Walker & Dunlop

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1:00 pm EST

Operator: Good day everyone and welcome to Walker & Dunlop's Third Quarter 2017 Earnings Conference Call and Webcast. Hosting the call today from Walker & Dunlop is Willy Walker, Chairman and CEO. He is joined by Steve Theobald, Chief Financial Officer; and Kelsey Montz from Investor Relations.

Today's call is being recorded and the archived webcast is available on company's website. At this time, all participants have been placed in a listen-only mode and the floor will be open for your questions, following the presentation. [Operator Instructions]

It’s now my pleasure to turn the floor over to Kelsey Montz. Please go-ahead.

Kelsey Montz: Thank you, Keith. Good morning everyone. Thank you for joining the Walker & Dunlop third quarter 2017 earnings call. I have with me this morning, our Chairman and CEO, Willy Walker; and our CFO, Steve Theobald. This call is being webcast live on our website and a recording will be available later this morning.

Both our earnings press release and website provide details on accessing the archived call. This morning, we posted our earnings release and presentation to the Investor Relations section of our website www.walkerdunlop.com. These slides serve as a reference point for some of what Willy and Steve will touch on this morning.

Please also note that we will reference the non-GAAP financial metric, adjusted EBITDA, during the course of the call. Please refer to the earnings release posted on our website for a reconciliation of this non-GAAP financial metric. Investors are urged to carefully read the forward-looking statements language in our earnings release. Statements made on this call, which are not historical facts, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe our current expectations and actual results may differ materially. Walker & Dunlop is under no obligation to update or alter our forward-looking statements whether as a result of new information, future events, or otherwise. We expressly disclaim any obligation to do so. More detailed information about risk factors can be found in our annual and quarterly reports filed with the SEC.

I'll now turn the call over to Willy.

Willy Walker: Thank you, Kelsey and good morning everyone. As the hold music you had just listened to may have tipped you off, today is a very special day at Walker & Dunlop, as it marks the 80th Anniversary of the founding of this great company. It is a true pleasure to be running the company that my grandfather and great uncle started on November 8, 1937, and then my father so successfully ran throughout his career.

They say about companies that the first generation built it, and if the second generation doesn't kill it, the third surely will. We've cleared avoided that state so far and instead have taken Walker & Dunlop to all new heights over the past decade. And while it is a pleasure to carry on a family legacy in the third generation, it is a true honor to work every day with the men and women that make Walker & Dunlop such an incredible company.

I will talk more about the culture and success of W&D at the end of this call, but for now I'd like to wish everyone at Walker & and Dunlop a happy 80th birthday and also thank all of you on the line for joining us today.

Our third quarter results reflect the exceptional execution of our strategy to build premier commercial real-estate finance company in the United States. I'm going to start by asking to turn to Slide 3 in the presentation, which lays out our quarterly key financial metrics. Total transaction volume was up 70% to a record $8.5 billion this quarter, reflecting the hiring and acquiring of new banking and brokerage talent over the past several years.

Our expanded platform generated record quarterly total revenues of $180 million, up 16% over Q3 of last year, and our strong topline growth generated a 16% improvement in net income to $34 million, the fourth most profitable quarter ever for Walker & Dunlop with $1.06 of diluted earnings per share, up 10% over Q3 2016. With year-to-date diluted earnings per share of $3.49, compared to $3.65 for all of last year, we will deliver strong double-digit earnings growth this year for the fourth consecutive year.

$8.5 billion of transaction volume this quarter brings our year-to-date total transaction volume to $19.6 billion, a 50% increase over the $13 billion of transaction volume during the same period last year. As we have said before, Walker & Dunlop's day-to-day execution to meet our clients need coupled with our expanded platform and brand continued to fuel our growth.

If you will turn to Slide 4, you can see on the right side that we have increased the number of bankers and debt brokers at Walker & Dunlop from 97 to 131 over the past 21 months through a combination of internal promotions, recruiting, and acquisitions. If you remain on Slide 4, you can see that we use the method similar to the same store comparisons by retailers to break up the loan origination volume of the bankers and brokers who are at Walker & Dunlop as of December 31, 2015, from the volume originated by the bankers and brokers who have joined us subsequently to show the organic growth versus growth from acquisitions and hiring.

