Walker & Dunlop, Inc.
Form 10-Q
August 01, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from to

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

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

7501 Wisconsin Avenue, Suite 1200E

Bethesda, Maryland 20814

(301) 215-5500

(Address of principal executive offices and registrant's telephone number, including area code)

Not Applicable

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

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

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

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

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

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

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

As of July 25, 2018, there were 31,267,236 total shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Cash and cash equivalents	$ 81,531	$ 191,218
Restricted cash	29,986	6,677
Pledged securities, at fair value	105,803	97,859
Loans held for sale, at fair value	1,257,256	951,829
Loans held for investment, net	130,397	66,510
Servicing fees and other receivables, net	44,804	41,693
Derivative assets	26,632	10,357
Mortgage servicing rights	638,914	634,756
Goodwill and other intangible assets	157,240	124,543
Other assets	88,017	82,985
Total assets	$ 2,560,580	$ 2,208,427
Liabilities		
Accounts payable and other liabilities	$ 188,321	$ 238,538
Performance deposits from borrowers	29,083	6,461
Derivative liabilities	8,669	1,850
Guaranty obligation, net of accumulated amortization	42,470	41,187
Allowance for risk-sharing obligations	4,070	3,783
Warehouse notes payable	1,250,642	937,769
Note payable	163,704	163,858
Total liabilities	$ 1,686,959	$ 1,393,446
Equity		
Preferred shares, authorized 50,000; none issued.	$ —	$ —
Common stock, $0.01 par value. Authorized 200,000; issued and outstanding 30,390 shares at June 30, 2018 and 30,016 shares at December 31, 2017.	304	300
Additional paid-in capital	234,564	229,080
Accumulated other comprehensive income (loss) ("AOCI")	(87)	93
Retained earnings	633,508	579,943
Total stockholders' equity	$ 868,289	$ 809,416
Noncontrolling interests	5,332	5,565

Total equity	$ 873,621	$ 814,981
Commitments and contingencies (NOTE 10)	—	—
Total liabilities and equity	$ 2,560,580	$ 2,208,427

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share data)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenues				
Gains from mortgage banking activities	$ 102,237	$ 102,176	$ 183,746	$ 198,608
Servicing fees	49,317	43,214	97,357	84,739
Net warehouse interest income	2,392	5,800	4,249	12,420
Escrow earnings and other interest income	9,276	4,514	16,624	7,806
Other	14,982	10,703	23,680	21,346
Total revenues	$ 178,204	$ 166,407	$ 325,656	$ 324,919
Expenses				
Personnel	$ 71,426	$ 63,516	$ 126,699	$ 119,688
Amortization and depreciation	35,489	32,860	69,124	65,198
Provision (benefit) for credit losses	800	(93)	323	(225)
Interest expense on corporate debt	2,343	2,443	4,522	4,846
Other operating expenses	15,176	11,599	28,127	23,207
Total expenses	$ 125,234	$ 110,325	$ 228,795	$ 212,714
Income from operations	$ 52,970	$ 56,082	$ 96,861	$ 112,205
Income tax expense	11,937	21,570	19,121	34,633
Net income before noncontrolling interests	$ 41,033	$ 34,512	$ 77,740	$ 77,572
Less: net income (loss) from noncontrolling interests	(79)	(55)	(233)	(216)
Walker & Dunlop net income	$ 41,112	$ 34,567	$ 77,973	$ 77,788
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains and losses on pledged available-for-sale securities	(53)	8	(180)	8
Walker & Dunlop comprehensive income	$ 41,059	$ 34,575	$ 77,793	$ 77,796
Basic earnings per share	$ 1.36	$ 1.15	$ 2.59	$ 2.60
Diluted earnings per share	$ 1.28	$ 1.08	$ 2.44	$ 2.43
Cash dividends declared per common share	$ 0.25	$ —	$ 0.50	$ —
Basic weighted average shares outstanding	30,248	30,131	30,116	29,971
Diluted weighted average shares outstanding	32,154	32,097	32,009	32,067

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	For the six months ended June 30, 2018	2017
Cash flows from operating activities		
Net income before noncontrolling interests	$ 77,740	$ 77,572
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gains attributable to the fair value of future servicing rights, net of guaranty obligation	(79,737)	(90,204)
Change in the fair value of premiums and origination fees	(3,527)	1,921
Amortization and depreciation	69,124	65,198
Provision (benefit) for credit losses	323	(225)
Other operating activities, net	(318,073)	365,850
Net cash provided by (used in) operating activities	$ (254,150)	$ 420,112
Cash flows from investing activities		
Capital expenditures	$ (1,151)	$ (2,049)
Purchases of pledged available-for-sale securities	(38,566)	—
Funding of preferred equity investments	(1,100)	(11,385)
Distributions from Interim Program JV	1,209	—
Acquisitions, net of cash received	(33,102)	(15,000)
Purchase of mortgage servicing rights	(1,814)	—
Originations of loans held for investment	(151,754)	(167,079)
Principal collected on loans held for investment upon payoff	87,688	100,980
Net cash provided by (used in) investing activities	$ (138,590)	$ (94,533)
Cash flows from financing activities		
Borrowings (repayments) of warehouse notes payable, net	$ 323,153	$ (414,266)
Borrowings of interim warehouse notes payable	50,455	128,660
Repayments of interim warehouse notes payable	(61,049)	(75,615)
Repayments of note payable	(552)	(552)
Proceeds from issuance of common stock	8,067	2,885
Repurchase of common stock	(21,457)	(17,590)
Cash dividends paid	(15,699)	—
Payment of contingent consideration	(5,150)	—
Debt issuance costs	(1,881)	(1,053)
Net cash provided by (used in) financing activities	$ 275,887	$ (377,531)

Net increase (decrease) in cash, cash equivalents, restricted cash, and restricted cash equivalents (NOTE 2)	$ (116,853)	$ (51,952)
Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period	286,680	211,359
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	$ 169,827	$ 159,407
Supplemental Disclosure of Cash Flow Information:		
Cash paid to third parties for interest	$ 21,338	$ 22,513
Cash paid for income taxes	31,299	27,748

See accompanying notes to condensed consolidated financial statements.

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NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

These financial statements represent the condensed consolidated financial position and results of operations of Walker & Dunlop, Inc. and its subsidiaries. Unless the context otherwise requires, references to "we," "us," "our," "Walker & Dunlop" and the "Company" mean the Walker & Dunlop consolidated companies. The statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"). In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or thereafter.

