012, amortization expense included charges of $1.1 million for the write-off of mortgage servicing rights due to the prepayment of the underlying loans, the majority of which related to the prepayment of a large portfolio that was an atypical, highly negotiated transaction, for which we did not share in any associated prepayment penalties charged to the borrower. For the three months ended March 31, 2011, $0.3 million of amortization expense was recognized for similar write-offs of individual loans.

Provision for Risk-Sharing Obligations. The provision for risk-sharing obligations was $1.2 million for the three months ended March 31, 2012, compared to $0.7 million for the three months ended March 31, 2011, a $0.5 million, and 64%, increase. The provision for risk-sharing obligations was two basis points and one basis point of the Fannie Mae at risk portfolio balances as of March 31, 2012, and 2011, respectively. The increase observed in the three months ended March 31, 2012 was primarily attributable to the default of two loans. The remaining increase in the provision is attributed to minor refinements of loss estimates on loans with an existing allowance, as updated information regarding the properties and loans is known.

The 60-day delinquency rate decreased to 0.08% of the at risk portfolio at March 31, 2012 from 0.48% of the at risk portfolio at March 31, 2011, and the allowance for risk-sharing obligations as a percentage of the specifically identified at risk balances increased to 10.3% at March 31, 2012, compared to 7.6% at March 31, 2011. Net write-offs were $1.6 million or 2 basis points of the at risk portfolio for the three months ended March 31, 2012, compared to $0 for the three months ended March 31, 2011. Net write-offs represent our final cash settlement of previously recorded losses with our loss sharing counterparty, Fannie Mae. We regularly monitor our risk-sharing obligations on all loans and update our loss estimates as current information is received.

Interest Expense on Corporate Debt. The interest expense on corporate debt was $0.2 million for the three months ended March 31, 2012, compared to $0.3 million for the three months ended March 31, 2011, a 33% decrease. This decrease was primarily attributable to a 14% decrease in the average corporate debt outstanding, due to contractual amortization payments.

Other Operating Expenses. Other operating expenses were $4.6 million for the three months ended March 31, 2012, compared to $3.0 million for the three months ended March 31, 2011, a 53% increase. This increase was primarily attributable to increases in marketing, office and travel

expenses as we expand our loan origination platform and increase loan origination activities.

Income Tax Expense. Income tax expense for the three months ended March 31, 2012 was $3.7 million, compared to $4.2 million for the three months ended March 31, 2011, a 14% decrease. This increase was primarily attributable to a 13% decrease in income from operations for the three months ended March 31, 2012, when compared to the same period in 2011.

Financial Condition

Cash Flows from Operating Activities

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

Cash Flow from Investing Activities

We usually lease facilities and equipment for our operations. However, when necessary and cost effective, we invest cash in property, plant and equipment. In 2012, we funded our first interim loan, with a combination of our capital and draws on a warehouse facility. Interim loans will be classified as held for investment during such time that they are outstanding and represent investing activities.

Table of Contents

Cash Flow from Financing Activities

We use our warehouse loan facilities and 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 long-term debt to fund acquisitions.

Although prior to our initial public offering our excess cash flows from operations were distributed to owners, we currently have no intention to pay dividends on our common stock in the foreseeable future.

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

Our unrestricted cash balance was $40.8 million and $43.4 million as of March 31, 2012, and March 31, 2011, respectively, a $2.6 million decrease.

Changes in cash flows from operations were driven primarily by the timing of loans closed and sold. Such loans are held for short periods of time and are generally sold within 45 days, and may significantly impact cash flows presented as of a point in time. Cash used in operating activities was $21.4 million for the three months ended March 31, 2012 compared to cash provided by operating activities of $182.4 million for the three months ended March 31, 2011. The decrease in cash flows from operations for the three months ended March 31, 2012 was primarily attributable to the net use of $6.7 million to fund loan originations, net of sales of loans to third parties; compared to proceeds of $190.1 million from funding loan originations, net of sales to third parties in the three months ended March 31, 2011. Excluding cash used for and provided by the origination and sale of loans, cash flows used in operations was $14.7 million for the three months ended March 31, 2012 compared to cash flows used in operations of $7.7 million for the three months ended March 31, 2011.

We invested $8.9 million and $0.3 million for the three months ended March 31, 2012, and 2011, respectively, an $8.6 million increase. The increase represents the $6.9 million funding (net of deferred revenues and origination costs) of our initial interim loan, as well as increased investments in property, plant and equipment as we grow our origination platform and open additional offices.