As you can see, the existing bankers and brokers originated $11.2 billion of deal volume in the first three quarters of 2016, and that same cohort added $3.1 billion or 27% growth to that number bringing their year-to-date 2017 total to $14.3 billion. As you can see in blue, the new hires added $251 million in the first three quarters of 2016, and have grown that by over 13 times to $3.5 billion in the first three quarters of 2017.

So, of the $18 billion in total originations year-to-date, 79% has come from our existing bankers and brokers and the other 21% has come from new hires over the past 21 months. We will continue to add bankers and brokers across the country as we scale W&D to be the premier commercial real estate finance company in the United States. Our reputation is one of the very best multifamily lenders in the country led to Walker & Dunlop being selected to finance Greystar's acquisition of Monogram Residential in Q3, a largest transaction in our company’s history.

This $1.9 billion Freddie Mac financing was a home run. Our team delivered the financing on time with great terms and conditions and without any drama. One Freddie Mac official, who was impressed with our team's execution said, “you know how President Obama was called No-drama Obama, after this deal, we might need to call Walker & Dunlop No-worry Walker.” This type of praise only come from having exceptional team that is underpinned by a corporate culture that promotes teamwork, execution, and customer service at every turn.

The addition of the Greystar deal drove our Freddie Mac loan originations do an all-time quarterly high of $4 billion. We expected to see a surge in our Freddie volumes as many of our volume borrowers were gravitating towards floating rate financing as a result of the dovish signals coming from the Fed. With the acquisitions of Elkins mortgage and Deerwood mortgage over the past year, we anticipated strong brokered originations this quarter and got just that at $1.9 billion of volume.

We should see continued growth in brokered originations in the fourth quarter as our capital markets team continues to expand their client base, and contribute meaningfully. We originated $1.4 billion of Fannie Mae in Q3, and given our extremely strong first half of the year, we are 16% over our 2016 year-to-date Fannie Mae production. We have a strong Q4 Fannie pipeline and are on pace for yet another record year with Fannie Mae.

Q3 HUD originations were down from a very active Q3 2016, but on a year-to-date basis are up 41%. And our HUD team is well on its way to originating over $1 billion in total loan volume for the first time since 2013.

Finally, our investment sales group had a slow start to the year, due to the macro trends in the market. But many of the challenges facing buyers and sellers early in the year settled down in Q3, and we saw dramatic pickup in the level of investment sales business to $936 million, up 19% from last year. We have a robust investment sales pipeline right now and anticipate a strong Q4.

I want to touch for a moment on our business model and the growth of our servicing portfolio. Our portfolio crossed the $70 billion threshold at September 30 having added $10 billion of new servicing in only 10 months.

I'd ask you to turn to Slide 5 for a moment and here you can see that due to the dramatic growth in loan originations, and limited run-off in our servicing portfolio the period of time it took us to add an additional $10 billion of servicing has decreased from 22 months from $30 billion to $40 billion to only 10 months from $60 billion to $70 billion. Not only is this accelerating growth hugely beneficial to our current financial performance, but it is also very a great day to our long-term enterprise value.

87% of the servicing fees from the loans in our portfolio are prepayment protected. And the weighted-average remaining life of the loans is just under 10 years. If you add up all the prepayment protected servicing fees in the portfolio today, it is almost $1 billion of contractual revenue revenues to Walker & Dunlop.

Finally, we have only $9.3 billion of scheduled loan maturities in our portfolio from now through 2020 toward annual origination volumes in excess of $20 billion and only $9.3 billion of maturities over the next three years we have a very clear path to achieving our 2020 goal of a servicing portfolio in excess of $100 billion.

Whatever viewed in the first part of this earnings call are financial results and accomplishments that near the corporate strategy we laid out for investors three years ago. To be at the very top of the league tables with Fannie, Freddie, and HUD; to grow our brokerage business to gain access to new clients and incremental deal flow; and to continue adding prepayment protected, high-margin loan servicing fees.