Walker & Dunlop, Inc. is a holding company and conducts the majority of its operations through Walker & Dunlop, LLC, the operating company. Walker & Dunlop is one of the leading commercial real estate services and finance companies in the United States. The Company originates, sells, and services a range of multifamily and other commercial real estate financing products, provides multifamily investment sales brokerage services, and engages in commercial real estate investment management activities. The Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), the Government National Mortgage Association ("Ginnie Mae"), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, "HUD"). The Company brokers, and in some cases service, loans for various life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases the Company does not fund the loan. The Company also offers a proprietary loan program offering interim loans (the "Interim Program"). During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation and subsidiaries ("JCR"), the operator of a private commercial real estate investment adviser. JCR, a wholly-owned subsidiary, is engaged in the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The condensed consolidated financial statements include the accounts of Walker & Dunlop, Inc., its wholly owned subsidiaries, and its majority owned subsidiaries. All intercompany transactions have been eliminated in consolidation. When the Company has significant influence over operating and financial decisions for an entity but does not have control over the entity or own a majority of the voting interests, the Company accounts for the investment using the equity method of accounting.

Subsequent Events—The Company has evaluated the effects of all events that have occurred subsequent to June 30, 2018. There have been no material events that would require recognition in the condensed consolidated financial statements. The Company has made certain disclosures in the notes to the condensed consolidated financial statements of events that have occurred subsequent to June 30, 2018. No other material subsequent events have occurred that would require disclosure.

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

Contracts with Customers—Substantially all of the Company's revenues are derived from the following sources, all of which are excluded from the accounting provisions applicable to contracts with customers: (i) financial instruments, (ii) transfers and servicing, (iii) derivative transactions, and (iv) investments in debt securities/equity-method investments. The remaining portion of revenues is not significant and derived from contracts with customers. The Company's contracts with customers do not require significant judgment or estimates that affect the determination of the transaction price (including the assessment of variable consideration), the allocation of the transaction price to performance obligations, and the determination of the timing of satisfaction of performance obligations. Additionally, the earnings process for the Company's contracts with customers is not complicated and is completed in a short period of time. The Company had no contract assets or liabilities as of June 30, 2018 and December 31, 2017. The following table presents information about the Company's contracts with customers for the three and six months ended June 30, 2018 and 2017:

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(in thousands)	For the three months ended June 30,		For the six months ended June 30,		
Description	2018	2017	2018	2017	Statement of income line item
Certain loan origination fees	$ 12,371	$ 13,380	$ 23,656	$ 23,452	Gains from mortgage banking activities
Investment sales broker fees, assumption fees, application fees, and other	8,092	4,477	12,417	9,418	Other revenues
Total revenues derived from contracts with customers	$ 20,463	$ 17,857	$ 36,073	$ 32,870	

Loans Held for Investment, net—Loans held for investment are multifamily loans originated by the Company through the Interim Program for properties that currently do not qualify for permanent GSE or HUD (collectively, the "Agencies") financing. These loans have terms of generally up to three years and are all multifamily loans with similar risk characteristics. As of June 30, 2018, Loans held for investment, net consisted of 11 loans with an aggregate $131.0 million of unpaid principal balance less $0.5 million of net unamortized deferred fees and costs and $0.1 million of allowance for loan losses. As of December 31, 2017, Loans held for investment, net consisted of five loans with an aggregate $67.0 million of unpaid principal balance less $0.4 million of net unamortized deferred fees and costs and $0.1 million of allowance for loan losses.

None of the loans held for investment was delinquent, impaired, or on non-accrual status as of June 30, 2018 or December 31, 2017. Additionally, we have not experienced any delinquencies related to these loans or charged off any loan held for investment since the inception of the Interim Program in 2012. The allowances for loan losses recorded as of June 30, 2018 and December 31, 2017 were based on the Company's collective assessment of the portfolio.

Provision (Benefit) for Credit Losses—The Company records the income statement impact of the changes in the allowance for loan losses and the allowance for risk-sharing obligations within Provision (benefit) for credit losses in the Condensed Consolidated Statements of Income. NOTE 5 contains additional discussion related to the allowance for risk-sharing obligations. Provision (benefit) for credit losses consisted of the following activity for the three and six months ended June 30, 2018 and 2017:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Provision (benefit) for loan losses	$ 79	$ (215)	$ 66	$ (190)
Provision (benefit) for risk-sharing obligations	721	122	257	(35)
Provision (benefit) for credit losses	$ 800	$ (93)	$ 323	$ (225)

Net Warehouse Interest Income—The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans held for sale and loans held for investment. Substantially all loans that are held for sale are financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. A portion of all loans that are held for investment is financed with matched borrowings under our warehouse facilities. The portion of loans held for sale or investment not funded with matched borrowings is financed with the Company's own cash. Warehouse interest expense is incurred on borrowings used to fund loans solely while they are held for sale or for investment. Warehouse interest income and expense are earned or incurred on loans held for sale after a loan is closed and before a loan is sold. Warehouse interest income and expense are earned or incurred on loans held for investment during the period of time the loan is outstanding. Included in Net warehouse interest income for the three and six months ended June 30, 2018 and 2017 are the following components:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Warehouse interest income - loans held for sale	$ 11,382	$ 9,413	$ 20,146	$ 21,353
Warehouse interest expense - loans held for sale	(9,900)	(6,983)	(17,555)	(15,248)
Net warehouse interest income - loans held for sale	$ 1,482	$ 2,430	$ 2,591	$ 6,105
Warehouse interest income - loans held for investment	$ 1,647	$ 5,315	$ 3,068	$ 9,993
Warehouse interest expense - loans held for investment	(737)	(1,945)	(1,410)	(3,678)
Net warehouse interest income - loans held for investment	$ 910	$ 3,370	$ 1,658	$ 6,315
Total net warehouse interest income	$ 2,392	$ 5,800	$ 4,249	$ 12,420

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Income Taxes—The Company records the excess tax benefits from stock compensation as a reduction to income tax expense. The Company recorded excess tax benefits of $1.7 million and $0.1 million during the three months ended June 30, 2018 and 2017, respectively, and $5.8 million and $8.8 million during the six months ended June 30, 2018 and 2017, respectively.