Cash provided by financing activities was $17.2 million for the three months ended March 31, 2012 compared to cash used in financing activities of $172.0 million for the three months ended March 31, 2011. This increase is primarily attributed to the timing of loan closings and subsequent sales, and the corresponding repayments of warehouse notes payable, concurrent with the sale of loans to third parties.

Liquidity and Capital Resources

Uses of Liquidity, Cash and Cash Equivalents

Our cash flow requirements consist of (i) short-term liquidity necessary to fund mortgage loans, (ii) working capital to support our day-to-day operations, including debt service payments, servicer advances consisting of principal and interest advances for Fannie Mae or HUD loans that become delinquent and advances on insurance and tax payments if the escrow funds are insufficient, and (iii) liquidity necessary to meet the annual $3.6 million principal reduction requirement of our term note obligation which matures on October 31, 2015.

We also require working capital to satisfy collateral requirements for our Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae and our warehouse facility lenders. Fannie Mae has indicated that it will be increasing its collateral requirements for certain loans, see Restricted Cash and Pledged Securities . Congress and other governmental authorities have also suggested that lenders will be required to retain on their balance sheet a portion of the loans that they originate, although no regulation has yet been implemented. In either scenario, we would require additional liquidity to support any future increased collateral requirements.

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 obligation under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the standards, and the Company satisfied the requirements as of March 31, 2012. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At March 31, 2012, the net worth requirement was $50.2 million and the Company s net worth was $187.6 million. As of March 31, 2012, we were required to maintain at least $9.2 million of liquid assets to meet our operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, Ginnie Mae and our warehouse facility lenders. As of March 31, 2012, we had operational liquidity of $40.5 million.

We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future.

Historically, our cash flows from operations have been sufficient to enable us to meet our short-term liquidity needs and other funding requirements. Similarly, we believe that cash flows from operations will be sufficient for us to meet our current obligations for the next 12 months.

Table of Contents

Restricted Cash and Pledged Securities

Restricted cash and pledged securities consist primarily of collateral for our risk-sharing obligations and 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. 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. As of March 31, 2012, we pledged securities to collateralize our Fannie Mae DUS risk-sharing obligations of $19.6 million, which was in excess of current requirements.

We fund any growth in our Fannie Mae required operational liquidity and collateral requirements from our working capital. Fannie Mae increased its collateral requirements for Tier II loans by approximately 25 basis points effective April 1, 2011. In January 2012, Fannie Mae notified its Multifamily DUS lenders that collateral requirements on Fannie Mae Tier II, III and IV loans will remain unchanged for 2012. However, collateral requirements for existing and new Fannie Mae Tier I loans will increase from 50 basis points to 90 basis points and that Level 2 and Level 3 loss sharing requirements will increase. We currently have an insignificant number of loans in our portfolio which will be affected by the announced collateral changes and do not expect it will have a material impact on our future operations; however, future changes to collateral requirements may adversely impact us. Based on our aggregate Fannie Mae portfolio as of March 31, 2012, the total incremental collateral required for all existing loans over the life of the portfolio, in accordance with Fannie Mae requirements, is expected to be approximately $17.9 million.

Warehouse Facilities

To provide financing to borrowers under GSE and HUD programs, and to assist in funding interim loans, we have arranged for committed warehouse lines of credit in the amount of $535 million with certain national banks and a $250 million uncommitted facility with Fannie Mae. Consistent with industry practice, two of these facilities are revolving commitments we expect to renew annually, one is a revolving commitment we expect to renew every two years, and the last facility is provided on an uncommitted basis without a specific maturity date. Our ability to originate mortgage loans depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

We have a $150 million committed warehouse line agreement that matures on November 26, 2012. The agreement provides us with the ability to fund our Fannie Mae, Freddie Mac and HUD loans. Advances are made at 100% of the loan balance and borrowings under this line bear interest at the average 30-day LIBOR plus 200 basis points. As of March 31, 2012, we had $96.2 million of borrowings outstanding under this line and corresponding loans held for sale.

On March 8, 2012, we amended our $150 million committed warehouse agreement that was scheduled to mature on June 29, 2012. The agreement provides us with the ability to fund our Fannie Mae, Freddie Mac and HUD loans. The amendment extended the maturity date to February 28, 2013, increased the credit limit from $150 million to $350 million, and reduced the rate for borrowing from the average 30-day LIBOR plus 200 basis points to the average 30-day LIBOR plus 185 basis points. As of March 31, 2012, we had $76.0 million of borrowings outstanding under this line and corresponding loans held for sale.