The final pillar of this strategy is to build an asset management business with capital that we control and can feed into the loan origination platform we have built. The joint venture with Blackstone that we announced in May is the first step towards executing on this strategy that venture is up and running and we are thrilled to be partnering with Blackstone. We remain focused on building out the rest of our asset management business and envision this to include products like preferred equity, mezzanine debt, and non-multi-family bridge loans.

Growing our assets under management to $8 billion to $10 billion by 2020 will require additional partnerships and acquisitions similar to the manner in which we have grown our core leading lending and brokerage businesses. The scaled asset management platform will provide W&D with additional long-term high margin revenue streams, similar to our servicing portfolio, while also strengthening the depth and breadth of our client relationships.

I will now turn the call over to Steve, to discuss our third quarter and year-to-date financial performance in more details. Steve?

Steve Theobald: Thank you, Willy, and good morning everyone. The strength of Walker & Dunlop's brand and reputation in the marketplace continues to drive top and bottom line growth as exemplified by our third quarter financial performance. As Willy just highlighted, our quarterly financial results were fantastic.

And as you can see on Slide 6, our year-to-date performance has been equally strong. 2017 year-to-date total transaction volume of $19.6 million is up 50% from the same period in 2016. Total revenues in the first nine months of the year surpassed $0.5 billion and $112 million of net income is up 45% over the first nine months of last year. Year-to-date adjusted EBITDA, which continues to increase at a rapid pace, was up 53% from 2016 to $146 million.

During the first nine months of the year, we delivered a 33% operating margin, while annual revenue per employee remained above $1 billion demonstrating the efficiency of our platform. Return on equity continues to come in strong at 23% for the year. For many years, we have articulated our strategy to build out our mortgage banking platform to meet more of our clients' financing needs and to gain access to more and more deal flow.

We have also repeatedly stated our desire to work on large financings with big institutional investors such as the recently closed Greystar transaction. Achieving both of these strategies is highly profitable to us, but does result in lower gain on sale margins. Our Q3 results are a perfect example of this. As we reported a gain on sale margin of 146 basis points, yet maintained an operating margin about 30%, while increasing earnings by 16% year-over-year.

The point is that our financial success does not come from managing to a specific gain on sale margin, but rather from our ability to continue growing origination volumes and the servicing portfolio, while tightly controlling our fixed expenses. On the servicing front, we crossed over the $70 billion mark in September as a result of the record origination volumes we achieved in the quarter.

$4 billion of Freddie volumes added to the portfolio, brought the weighted average servicing fee down to 25.7 basis points as of September 30. We earned relatively less servicing in Freddie loan than we do on a Fannie because we did not take any credit risk. We continue to seek relatively low levels of prepayments in the portfolio and scheduled maturities are not significant over the next few years.

Personnel expense as a percentage of revenue was 44% during the quarter, compared to 42% in Q3 2016. The quarter-over-quarter increase was a result of increases to variable compensation, particularly commission expense driven by the year-over-year increase in transaction volumes and to increased accruals for our performance share plans and company bonuses resulting from our strong financial performance.

I also want to point out that year-to-date personnel expense as a percentage of revenue is 39% in-line with the 39% we reported for the same time period in 2016, even as we have added 91 net new employees to our team. On the credit front, hurricanes and Harvey and Irma made landfall during the quarter in locations where we have a significant number of loans across our Fannie, Freddie, and HUD portfolios.

And while some of our customers were impacted, to date, we have not seen any credit issues related to the damage. The biggest impact appears to be in our HUD portfolio where 8 of our loans in the Houston area experienced extensive damage and may have difficulty getting back online soon. We continue to monitor this situation and do what we can to assist our customers as they rebuild, but at this point we do not expect any losses.

And after nine quarters no 60-day delinquencies in the at-risk portfolio, we finally had a default during the third quarter on a $6 million Fannie Mae loan backed by a property in Louisiana. The default was not hurricane-related and resulted in only a small increase in provision for credit losses as the loan had been on our watch list for some time.