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

	June 30,		December 31,	
(in thousands)	2018	2017	2017	2016
Pledged cash and cash equivalents:				
Cash	$ 3,238	$ 1,761	$ 2,201	$ 4,358
Money market funds	55,072	88,540	86,584	78,384
Total pledged cash and cash equivalents	$ 58,310	$ 90,301	$ 88,785	$ 82,742
Agency debt securities	47,493	2,100	9,074	2,108
Total pledged securities, at fair value	$ 105,803	$ 92,401	$ 97,859	$ 84,850

The money market funds invest in short-term Federal Government and Agency debt securities and have no stated maturity date. The investments in Agency debt securities consist of multifamily Agency mortgage-backed securities (“Agency MBS”) and have maturity dates ranging primarily from 2021 to 2030. As of June 30, 2018 and December 31, 2017, the fair value of the Agency debt securities approximated their amortized cost. As of June 30, 2018 and December 31, 2017, the total gains for securities with net gains in AOCI was $0.1 million and $0.1 million, respectively. As of June 30, 2018 and December 31, 2017, the total losses for securities with net losses in AOCI were $0.1 million and zero, respectively. As of June 30, 2018, the Company does not intend to sell any of the Agency debt securities, nor does the Company believe that it is more likely than not that it would be required to sell these investments before recovery of their amortized cost basis, which may be at maturity.

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

	June 30,		December 31,	
(in thousands)	2018	2017	2017	2016
Cash and cash equivalents	$ 81,531	$ 53,338	$ 191,218	$ 118,756
Restricted cash	29,986	15,768	6,677	9,861
Pledged cash and cash equivalents	58,310	90,301	88,785	82,742

Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$ 169,827	$ 159,407	$ 286,680	$ 211,359

Recently Announced Accounting Pronouncements—In the first quarter of 2016, Accounting Standards Update 2016-02 (“ASU 2016-02”), Leases (Topic 842) was issued. ASU 2016-02 represents a significant reform to the accounting for leases. Lessees initially recognize a lease liability for the obligation to make lease payments and a right-of-use (“ROU”) asset for the right to use the underlying asset for the lease term. The lease liability is measured at the present value of the lease payments over the lease term. The ROU asset is measured at the lease liability amount, adjusted for lease prepayments, lease incentives received, and the lessee’s initial direct costs. Lessees generally recognize lease expense for these leases on a straight-line basis, which is similar to the accounting treatment today. ASU 2016-02 requires additional disclosures and is effective for the Company January 1, 2019. The new lease standard requires entities to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with a cumulative-effect adjustment to retained earnings recorded at the earliest comparative period. The Financial Accounting Standards Board (“FASB”) recently issued a proposed update to ASU 2016-02 that would provide companies with the option to apply a practical expedient that allows adoption of the provisions of ASU 2016-02 prospectively with a cumulative-effect adjustment recorded to retained earnings upon the date of adoption.

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

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

The Company plans on adopting ASU 2016-13 when the standard is required to be adopted, January 1, 2020. The Company is in the preliminary stages of implementation as it is still in the process of determining the significance of the impact the Standard will have on its financial statements and the timing of when it will adopt ASU 2016-13. The Company expects its allowance for risk-sharing obligations to increase when ASU 2016-13 is adopted.

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

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

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

NOTE 3—GAINS FROM MORTGAGE BANKING ACTIVITIES

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

(in thousands)	For the three months ended June 30, 2018	2017	For the six months ended June 30, 2018	2017
Contractual loan origination related fees, net	$ 55,193	$ 57,507	$ 104,009	$ 108,404
Fair value of expected net cash flows from servicing recognized at commitment	51,725	48,318	86,953	96,995
Fair value of expected guaranty obligation recognized at commitment	(4,681)	(3,649)	(7,216)	(6,791)
Total gains from mortgage banking activities	$ 102,237	$ 102,176	$ 183,746	$ 198,608

The origination fees shown in the table are net of co-broker fees of $6.9 million and $6.5 million for the three months ended June 30, 2018 and 2017, respectively, and $12.4 million and $10.2 million for the six months ended June 30, 2018 and 2017, respectively.

NOTE 4—MORTGAGE SERVICING RIGHTS

Mortgage servicing rights (“MSRs”) represent the carrying value of the servicing rights retained by the Company for mortgage loans originated and sold. The initial capitalized amount is equal to the estimated fair value of the expected net cash flows associated with the servicing rights. MSRs are amortized using the interest method over the period that servicing income is expected to be received.

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The fair values of the MSRs at June 30, 2018 and December 31, 2017 were $842.6 million and $834.5 million, respectively. The Company uses a discounted static cash flow valuation approach, and the key economic assumption is the discount rate. For example, see the following sensitivities:

The impact of a 100-basis point increase in the discount rate at June 30, 2018 is a decrease in the fair value of $28.4 million.

The impact of a 200-basis point increase in the discount rate at June 30, 2018 is a decrease in the fair value of $54.7 million.

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

Activity related to capitalized MSRs for the three and six months ended June 30, 2018 and 2017 is shown in the table below:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Beginning balance	$ 631,031	$ 562,530	$ 634,756	$ 521,930
Additions, following the sale of loan	42,559	44,650	73,481	117,574
Purchases	1,814	—	1,814	—
Amortization	(32,801)	(29,325)	(64,962)	(58,224)
Pre-payments and write-offs	(3,689)	(4,696)	(6,175)	(8,121)
Ending balance	$ 638,914	$ 573,159	$ 638,914	$ 573,159

The following tables summarize the components of the net carrying value of the Company's acquired and originated MSRs as of June 30, 2018 and December 31, 2017:

	As of June 30, 2018		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Acquired MSRs	$ 185,529	$ (130,584)	$ 54,945
Originated MSRs	860,106	(276,137)	583,969
Total	$ 1,045,635	$ (406,721)	$ 638,914

	As of December 31, 2017		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Acquired MSRs	$ 183,715	$ (121,643)	$ 62,072
Originated MSRs	820,137	(247,453)	572,684
Total	$ 1,003,852	$ (369,096)	$ 634,756

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

(in thousands)	Originated MSRs Amortization	Acquired MSRs Amortization	Total MSRs Amortization
Six Months Ending December 31, 2018	$ 57,405	$ 5,626	$ 63,031
Year Ending December 31,			
2019	$ 105,354	$ 10,483	$ 115,837
2020	92,603	9,128	101,731
2021	80,878	7,688	88,566
2022	67,591	5,901	73,492
2023	56,169	5,129	61,298
Thereafter	123,969	10,990	134,959
Total	$ 583,969	$ 54,945	$ 638,914