We have a $250 million uncommitted facility with Fannie Mae under its ASAP funding program. After approval of certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the

loan balance and borrowings under this program bear interest at the average 30-day LIBOR plus 115 basis points. As of March 31, 2012, we had $59.2 million of borrowings outstanding under this program. There is no expiration date for this facility.

We had an unlimited master purchase and sale agreement which expired on March 16, 2012. In anticipation of the expiration of the master purchase and sale agreement, we amended one of our committed warehouse lines as described above, and on March 16, 2012, we allowed the master purchase and sale agreement to expire.

We have a $35 million committed warehouse line agreement that matures on July 21, 2013, subject to one year extensions at the lenders discretion. The facility provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to two years, using available cash in combination with advances under the facility. All borrowings bear interest at the average 30-day LIBOR plus 250 basis points. Borrowings under the facility are full recourse to the Company. As of March 31, 2012, we had $5.3 million of borrowings outstanding under this line and a corresponding loan held for investment.

All of the notes payable, including the warehouse facilities, are senior obligations of the Company.

Debt Obligations

On October 31, 2006, we entered into a $42.5 million term note agreement which was originally scheduled to mature on October 31, 2011. On May 11, 2011, the agreement was amended, extending the maturity date to October 31, 2015. Borrowings under the agreement bear interest at the average 30-day LIBOR plus 250 basis points. All of the ownership interests in our operating subsidiary are pledged as collateral for the note. The loan has annual principal reductions of $3.6 million. As of March 31, 2012, the outstanding note balance was $22.5 million.

During 2008, we purchased small amounts of subsidiary equity from certain existing employees and issued notes that are subordinated to the term note agreement. The notes bear interest at the 90-day LIBOR plus 200 basis points and will be repaid in five annual installments after the term note has been repaid. As of March 31, 2012, the aggregate outstanding balance of the notes was $0.5 million.

Credit Quality and Allowance for Risk-Sharing Obligations

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

Table of Contents

Dollars in thousands	As of and for the three months ended March 31, 2012	2011
Key Credit Metrics		
Unpaid principal balance:		
Total servicing portfolio	$ 16,850,945	$ 14,856,510
Fannie Mae servicing portfolio:		
Fannie Mae Full Risk	7,003,631	6,032,264
Fannie Mae Modified Risk	2,151,373	1,989,102
Fannie Mae No Risk	1,122,101	1,579,406
Total Fannie Mae	$ 10,277,105	$ 9,600,772
Fannie Mae at risk servicing portfolio (1)	$ 7,916,564	$ 6,846,935
60+ Day delinquencies, within at risk portfolio	6,308	32,545
At risk loan balances associated with allowance for risk-sharing obligations (2)	$ 141,646	$ 153,746
Allowance for risk-sharing obligations:		
Beginning balance	$ 14,917	$ 10,873
Provision for risk-sharing obligations	1,224	746
Net write-offs	(1,619)	
Ending balance	$ 14,522	$ 11,619
60+ Day delinquencies as a percentage of the at risk portfolio	0.08%	0.48%
Provision for risk-sharing as a percentage of the at risk portfolio	0.02%	0.01%
Allowance for risk-sharing as a percentage of the at risk portfolio	0.18%	0.17%
Net write-offs as a percentage of the at risk portfolio	0.02%	0.00%
Allowance for risk-sharing as a percentage of the specifically identified at risk balances	10.25%	7.56%

(1) At risk servicing portfolio is defined as the balance of Fannie Mae DUS loans subject to the risk-sharing formula described below. 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% DUS 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% DUS risk-sharing was to default, the Company 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, all of the Company s risk-sharing obligations that we have settled have been from full risk-sharing loans.

(2) There are loans within our servicing portfolio which are greater than 60 days delinquent, for which no allowance has been recorded. We do not anticipate recognizing a loss for these loans upon settlement of our risk-sharing obligation with Fannie Mae because our estimate of the value of the underlying collateral is greater than the unpaid principal balance of the associated loan.

Fannie Mae DUS risk-sharing obligations are based on a tiered formula. 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 is 20% of the unpaid principal balance of the loan at the time of default.

Risk-Sharing Tier	Percentage Absorbed by Us
First 5% of unpaid principal balance	100%
Next 20% of unpaid principal balance	25%
Losses Above 25% of unpaid principal balance	10%
Maximum lender loss	20% of unpaid principal balance

Table of Contents

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

We regularly request modified risk-sharing based on such factors as the size of the loan, market conditions and loan pricing. Except for the Fannie Mae DUS loans acquired in the Column transaction, which were acquired subject to their existing Fannie Mae DUS risk-sharing levels, our current credit management policy is to cap the loan balance subject to full risk-sharing at $60 million. Accordingly, we currently elect to use modified risk-sharing for loans of more than $60 million in order to limit our maximum loss on any loan to $12 million.