We knew we would have a default at some point as we have had an exceptional period of credit performance. The overall credit quality of the portfolio remains stellar and our underwriting remains highly disciplined with debt service coverage ratio of 1.41 times and LTVs of 65% on all GSE lending during the quarter.

As outlined on Slide 7, the growth in loan originations and servicing related fees continues to drive dramatic growth in adjusted EBITDA, which totaled $45 million this quarter, an increase of $9 million from Q3 2016. Net new MSRs, an indicator of forward cash servicing revenues were $15 million in the quarter, meaning we should see additional growth in the servicing fees over the coming quarters based on the MSRs we added in Q3.

Our current platforms cash generating power should only increase as we continue to execute on our strategy of growing our origination platform and the related servicing revenue stream. In July, we moved $120 million of loans from our interim loan portfolio into our joint venture with Blackstone, returning around $30 million of cash to our balance sheet. We ended the quarter with $85 million of cash and another $64 million used to sell fund agency loans at quarter end for a total unrestricted cash available to us of $149 million at September 30.

During the quarter, we used $11 million of cash, buyback of 228,000 shares at an average price of $47.07 per share, leaving us with $64 million of board authorized share repurchase capacity. Since the beginning of 2014, we have strategically repurchased 6.1 million shares of our stock at a weighted-average price of $16.81. Based on yesterday's closing share price that is a return of 224%.

With the combination of our current cash position, the growth in adjusted EBITDA, and our low leverage, we have a great deal of financial flexibility to continue making capital allocation decisions that increase shareholder value. The third quarter was wildly successful from both the financial and strategic standpoint. We feel well-positioned for a strong finish to the year and we are optimistic about our ability to deliver industry-leading growth in 2018.

With that, let me turn the call back to Willy.

Willy Walker: Thanks, Steve. We cannot continue delivering the fantastic financial results Steve just described without the highly talented people of Walker & Dunlop. We have built a corporate culture at W&D that is consistently recognized as exceptional, most recently ranking Number 13 on Fortune magazine's 2017 list of best workplaces, for the fifth time in six years. A great workplace with talented people is at the core of Walker & Dunlop's financial performance.

We spend a huge amount of time and energy investing in the success and well-being of our people, and the financial results have clearly followed. Walker & Dunlop was just ranked Number 17 on Fortune magazine's list of fastest growing companies based on three-year growth rates in revenues, earnings per share, and total shareholder return that is amongst all publicly traded companies on US exchanges and puts us in the Top 20, along with Facebook and Amazon.com.

As you can see on Slide 8, Walker & Dunlop's 3-year compound annual growth rates and total revenues, net income, and adjusted EBITDA of 24%, 43%, and 29%, respectively, reflected dramatic topline growth, due to our brand capabilities in hiring, bottom-line growth due to exceptional management and teamwork, and growth in cash flow and adjusted EBITDA due to our unique and highly profitable business model.

As you can see on the far-right side of this slide, all of that is translated into spectacular total shareholder return of 44% per year from year-end 2014 through September 30, 2017. It takes a long time and a lot of effort to build the type of team and capabilities we have assembled at W&D, but once you have them, if you can maintain the culture and what makes you special, you have the opportunity to continue scaling the business for many years to come.

As we look forward, we believe the commercial real estate market will continue to be healthy and very active with regard to financing and investment sales activity. In Preqin's June 2017 investor survey 72% of respondents said that they plan to maintain or increase their capital allocation in the commercial real estate in the next 12 months, compared to the previous 12 months.

At the end of Q3 there was $147 billion of dry powder in private equity funds focused on commercial real estate in North America. This high investor demand has driven commercial real estate prices up, but unlike past cycles, where asset values have driven a breakdown in lending fundamentals. We have not seen that in any of the commercial real estate lending we are involved with.