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

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

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

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Beginning balance	$ 41,424	$ 35,311	$ 41,187	$ 32,292
Additions, following the sale of loan	3,287	3,046	5,070	7,736
Amortization	(1,950)	(1,885)	(3,757)	(3,466)
Other	(291)	20	(30)	(70)
Ending balance	$ 42,470	$ 36,492	$ 42,470	$ 36,492

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

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Beginning balance	$ 3,058	$ 3,546	$ 3,783	$ 3,613
Provision (benefit) for risk-sharing obligations	721	122	257	(35)
Write-offs	—	—	—	—
Other	291	(20)	30	70
Ending balance	$ 4,070	$ 3,648	$ 4,070	$ 3,648

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

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The Allowance for risk-sharing obligations as of June 30, 2018 is based primarily on the Company's collective assessment of the probability of loss related to the loans on the watch list as of June 30, 2018. As of June 30, 2018, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement was $6.2 billion. The maximum quantifiable contingent liability is not representative of the actual loss the Company would incur. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans were determined to be without value at the time of settlement.

NOTE 6—SERVICING

The total unpaid principal balance of the Company's servicing portfolio was $77.8 billion as of June 30, 2018 compared to $74.3 billion as of December 31, 2017.

NOTE 7—WAREHOUSE NOTES PAYABLE

At June 30, 2018, to provide financing to borrowers, the Company has arranged for warehouse lines of credit. In support of the Agencies' programs, the Company has committed and uncommitted warehouse lines of credit in the amount of $3.5 billion with certain national banks and a $1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). The Company has pledged substantially all of its loans held for sale against the Agency Warehouse Facilities. The Company has arranged for warehouse lines of credit in the amount of $0.3 billion with certain national banks to assist in funding loans held for investment under the Interim Program ("Interim Warehouse Facilities"). The Company has pledged substantially all of its loans held for investment against these Interim Warehouse Facilities. The maximum amount and outstanding borrowings under the warehouse notes payable at June 30, 2018 are shown in the table below:

	June 30, 2018					
(dollars in thousands) Facility1	Committed Amount	Uncommitted Amount	Temporary Increase	Total Facility Capacity	Outstanding Balance	Interest rate
Agency Warehouse Facility #1	$ 425,000	$ 300,000	$ —	$ 725,000	$ 200,652	30-day LIBOR plus 1.30%
Agency Warehouse Facility #2	500,000	300,000	—	800,000	204,359	30-day LIBOR plus 1.30%
Agency Warehouse Facility #3	500,000	265,000	—	765,000	375,701	30-day LIBOR plus 1.25%
Agency Warehouse Facility #4	350,000	—	—	350,000	209,517	30-day LIBOR plus 1.30%
Agency Warehouse Facility #5	30,000	—	—	30,000	18,978	

						30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	250,000	—	500,000	—	30-day LIBOR plus 1.35%
Agency Warehouse Facility #7	250,000	100,000	—	350,000	37,980	30-day LIBOR plus 1.30%
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	—	1,500,000	169,920	30-day LIBOR plus 1.15%
Total Agency Warehouse Facilities	$ 2,305,000	$ 2,715,000	$ —	$ 5,020,000	$ 1,217,107	
Interim Warehouse Facility #1	$ 85,000	$ —	$ —	$ 85,000	$ 10,290	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	—	100,000	24,662	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	—	—	75,000	—	30-day LIBOR plus 1.90% to 2.50%
Total Interim Warehouse Facilities	$ 260,000	$ —	$ —	$ 260,000	$ 34,952	
Debt issuance costs	—	—	—	—	(1,417)	
Total warehouse facilities	$ 2,565,000	$ 2,715,000	$ —	$ 5,280,000	$ 1,250,642	

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

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

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

During the first quarter of 2018, the Company executed a warehousing and security agreement to establish Agency Warehouse Facility #7. The warehouse facility has a committed $250.0 million maximum borrowing amount and is scheduled to mature on February 2, 2019. The Company can fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of LIBOR plus 130 basis points. The agreement provides $100.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

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

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

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

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

Activity related to goodwill for the six months ended June 30, 2018 and 2017 follows:

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

The addition from acquisitions during the six months ended June 30, 2018 shown in the table above relates to an immaterial acquisition completed on April 12, 2018. The Company purchased 100% of the equity interests of JCR for $35.0 million in cash consideration. Prior to the acquisition, JCR was a privately held, SEC-registered investment advisor focused on the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds. The acquisition is part of the Company’s strategy to grow and diversify the Company by building out an investment management platform and growing assets under management.

A significant portion of the value associated with JCR related to its assembled workforce and investment management platform, resulting in $30.0 million of goodwill. The Company expects none of the goodwill to be tax deductible. The other assets acquired included investment management contract intangible assets of $2.4 million, which was determined using the income approach (Level 3), $4.2 million of accounts receivable, which was determined using the market approach (Level 2), and immaterial balances related to other intangible assets and other assets. Liabilities assumed were immaterial. The Company allocated the purchase price to the assets acquired, separately identifiable intangible assets, and liabilities assumed based on their estimated acquisition-date fair values. The residual amount of the consideration transferred less the net assets acquired was recognized as goodwill. The operations of JCR have been merged into the Company’s existing operations. The goodwill resulting from the acquisition of JCR is allocated to the Company’s one reporting unit. Total revenues and income from operations related to JCR since the acquisition and the pro-forma incremental revenues and earnings related to JCR as if the JCR acquisition had occurred as of January 1, 2017 are immaterial. The Company has not completed the accounting for the JCR transaction as it is still waiting for (i) certain tax information from JCR’s final 2017 and partial-year 2018 tax returns and (ii) working capital adjustments to be finalized.

As of June 30, 2018, the Company has fully amortized all material intangible assets obtained from acquisitions prior to the JCR acquisition. As of June 30, 2018, the balance of intangible assets acquired in the JCR acquisition was $2.8 million, which will be amortized evenly over approximately the next five years. During the six months ended June 30, 2018, the Company paid $5.2 million to settle the contingent consideration liability from the first of three annual earn-out periods. No payments were made during the six months ended June 30, 2017. The balance of contingent consideration liabilities as of June 30, 2018 and 2017 was $9.4 million and $14.1 million, respectively, and consisted primarily of the amount initially recorded upon acquisition in the first quarter of 2017.