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. The provisions historically have been for Fannie Mae loans with full risk-sharing. The amount of the provision considers our assessment of the likelihood of payment by the borrower, the value of the underlying collateral and the level of risk-sharing. Historically, the loss recognition occurs at or before the loan becoming 60 days delinquent. Our estimates of value are determined considering broker opinions 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 March 31, 2012 and 2011, $6.3 million and $32.5 million, respectively, of our Fannie Mae at risk balances were more than 60 days delinquent. For the three months ended March 31, 2012 and 2011, our provisions for risk-sharing obligations were $1.2 million $0.7 million, respectively, or two basis points and one basis point of the Fannie Mae at risk balance, respectively.

As of March 31, 2012 and 2011, our allowance for risk-sharing obligations was $14.5 million and $11.6 million, respectively, or 18 basis points and 17 basis points of the Fannie Mae at risk balance, respectively. Our risk-sharing obligation with Fannie Mae requires, in the event of delinquency or default, that we advance principal and interest payments to Fannie Mae on behalf of the borrower. Advances made by us are used to reduce the proceeds required to settle any ultimate loss incurred. As of March 31, 2012, we have advanced $4.9 million of principal and interest payments on the loans associated with our $14.5 million allowance. Accordingly, if the $14.5 million in estimated losses is ultimately realized, the Company would be required to fund an additional $9.6 million. As of March 31, 2011, we had advanced $5.1 million of principal and interest payments on the loans associated with our $11.6 million allowance at that time.

We have never been required to repurchase a loan.

Off-Balance Sheet Risk

We do not have any off-balance sheet arrangements.

New/Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU No. 2011-04 was issued to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU No. 2011-04 amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The adoption of ASU No. 2011-04 expanded our disclosures regarding fair value measurements but did not have a material impact on our financial statement disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income.* ASU No. 2011-05 allows an entity to have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU No. 2011-05 eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The adoption of ASU No. 2011-05 did not have a material impact on our financial statements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are not currently exposed to interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to closing on the loan with the borrower, and the sale or placement is effectuated within 45 days of closing. The coupon rate for the loan is set after we have established the interest rate with the investor.

Table of Contents

Some of our assets and liabilities are subject to changes in interest rates. Earnings from escrows are generally based on LIBOR. A 100 basis point increase or decrease in the average 30-day LIBOR would increase or decrease, respectively, our annual earnings by approximately $2.9 million based on our escrow balance as of March 31, 2012. The borrowing cost of our warehouse facilities are based on LIBOR. A 100 basis point increase or decrease in the average 30-day LIBOR would decrease or increase, respectively, our annual net warehouse interest income by approximately $2.4 million based on our outstanding warehouse balance as of March 31, 2012. Approximately $22.5 million of our corporate debt is based on the average 30-day LIBOR. A 100 basis point increase or decrease in the average 30-day LIBOR would decrease or increase, respectively, our annual earnings by approximately $0.2 million based on our outstanding corporate debt as of March 31, 2012. Our loans held for investment and associated warehouse borrowings are based on LIBOR, and reset at the same intervals. As a result, any increase or decrease in the average 30-day LIBOR would have an equal and offsetting impact on our interim loan interest income and expense, and no impact on our annual earnings.

The fair value of our MSRs is subject to market risk. A 100 basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of our MSRs by approximately $4.7 million or $9.1 million, respectively, as of March 31, 2012. Our Fannie Mae and Freddie Mac servicing engagements generally provide for prepayment penalties, which we share in, in the event of a voluntary prepayment prior to the expiration of the prepayment protection period. In our servicing contracts with institutional investors and HUD, we do not share in the prepayment penalties. As of March 31, 2012, 91% of the service fees are protected from the risk of prepayment through our sharing in contractual prepayment penalties; hence, we do not hedge our servicing portfolio for prepayment risk.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) and 15d-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. There have been no changes in our internal controls over financial reporting in the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material changes in legal proceedings affecting us and our subsidiaries. The discussion of our business and operations should be read together with the legal proceedings contained in Part I, Item 3 Legal Proceedings in our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011. The risk factors disclosed in our Annual Report on Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition or results. Additional risk and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition or results.