In our GSE lending where we take risk, as Steve previously mentioned, our Q3 average loan to value was 65%, and our average debt service coverage was 1.41 times. The investors winning deals today, particularly in the multifamily space, are not those with more debt, but rather those with the cheaper cost of equity. And as global capital continues to seek yield in US commercial real estate, we expect to see this trend continue.

I would also add two other reasons why underwriting has not deteriorated. First, the memory of the financial crisis is still very present in the minds of professionals in the commercial real estate financing industry. And second, CMBS lenders have not played a significant role in commercial real estate lending today as expected. And as a result, have not driven underwriting standards down.

As seen in our year-to-date transaction volumes, we have been successful at dramatically growing our brokered loan originations on all commercial real estate asset classes, and we will continue to expand this business across the country going forward. Yet our core lending business and the real driver of Walker & Dunlop's financial performance is the multifamily market with 84% of our year-to-date loan originations, and 100% of our investment sales activity being on multi-family properties.

I'd ask you to please turn to Slide 9 for a moment as we discuss the strong fundamentals of the multifamily market. As you can see, since 2005, Renter Households in the United States have grown by 9.2 million, while single-family households have grown by only 262,000, producing a 5% decrease in the homeownership rate down to 63.9% today.

A recent Freddie Mac survey on US rentership revealed that both a lack of affordability, and a change in preferences could be shifting Americans away from home ownership. The survey showed that a vast and growing majority of renters believe that renting is more affordable than owning, and only 14% of current renters surveyed are actively working towards homeownership, down significantly from 21% in January of last year.

As depicted on Slide 10, the perception that renting is the more affordable housing option has increased considerably in the past year for renters across all the major age cohorts; millennials, Gen Xers, I'd ask you to note for a moment the dramatic jump from 56% to 75% in only 11 months for this cohort and baby boomers.

On the right side of this slide, you can see that rentership is up across all age groups from 2006 to 2016. Some of the key reasons for the growth in rentership is that owning a home has become unattainable for many Americans, due to increasing home prices, flat wages, higher down-payment requirements, and a lack of supply of new affordable starter homes. I want to focus for a moment on the lack of supply of starter homes, and would ask you to turn to Slide 11.

Really look at this slide for it shows the dramatic shift in the type of single-family housing being built today versus 2002. In 2002, 54% of the single-family homes constructed cost less than $200,000. By 2016 the landscape shifted dramatically, with only 17% of the new supply price below $200,000. This change in price point by single-family developers is due to several factors.

First, regulatory changes have made getting a mortgage for less qualified buyers far more difficult, driving demand to the high-end of the market. Second, the land entitlement process to develop single family homes has gotten far more difficult and costly. The recent acquisition of CalAtlantic by Lennar is case in point for the slow land entitlement process.One of Lennar's stated reasons for acquiring CalAtlantic was for its inventory of entitled land.

And third, construction costs have gone way up and will continue to rise as communities damaged by the 2017 hurricanes are rebuilt. From our perspective, these factors are unlikely to change soon. And with slow wage growth and unprecedented levels of student debt, renting appears to be the only viable housing choice for a large percentage of the American population.

I'd like to summarize for a moment a few of the core competitive advantages of Walker & Dunlop. We have one of the strongest brands in the multifamily industry, placing us at the very top of the league tables with Fannie, Freddie, and HUD. We will collectively supply over 50% of the capital to the multifamily industry in 2017. We've expanded our client base to include the very largest and most sophisticated, private, and institutional investors in rental housing.

We have grown our loan originations, revenues, net income, and EBITDA dramatically faster than our industry and competitive peer group, and currently sit on Fortunes list of fastest growing companies, with the largest technology and healthcare companies in the world. Our business is predominantly focused on the multifamily sector, where cyclicality is greatly diminished, and where disruptive technology such as WeWork, Airbnb, Amazon.com are not impacting asset values or transaction volumes like they are in the office, hospitality, and retail sectors.

And we have a unique business model where we make money while we sleep, rather than solely when we are originating a new mortgage or selling an asset. You add to these competitive advantages our best-in-class people and a great place to work and we should be able to continue scaling this company dramatically over the coming years. I'd like to finish this call by wishing my father and aunt Betsy, a happy November 8. They are the only two people still with us who have watched this company evolve over the past 80 years.