NOTE 9—FAIR VALUE MEASUREMENTS

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

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

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

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

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

- Loans Held for Sale—Loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using discounted cash flow models that incorporate quoted observable inputs from market participants. Therefore, the Company classifies these loans held for sale as Level 2.
- Pledged Securities—Investments in cash and money market funds are valued using quoted market prices from recent trades. Therefore, the Company classifies this portion of pledged securities as Level 1. The Company determines the fair value of its

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investments in Agency debt securities using discounted cash flows that incorporate observable inputs from market participants. Consequently, the Company classifies this portion of pledged securities as Level 2.
The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2018, and December 31, 2017, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value:

(in thousands)	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
June 30, 2018				
Assets				
Loans held for sale	$ —	$ 1,257,256	$ —	$ 1,257,256
Pledged securities	58,310	47,493	—	105,803
Derivative assets	—	—	26,632	26,632
Total	$ 58,310	$ 1,304,749	$ 26,632	$ 1,389,691
Liabilities				
Derivative liabilities	$ —	$ —	$ 8,669	$ 8,669
Total	$ —	$ —	$ 8,669	$ 8,669
December 31, 2017				
Assets				
Loans held for sale	$ —	$ 951,829	$ —	$ 951,829
Pledged securities	88,785	9,074	—	97,859
Derivative assets	—	—	10,357	10,357
Total	$ 88,785	$ 960,903	$ 10,357	$ 1,060,045
Liabilities				
Derivative liabilities	$ —	$ —	$ 1,850	$ 1,850
Total	$ —	$ —	$ 1,850	$ 1,850

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

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

	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments	
	For the three months ended	For the six months ended

(in thousands)	June 30, 2018	2017	June 30, 2018	2017
Derivative assets and liabilities, net				
Beginning balance	$ 12,962	$ 5,997	$ 8,507	$ 57,428
Settlements	(97,236)	(83,682)	(174,290)	(231,545)
Realized gains recorded in earnings (1)	84,274	77,685	165,783	174,117
Unrealized gains recorded in earnings (1)	17,963	24,491	17,963	24,491
Ending balance	$ 17,963	$ 24,491	$ 17,963	$ 24,491

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

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

	Quantitative Information about Level 3 Measurements			
(in thousands)	Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	$ 26,632	Discounted cash flow	Counterparty credit risk	—
Derivative liabilities	$ 8,669	Discounted cash flow	Counterparty credit risk	—

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

The carrying amounts and the fair values of the Company's financial instruments as of June 30, 2018 and December 31, 2017 are presented below:

	June 30, 2018		December 31, 2017	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 81,531	$ 81,531	$ 191,218	$ 191,218
Restricted cash	29,986	29,986	6,677	6,677
Pledged securities	105,803	105,803	97,859	97,859
Loans held for sale	1,257,256	1,257,256	951,829	951,829
Loans held for investment, net	130,397	131,029	66,510	66,963
Derivative assets	26,632	26,632	10,357	10,357
Total financial assets	$ 1,631,605	$ 1,632,237	$ 1,324,450	$ 1,324,903
Financial liabilities:				
Derivative liabilities	$ 8,669	$ 8,669	$ 1,850	$ 1,850
Warehouse notes payable	1,250,642	1,252,059	937,769	939,500
Note payable	163,704	165,671	163,858	166,223
Total financial liabilities	$ 1,423,015	$ 1,426,399	$ 1,103,477	$ 1,107,573

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

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

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

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

Loans Held for Investment—Consist of originated interim loans which the Company expects to hold for investment for the term of the loan, which is three years or less, and are valued using discounted cash flow models that incorporate primarily observable inputs from market participants and also credit-related adjustments, if applicable (Level 3). As of June 30, 2018 and December 31, 2017, no credit-related adjustments were required.

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

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Warehouse Notes Payable—Consist of borrowings outstanding under warehouse line agreements. The borrowing rates on the warehouse lines are based upon 30-day LIBOR plus a margin. The unpaid principal balance of warehouse notes payable approximates fair value because of the short maturity of these instruments and the monthly resetting of the index rate to prevailing market rates (Level 2).

Note Payable—Consists of borrowings outstanding under a term note agreement. The borrowing rate on the note payable is based upon 30-day LIBOR plus an applicable margin. The Company estimates the fair value by discounting the future cash flows at market rates (Level 2).

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

To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, the Company's policy is to enter into a sale commitment with the investor simultaneous with the rate lock commitment with the borrower. The sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration 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 Gains on mortgage banking activities in the Condensed Consolidated Statements of Income. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input levels includes, as applicable:

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

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

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

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

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

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		Fair Value Adjustment Components			Balance Sheet Location		
(in thousands)	Notional or Principal Amount	Estimated Gain on Sale	Interest Rate Movement	Total Fair Value Adjustment	Derivative Assets	Derivative Liabilities	Fair Value Adjustment To Loans Held for Sale
June 30, 2018							
Rate lock commitments	$ 975,210	$ 22,876	$ 3,252	$ 26,128	$ 26,128	$ —	$ —
Forward sale contracts	2,209,004	—	(8,165)	(8,165)	504	(8,669)	—
Loans held for sale	1,233,794	18,549	4,913	23,462	—	—	23,462
Total		$ 41,425	$ —	$ 41,425	$ 26,632	$ (8,669)	$ 23,462
December 31, 2017							
Rate lock commitments	$ 241,760	$ 7,587	$ (678)	$ 6,909	$ 6,909	$ —	$ —
Forward sale contracts	1,175,192	—	1,598	1,598	3,448	(1,850)	—
Loans held for sale	933,432	19,317	(920)	18,397	—	—	18,397
Total		$ 26,904	$ —	$ 26,904	$ 10,357	$ (1,850)	$ 18,397

NOTE 10—LITIGATION, COMMITMENTS, AND CONTINGENCIES

Fannie Mae DUS Related Commitments—Commitments for the origination and subsequent sale and delivery of loans to Fannie Mae represent those mortgage loan transactions where the borrower has locked an interest rate and scheduled closing and the Company has entered into a mandatory delivery commitment to sell the loan to Fannie Mae. As discussed in NOTE 9, the Company accounts for these commitments as derivatives recorded at fair value.

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

The Company is in compliance with the June 30, 2018 collateral requirements as outlined above. As of June 30, 2018, reserve requirements for the DUS loan portfolio will require the Company to fund $64.2 million in additional pledged securities over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within the at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. The Company generates sufficient cash flow from its operations to meet these capital standards and does not expect any future changes to have a material impact on its future operations; however, any future changes to collateral requirements may adversely impact the Company's available cash.