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

Issuer Purchases of Equity Securities

Under the 2010 Equity Incentive Plan, subject to the Company s approval, grantees have the option of electing to satisfy minimum tax withholding obligations at the time of vesting or exercise by allowing the Company to withhold and purchase the shares of stock otherwise issuable to the grantee. On March 24, 2012, the Company repurchased and retired 9,893 shares of restricted stock at market prices, upon grantee vesting. The following table provides information regarding common stock repurchases for the quarter ended March 31, 2012:

Table of Contents

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased
January 1 - 31, 2012		$		N/A
February 1 - 29, 2012				N/A
March 1 - 31, 2012	9,893	12.52	9,893	N/A
	9,893		9,893	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

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

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 3.2 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
4.1		Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)
4.2		Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 20, 2010)
4.3		Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 20, 2010)
10.1		Third Amendment to Warehousing Credit and Security Agreement, dated March 8, 2012, by and between Walker & Dunlop, LLC (as borrower) and PNC Bank, National Association (as lender) (incorporated by reference to Exhibit 10.45 to the Company s Annual Report on Form 10-K for the year ended December 31, 2011)
10.2	*^	2012 Annual Bonus Plan
10.3	*	Form of Restricted Common Stock Award Agreement (Employee)
10.4	*	Form of Restricted Common Stock Award Agreement (Director)
10.5	*	Form of Non-Qualified Stock Option Award Agreement

Table of Contents

10.6	*	Form of Incentive Stock Option Award Agreement
31.1	*	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	*	Certification of Walker & Dunlop, Inc.'s Chief Financial Officer to Rule 13a-14(a)
32	*	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
101.1	#	XBRL Instance Document
101.2	#	XBRL Taxonomy Extension Schema Document
101.3	#	XBRL Taxonomy Extension Calculation Linkbase Document
101.4	#	XBRL Taxonomy Extension Definition Linkbase Document
101.5	#	XBRL Taxonomy Extension Label Linkbase Document
101.6	#	XBRL Taxonomy Extension Presentation Linkbase Document

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

*: Filed herewith.

#: Furnished, not filed.

^: Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the U.S. Securities and Exchange Commission.

Table of Contents

SIGNATURE

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

Date: May 10, 2012

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

By: /s/ Deborah A. Wilson
Deborah A. Wilson
Executive Vice President, Chief Financial Officer and Treasurer

Table of Contents

Exhibit Index

Exhibit Number		Description
2.1		Contribution Agreement, dated as of October 29, 2010, by and among Mallory Walker, Howard W. Smith, William M. Walker, Taylor Walker, Richard C. Warner, Donna Mighty, Michael Yavinsky, Edward B. Hermes, Deborah A. Wilson and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 4 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
2.2		Contribution Agreement, dated as of October 29, 2010, between Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 2.2 to Amendment No. 4 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
2.3		Amendment No. 1 to Contribution Agreement, dated as of December 13, 2010, by and between Walker & Dunlop, Inc. and Column Guaranteed LLC. (incorporated by reference to Exhibit 2.3 to Amendment No. 6 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on December 13, 2010)
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 3.2 to Amendment No. 4 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on December 1, 2010)
4.1		Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)
4.2		Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 20, 2010)
4.3		Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on December 20, 2010)
10.1		Third Amendment to Warehousing Credit and Security Agreement, dated March 8, 2012, by and between Walker & Dunlop, LLC (as borrower) and PNC Bank, National Association (as lender) (incorporated by reference to Exhibit 10.45 to the Company s Annual Report on Form 10-K for the year ended December 31, 2011)
10.2	*^	2012 Annual Bonus Plan
10.3	*	Form of Restricted Common Stock Award Agreement (Employee)
10.4	*	Form of Restricted Common Stock Award Agreement (Director)
10.5	*	Form of Non-Qualified Stock Option Award Agreement
10.6	*	Form of Incentive Stock Option Award Agreement
31.1	*	Certification of Walker & Dunlop, Inc. s Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	*	Certification of Walker & Dunlop, Inc. s Chief Financial Officer to Rule 13a-14(a)
32	*	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
101.1	#	XBRL Instance Document
101.2	#	XBRL Taxonomy Extension Schema Document
101.3	#	XBRL Taxonomy Extension Calculation Linkbase Document
101.4	#	XBRL Taxonomy Extension Definition Linkbase Document
101.5	#	XBRL Taxonomy Extension Label Linkbase Document
101.6	#	XBRL Taxonomy Extension Presentation Linkbase Document

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

*: Filed herewith.

#: Furnished, not filed.

^: Portions of the exhibit have been omitted pursuant to a request for confidential treatment. The omitted information has been filed separately with the U.S. Securities and Exchange Commission.