I can assure you that neither of them ever thought Walker & Dunlop would look like it does today. I can also assure you that if we continue to attract great talent, maintain the corporate culture we have built, and continue to exceed our clients' expectations each and every day that Walker & Dunlop 10 years from now will look as different from today, as today looks from November 8, 1937.

Thank you all for joining us this morning, and many congratulations to all of my colleagues at W&D for another fantastic quarter. I'd like to ask the operator to now open up the lines for any questions.

Operator: [Operator Instructions] We can take our first question from Jade Rahmani with KBW. Please go ahead. Your line is open.

Jade Rahmani: Thanks very much. 2017 is clearly a banner year for Walker & Dunlop, so congratulations. Just looking forward with transaction volume growth of around 50%, how do you think about driving the business in the years ahead? Is the primary strategy to recruit new brokers and get increased productivity by putting them on the Walker & Dunlop platform or do you see opportunities to broaden the strategic mandate to look outside a traditional business lines such as property management, leasing, outsourcing or perhaps team up with a broader diversified real estate service firm?

Willy Walker: Good morning, Jade, and thanks for being on the call. I'd first note that we are still a relatively small company, and so even though our growth is outpaced our industry rivals and many of whom have, if you will bigger brand and more feet on the street, we have been able to grow faster because of our relative size, and today with just over 140 bankers and brokers across the country, if you look at that and compare that to some of our larger competitors some of them have that many people in one office and one regional office if you will. And so, our ability to continue to attract talented bankers and brokers, I think, while if not unlimited it gives us a lot of runway to continue to grow.

The second thing is, as you know, we have been an acquisitive company, we've acquired six companies over the last eight years, and when we acquire companies we have seen in the first year on the Walker & Dunlop platform an uptick of greater than 20% for those companies that we've gone and acquired. So, there is great advantage to smaller companies becoming part of Walker & Dunlop and if you will, taking their game to a whole different level.

So, we will continue to look for companies to acquire that have both great people and then if you will a similar culture to Walker & Dunlop because as both Steve and I talked about on this call, one of the most important things that makes us, I believe a very different company is the culture we have been able to develop over our 80-year history and more specifically over the last 10 years as we've become an acquisitive company and bought a new talent.

Your question as it relates to entering other businesses, as I hope was pretty evident in our comments, you know our strategy is to be the premier commercial real estate finance company in the United States and that mission statement not only states what we want to be, but also should tell people where we don't want to be. It does not say that we want to be the premier commercial real estate services firm in the United States.

So, some of the product lines if you will or services that you just mentioned in your question are not spaces that we want to go. They are much lower margin, they require significantly more people, and we want to be the very best finance company, which is financing in investment sales in the commercial real estate space.

So, I think you will see us add additional products and services to make us more relevant to our customers, as it relates to financing, and investment sales, but I would be very surprised if we expand out beyond that core mission.

Jade Rahmani

Thanks, very much. And based on your conversations with the industry, your brokers, institutional investors, and perhaps the GSE's, are you expecting overall commercial real estate transaction activity in 2018 to be similar to 2017 and can you also comment on the outlook for a Multifamily origination?

Willy Walker: Yes. As it relates to the overall market Jade, you have clearly been on a lot of conference calls over the last couple of weeks just as we have been listening to, and I think the overall outlook is quite positive both globally and then more specifically in the United States where we operate solely. As it relates to overall transaction volumes in listening to other calls, I think most people feel that 2018 is going to be a strong year, not dramatic growth, but growth in various product lines.

As it relates to our specific space in Multifamily, we look at two projections, the Mortgage Bankers Association survey, as well as the Freddie Mac surveys, those seem to be the two best at predicting the market. And for the past several years, the Freddie Mac estimates have been better or more accurate as it relates to predicting the size of the market then the MBA numbers. MBA just revised their 2016 numbers up as you may know, and so they added, I believe $11 billion to bring their 2016 numbers up to the low $260 billion number.