Fannie Mae has established standards for capital adequacy, and reserves the right to terminate the Company's servicing authority for all or some of the portfolio if at any time it determines that the Company's financial condition is not adequate to support its obligations under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of June 30, 2018. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk sharing. At June 30, 2018, the net worth requirement was $161.9 million, and the Company's net worth, as defined in the requirements, was $664.9 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of June 30, 2018, the Company was required to maintain at least $31.9 million of liquid assets to meet operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, and Ginnie Mae. As of June 30, 2018, the Company had operational liquidity, as defined in the requirements, of $117.2 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

Litigation—In the ordinary course of business, the Company may be party to various claims and litigation, none of which the Company believes is material. The Company cannot predict the outcome of any pending litigation and may be subject to consequences that could include fines, penalties, and other costs, and the Company's reputation and business may be impacted. The Company believes that any

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liability that could be imposed on the Company in connection with the disposition of any pending lawsuits would not have a material adverse effect on its business, results of operations, liquidity, or financial condition.

NOTE 11—EARNINGS PER SHARE

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Weighted average number of shares outstanding used to calculate basic earnings per share	30,248	30,131	30,116	29,971
Dilutive securities				
Unvested restricted shares and restricted share units	1,131	1,171	1,107	1,362
Stock options	775	795	786	734
Weighted average number of shares and share equivalents outstanding used to calculate diluted earnings per share	32,154	32,097	32,009	32,067

The assumed proceeds used for calculating the dilutive impact of restricted stock awards under the treasury method includes the unrecognized compensation costs associated with the awards. The following table presents any average outstanding options to purchase shares of common stock and average restricted shares that were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive (the exercise price of the options or the grant date market price of the restricted shares was greater than the average market price of the Company’s shares during the periods presented).

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Average options	—	113	—	84
Average restricted shares	—	—	5	3

NOTE 12—TOTAL EQUITY

A summary of changes in total equity is presented below:

	Stockholders' Equity						
	Common Stock		Additional Paid-In		Retained	Noncontrolling	Total
(in thousands)	Shares	Amount	Capital	AOCI	Earnings	Interests	Equity
Balance at December 31, 2017	30,016	$ 300	$ 229,080	$ 93	$ 579,943	$ 5,565	$ 814,981
Walker & Dunlop net income	—	—	—	—	77,973	—	77,973
Net income (loss) from noncontrolling interests	—	—	—	—	—	(233)	(233)
Other comprehensive income (loss), net of tax	—	—	—	(180)	—	—	(180)
Stock-based compensation - equity classified	—	—	10,169	—	—	—	10,169
Issuance of common stock in connection with equity compensation plans	809	8	8,059	—	—	—	8,067
Repurchase and retirement of common stock	(435)	(4)	(12,744)	—	(8,709)	—	(21,457)
Cash dividends paid	—	—	—	—	(15,699)	—	(15,699)
Balance at June 30, 2018	30,390	$ 304	$ 234,564	$ (87)	$ 633,508	$ 5,332	$ 873,621

During the first quarter of 2018, the Company repurchased under a 2017 share repurchase program 244 thousand shares of its common stock at a weighted average price of $46.77 per share and immediately retired the shares, reducing stockholders' equity by $11.4 million. During the first quarter of 2018, the Company's Board of Directors authorized the Company to repurchase up to $50.0 million of its common

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stock over a 12-month period. The Company had the full $50.0 million of authorized share repurchase capacity remaining as of June 30, 2018.

In February 2018, the Company's Board of Directors declared a cash dividend of $0.25 per share for the first quarter of 2018. The dividend was paid during the first quarter of 2018 to all holders of record of our restricted and unrestricted common stock and restricted stock units. This dividend was the first such dividend payment since the Company's initial public offering in December 2010. In May 2018, the Company's Board of Directors declared a dividend of $0.25 per share for the second quarter of 2018. The dividend was paid on June 5, 2018 to all holders of record of our restricted and unrestricted common stock and restricted stock units as of May 18, 2018. On July 31, 2018, the Company's Board of Directors declared a cash dividend of $0.25 per share for the third quarter of 2018. The Company expects the dividends paid during 2018 to be an insignificant portion of the Company's net income, retained earnings, and cash and cash equivalents.

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

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

The following discussion should be read in conjunction with the historical financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q ("Form 10-Q"). The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those expressed or contemplated in those forward-looking statements as a result of certain factors, including those set forth under the headings "Forward-Looking Statements" and "Risk Factors" elsewhere in this Form 10-Q and in the Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K").

Forward-Looking Statements

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

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

· the future of the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac," and together with Fannie Mae, the "GSEs"), including their origination capacities, and their impact on our business;
· changes to and trends in the interest rate environment and its impact on our business;
· our growth strategy;
· our projected financial condition, liquidity, and results of operations;
· our ability to obtain and maintain warehouse and other loan funding arrangements;
· our ability to make future dividend payments or repurchase shares of our common stock;
· availability of and our ability to attract and retain qualified personnel and our ability to develop and retain relationships with borrowers, key principals, and lenders;
· degree and nature of our competition;
· changes in governmental regulations and policies, tax laws and rates, and similar matters and the impact of such regulations, policies, and actions;
· our ability to comply with the laws, rules, and regulations applicable to us;
· trends in the commercial real estate finance market, commercial real estate values, the credit and capital markets, or the general economy, including demand for multifamily housing and rent growth;
· general volatility of the capital markets and the market price of our common stock; and
· other risks and uncertainties associated with our business described in our 2017 Form 10-K and our subsequent Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

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

Business

We are one of the leading commercial real estate services and finance companies in the United States, with a primary focus on multifamily lending. We originate, sell, and service a range of multifamily and other commercial real estate financing products, provide multifamily investment sales brokerage services, and engage in commercial real estate investment management activities. Our clients are owners and developers of multifamily and other commercial real estate across the country. We originate and sell loans through the programs of the GSEs and HUD (collectively the “Agencies”), with which we have long-established relationships. We are approved as a Fannie Mae Delegated Underwriting and Servicing™ ("DUS") lender nationally, a Freddie Mac Multifamily Approved Seller/Servicer for Conventional Loans (“Freddie Mac seller/servicer”) in 25 states and the District of Columbia, a Freddie Mac Approved Seller/Servicer for Seniors Housing and Targeted Affordable Housing nationwide, a HUD Multifamily Accelerated Processing lender nationally, a HUD LEAN lender nationally, and a Ginnie Mae issuer. We broker, and in some cases service, loans for several life insurance companies, commercial banks, commercial mortgage backed securities issuers, and other institutional investors, in which cases we do not fund the loan. We were recently selected as one of nine lenders in Freddie Mac’s Single-Family Rental (“SFR”) pilot program. The pilot program focuses on affordable SFRs, and Freddie Mac intends to securitize the loans made under the SFR pilot program. We did not originate any SFR loans during the first half of 2018.

We fund loans for the Agencies, generally through warehouse facility financings, and sell them to investors in accordance with the related loan sale commitment, which we obtain prior to rate lock. Proceeds from the sale of the loan are used to pay off the warehouse borrowing. The sale of the loan is typically completed within 60 days after the loan is closed. We retain servicing rights and asset management responsibilities on substantially all loans that we originate through the Agencies’ programs.

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

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

We are currently not exposed to unhedged interest rate risk during the loan commitment, closing, and delivery process for our Agency activities. The sale or placement of each loan to an investor is negotiated prior to establishing the coupon rate for the loan. We also seek to mitigate the risk of a loan not closing. We have agreements in place with the Agencies that specify the cost of a failed loan delivery, also known as a pair off fee, in the event we fail to deliver the loan to the investor. To protect us against such pair off fees, we require a deposit from the borrower at rate lock that is typically more than the potential pair off fee. The deposit is returned to the borrower only once the loan is closed. Any potential loss from a catastrophic change in the property condition while the loan is held for sale using warehouse facility financing is mitigated through property insurance equal to replacement cost. We are also protected contractually from an investor’s failure to purchase the loan. We have experienced an immaterial number of failed deliveries in our history and have incurred immaterial losses on such failed deliveries.

In cases where we do not fund the loan, we act as a loan broker and retain the right to service some of the loans. Our loan originators who focus on loan brokerage are engaged by borrowers to work with a variety of institutional lenders to find the most appropriate loan instrument for the borrowers' needs. These loans are then funded directly by the institutional lender, and we receive an origination fee for placing the loan, and for those brokered loans we service, we collect ongoing servicing fees while those loans remain in our servicing portfolio. The servicing fees we typically earn on brokered loan transactions are substantially lower than the servicing fees we earn for servicing Agency loans.

We have risk-sharing obligations on substantially all loans we originate under the Fannie Mae DUS program. When a Fannie Mae DUS loan is subject to full risk-sharing, we absorb losses on the first 5% of the unpaid principal balance of a loan at the time of loss settlement, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the original unpaid principal balance of the loan (subject to doubling or tripling if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). During the second quarter of 2018, Fannie Mae increased our risk-sharing cap from \$60.0 million to \$200.0 million. Accordingly, our maximum loss exposure on any one loan is \$40.0 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss). We may request modified risk-sharing

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

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

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

During the second quarter of 2017, we formed a joint venture with an affiliate of one of the world's largest owners of commercial real estate to originate, hold, and finance loans that meet the criteria of the Interim Program (the "Interim Program JV" or the "joint venture"). The Interim Program JV assumes full risk of loss while the loans it originates are outstanding. We hold a 15% ownership interest in the Interim Program JV and are responsible for sourcing, underwriting, servicing, and asset-managing the loans originated by the joint venture. The joint venture funds its operations using a combination of equity contributions from its owners and third-party credit facilities. The majority of the interim loans originated since the formation of the joint venture have been for the Interim Program JV. During the six months ended June 30, 2018, $60.0 million of the $216.9 million of interim loan originations were executed through the joint venture. We expect that the majority of the interim loans satisfying the criteria for the Interim Program will be originated by the joint venture going forward; however, we will continue to opportunistically originate loans held for investment through the Interim Program. As of June 30, 2018, we asset-managed $119.1 million of interim loans on behalf of the Interim Program JV.

We originate and hold some Interim Program loans for investment, which are included on our balance sheet. During the time that these loans are outstanding, we assume the full risk of loss. Since we began originating interim loans in 2012, we have not experienced any delinquencies or charged off any Interim Program loans. As of June 30, 2018, we had 11 Interim Program loans held for investment with an aggregate outstanding unpaid principal balance of $131.0 million.

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

Under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers to acquire and reposition properties. The terms of such investments are negotiated with each investment. As of June 30, 2018, we have preferred equity investments with one borrower totaling $42.8 million. We expect these preferred equity investments to be repaid within the next year.

During the second quarter of 2018, the Company acquired JCR Capital Investment Corporation and subsidiaries ("JCR"), the operator of a private commercial real estate investment adviser focused on the management of debt, preferred equity, and mezzanine equity investments in middle-market commercial real estate funds. The acquisition of JCR, a wholly owned subsidiary of the Company, is part of our strategy to grow and diversify the company by growing our investment management platform. JCR's current assets under management ("AUM") of $813.2 million consist of three sources: Fund III, Fund IV, and a separate account managed for a life insurance company. AUM for Fund III and Fund IV consist of both unfunded commitments and funded investments. AUM for the separate account consist entirely of funded investments. Unfunded commitments are highest during the fund raising and investment phases. The following table summarizes JCR's AUM as of June 30, 2018:

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Components of assets under management (in thousands)	Unfunded Commitments	Funded Investments	Total
Fund III	$ 95,171	$ 199,958	$ 295,129
Fund IV	198,709	23,510	222,219
Separate account	—	295,846	295,846
Total assets under management	$ 293,880	$ 519,314	$ 813,194

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

Basis of Presentation

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

Critical Accounting Policies

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

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

The assumptions used to estimate the fair value of MSRs at loan sale are based on internal models and are periodically compared to assumptions used by other market participants. Due to the relatively few transactions in the multifamily MSR market, we have experienced little volatility in the assumptions we use during the periods presented, including the most-significant assumption – the discount rate. Additionally, we do not expect to see much volatility in the assumptions for the foreseeable future. Management actively monitors the assumptions used and makes adjustments to those assumptions when market conditions change or other factors indicate such adjustments are warranted. We carry originated and purchased MSRs at the lower of amortized cost or fair value and evaluate the carrying value for impairment quarterly. We test for impairment on the purchased stand-alone servicing portfolios individually and separately from our other MSRs. The MSRs from both stand-alone portfolio purchases and from loans sales are tested for impairment at the portfolio level. We have never recorded an impairment of MSRs in our history. We engage a third party to assist in determining an estimated fair value of our existing and outstanding MSRs on at least a semi-annual basis.