Freddie Mac as we show, I can't remember what slide we have the numbers, we did not have - it is not on the slides, sorry, but the Freddie Mac estimates for 2017, Jade, I believe are about 280 billion and they have that growing up close to 300 billion in the coming year, I think it's 305 billion.

And so, both MBA as well as Freddie Mac believe there is growth in the Multifamily market coming in 2018, and I just say that given our competitive positioning and the growth that we've seen, we obviously would love to see the overall market expand, but we also believe that we will be able to continue to gain market share almost regardless of overall market growth, just because of the strength of the platform, and the reputation we were able to build.

I would also add to that Jade that - I would underscore, doing the Greystar's transaction in Q3 we've told investors and we've told analysts alike that we are really making a push into that larger institutional marketplace, and I think our joint venture with Blackstone, the Greystar transaction in Q3, those are two if you will, marquee deals with some of the largest industries in Multifamily in the world, and we will continue to focus on those and I think that that presents great opportunities for increased market share for W&D.

Jade Rahmani: And can you also touch on Fannie Mae originations, I think for the market they declined about 10%, but they did have an exceptionally strong 1Q, is anything going on in Fannie Mae with respect to the market or is it just the timing factor?

Willy Walker: It's just a timing factor. As we discussed before Jade, Fannie and Freddie both sort of come in and out of the market to various times. One of them will have a product, will have pricing that is significantly being the other for a period of time, it almost goes on a quarterly basis, but it's not quite that. If you will clean, but Fannie had a very, very strong start to 2017. And as you saw, we did a huge amount of volume with Fannie in Q1 and Q2. Q3 Freddie came into the market.

Freddie had a great quarter. we did $4 billion of originations with Freddie in Q3, and I put forth to you that both of them right now are looking at their 2017 caps, and they are both, if you will, managing their overall deal flow numbers to be able to end the year strong, to be able to use up all the cap space that they have, and I'm pretty sure you've done the analysis as it relates to how much cap space they both have for the fourth quarter, and it's very sizable. Both of them have a lot of additional cap space for Q4 originations. So, as Steve and I both said, they are both very active in the market right now.

Jade Rahmani: Thanks very much for taking the question.

Willy Walker: Thanks Jade.

Operator: [Operator Instructions] We will go next to Steve DeLaney with JMP Securities. Please go ahead.

Steve DeLaney: Good morning and happy birthday and congratulations on a great quarter. So, you covered a lot of what I wanted to talk about with Jade, but Just picking up a little bit on the MBA forecast, Willy, one thing I noted in that October 26 release from MBA was that they were talking about $271 billion this year, 73% of a total CRE, pie of a 515 billion, but what I was reading that was to say was, they are expecting sort of flattish overall for a combined CRE and MF in 2018, but I'm looking at the exact words in the press release. they said Multifamily lending is expected to slow slightly in 2018, and I assume that's from that $271 billion figure. I was just curious if you've spoken to them and to discuss why, what are they saying in the market that Freddie Mac is not, given the significant growth that Freddie is predicting? thanks.

Willy Walker: Yes, sure Steve. First of all, I think the word of Jamie Woodwell, who is the Chief Economist in MBA and focuses on the commercial market, and I think Jamie has done great work, but he has been consistently underestimating the size of the market. And I would just put forth to you that Jamie has the responsibility to look at the overall commercial real estate market, and Freddie Mac is focused solely on the Multifamily market. And Freddie's numbers have just been more accurate.

I don't, it's hard to project forward at this point, but one thing - I did have a conversation at the Freddie Mac conference Steve with a number of other Freddie Mac solicitor services CEOs, and was talking about - right now in commercial real estate overall the cycle time or commercial real estate loans is about four in the Multifamily space. So, if you look at $1.2 trillion of total Multifamily debt outstanding and we're doing somewhere between $250 billion and $275 billion a year, right. So, you're turning all of that about once every four years. And my comment was, if interest rates start to move up that cycle time will expand out because people looking to refi will sit there and say, well I don't know on a refi right now, I'm going to hold on to this loan.

So, some of that refi activity would fall off and therefore the cycle time would push out from four years to maybe 4.25 years, 4.5 years, which would naturally bring down the overall volume. And I will tell you Steve, I was the lone voice in the room, as it relates to any slowdown in overall multifamily activity, and my colleagues from both commercial banks, as well as real-estate services firms all said that they are actually seeing the exact opposite, which is more transaction volume, generating more financing activity, and nobody seemed to buy into the rising interest rate slowing down both financing for acquisitions or financing for refi's.

The one other thing I'd put out there is that you have to keep in mind as well that there are - there is a lot of interest-only on a lot of loans that are outstanding, particularly in the Freddie Mac book, and many borrowers will sit there and ride out the interest only period and then when the interest only period expires they will go and refinance that loan to pick up more I/O. And so, the other thing that Freddie Mac can somewhat uniquely look into is how much of their book has I/O on it and when borrowers will likely step up and say my I/O period is about to expire, I want to go refinance that loan to pick up some more I/O.

Steve DeLaney: That's very helpful color on sort of the nuances of it, and I think we will look towards the Freddie numbers when we start projecting out to next year.

I wanted to get a reconciliation of the broker headcount. The press release indicated average bankers and brokers of 142 and the Slide 4, you were comparing same-store sales showed 131, and is that difference just that investments sales brokers are not included in the 131 on Slide 4?

Steve Theobald: That's exactly right Steve.

Steve DeLaney: Okay, got it. And Willy, you haven't - your outlook is obviously for growth, I haven't heard anything specifically about headcount. Can you comment on as you plan for 2018, have you set - do you plan to set a goal for the percentage increase in bankers and brokers for next year?

Willy Walker: Yes. We were planning on doing that in our Q4 call in February, Steve. We will lay out the 2018 goals and objectives as we've done consistently, but I just say to you that you should expect us to have a goal that's very similar to what we've had in 2017. I think the big issue as it relates to growth as I said in responding to Jade's question; a, the strength of the platform right now and we have a lot of interest in people joining Walker & Dunlop. We've grown faster than everybody else, we've created a real competitive positioning.

And so, anyone who is focusing in the Multifamily space either on the debt side or in the investment sales side there's a real interest in, well why is Walker & Dunlop growing faster than my company and why are they doing more? And so that's going to, I think help us a lot as it relates to recruiting. And then the other is that on the M&A side as you know and have seen, we've been, I would say extremely good at acquiring companies and integrating those companies and maintaining the human capital that comes across with those companies.

And so, we're looking as you can imagine, and I'd say the other thing to keep in mind is, as Steve put forth in his comments on our balance sheet, the amount of cash flow that we're generating right now, and the lack of debt on our balance sheet, we have a lot of dry powder should we want to do a major acquisition.

And I'm not trying to say we've got anything on the horizon right now, but if the right opportunity came along, given our track record of acquiring companies and doubling the size of Walker & Dunlop when we brought Column from Credit Suisse and CW from Fortress, doing a very significant acquisition should not be something that - that is not something that should surprise investors when and if we do it in 2018 or beyond.

Steve DeLaney: Great. Well thank you both for the comments. In closing, I'd just say we applaud the share buyback and I think that sends a strong message to the street. Thank you.

Willy Walker: Thank you, Steve.

Operator: And it appears we have no further questions at this time. I'll return the floor to Willy Walker for additional or closing remarks.

Willy Walker: Great. Thank you, Keith very much for hosting the call this morning, and thank you everyone for joining us. A great quarter. I'd reiterate my congratulations to my colleagues at W&D, job very, very well done. And I might also reiterate the happy birthday message. There are not many companies that get to celebrate 80 years in business, and we are very fortunate to be one of the few. So, to all of you on the call, and to my colleagues at W&D, and to my Aunt Betsy and my dad, happy 80th birthday W&D. Thanks everyone. Have a good day.

Operator: And this will conclude today's teleconference. Thank you for your participation. You may now disconnect.