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

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

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

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

We perform a quarterly evaluation of all of our risk-sharing loans to determine whether a loss is probable. Our process for identifying which risk-sharing loans may be probable of loss consists of an assessment of several qualitative and quantitative factors including payment status, property financial performance, local real estate market conditions, loan-to-value ratio, debt-service-coverage ratio, and property condition. When we believe a loan is probable of foreclosure or when a loan is in foreclosure, we record an allowance for that loan (a "specific reserve"). The specific reserve is based on the estimate of the property fair value less selling and property preservation costs and considers the loss-sharing requirements detailed below in the "Credit Quality and Allowance for Risk-Sharing Obligations" section. The estimate of property fair value at initial recognition of the allowance for risk-sharing obligations is based on appraisals, broker opinions of value, or net operating income and market capitalization rates, whichever we believe is the best estimate of the net disposition value. The allowance for risk-sharing obligations for such loans is updated as any additional information is received until the loss is settled with Fannie Mae. The settlement with Fannie Mae is based on the actual sales price of the property less selling and property preservation costs and considers the Fannie Mae loss-sharing requirements. Loss settlement with Fannie Mae has historically concluded within 18 to 36 months after foreclosure. Historically, the initial specific reserves have not varied significantly from the final settlement. We are uncertain whether such a trend will continue in the future.

In addition to the specific reserves discussed above, we also record an allowance for risk-sharing obligations related to all risk-sharing loans on our watch list ("general reserves"). Such loans are not probable of foreclosure but are probable of loss as the characteristics of these loans indicate that it is probable that these loans include some losses even though the loss cannot be attributed to a specific loan. For all other risk-sharing loans not on our watch list, we continue to carry a guaranty obligation. We calculate the general reserves based on a migration analysis of the loans on our historical watch lists, adjusted for qualitative factors. We have not experienced significant volatility in the general reserves loss percentage, including the adjustment for qualitative factors, and do not expect to experience significant volatility in the near term.

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

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Overview of Current Business Environment

The fundamentals of the commercial and multifamily real estate market remain strong. Multifamily occupancy rates and effective rents remain strong based upon robust rental market demand while delinquency rates remain at historic lows, all of which aid loan performance and loan origination volumes due to their importance to the cash flows of the underlying properties. Additionally, the single-family home ownership level remains near historic lows despite an increase in 2017 while new household formation grows, resulting in high demand for multifamily housing. The Mortgage Bankers' Association ("MBA") recently reported that the amount of commercial and multifamily mortgage debt outstanding continued to grow in the first quarter of 2018, reaching $3.2 trillion, an increase of 1.4% from the end of the fourth quarter of 2017. The increase in commercial and multifamily debt outstanding during the first quarter of 2018 was the largest first-quarter increase in the past ten years. Multifamily mortgage debt outstanding rose to $1.3 trillion as of the end of the first quarter of 2018, an increase of 1.5% from the end of the fourth quarter of 2017. The multifamily category with the largest growth in mortgage debt outstanding was Agency lending.

The increase in rental housing demand and gaps in housing production have led to continued steady rising rents in multifamily properties in most markets. The positive performance has boosted the value of many multifamily properties towards the high end of historical ranges. Multifamily rents grew 2.5% in 2017 according to RealPage, a real estate technology and analytics company. However, according to RealPage, the 2017 pace of rent growth slowed to the lowest rate in seven years. According to RealPage, rent growth from the first quarter of 2017 to the first quarter of 2018 was 2.3%, with several large markets showing rent growth of less than 1.0%. The growth in the first quarter of 2018 was the lowest growth rate in eight years. RealPage also reported that new multifamily housing construction completed in the largest markets during the second quarter of 2018 was 75,000 units, almost all of which were in the high-end market. The annualized construction completions have been 300,000 units or greater for four consecutive quarters. In spite of the significant new construction completions, the multifamily housing market has been able to absorb the new units as evidenced by a small increase in the vacancy rate of 30 basis points from 4.7% at the end of the second quarter of 2017 to 5.0% at the end of the second quarter of 2018. We believe that the market demand for multifamily housing in the upcoming quarters will continue to absorb most of the capacity created by new construction and that vacancy rates will remain near historic lows, continuing to make multifamily properties an attractive investment option.

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

The Federal Reserve raised its targeted Fed Funds Rate by 50 basis points during the first half of 2018 and 150 basis points during the past two years. We have not experienced a pronounced or sustained decline in origination volume or profitability as (i) long-term mortgage interest rates have remained at historically low levels due to flattened yield curve throughout most of the past two years, (ii) there remains a significant number of capital market participants that are investing in commercial real estate and multifamily properties, and (iii) investor spreads have tightened. Real Capital Analytics, a commercial real estate data analytics company, recently reported that in the first quarter of 2018, in spite of recent interest-rate increases and slowing rent growth, multifamily asset prices grew 11.1% year over year. We cannot be certain that these trends will continue as the number, timing, and magnitude of any future increases by the Federal Reserve, taken together with previous interest rate increases and combined with other macroeconomic factors, may have a different effect on the commercial real estate market.

We expect to see continued strength in the multifamily market in 2018 due to the underlying fundamentals of the multifamily market as labor markets are strong, home ownership remains challenging for many households, and demand increases from new household formation. Additionally, early in 2018, the MBA released the results of its 2018 survey of commercial real estate firms and reported that 78% of the firms expect loan originations to increase slightly in 2018. Additionally, many respondents expect multifamily cap rates to remain at their historically low 2017 levels.

We are a market-leading originator with Fannie Mae and Freddie Mac, and the GSEs remain the most significant providers of capital to the multifamily market. The Federal Housing Finance Agency (“FHFA”) 2018 GSE Scorecard (“2018 Scorecard”) established Fannie Mae’s and Freddie Mac’s 2018 loan origination caps at $35.0 billion each for market-rate apartments (“2018 Caps”), down slightly from $36.5 billion each in 2017. Affordable housing loans and manufactured housing rental community loans continue to be excluded from the 2018 Caps. Additionally, the definition of the affordable housing loan exclusion continues to encompass affordable housing in high- and very-high cost markets and to allow for an exclusion from the 2018 Caps for the pro-rata portion of any loan on a multifamily property that includes affordable housing units. The 2018 Scorecard provides the FHFA with the flexibility to review the estimated size of the multifamily loan origination market on a quarterly basis and proactively adjust the 2018 Caps upward should the market be larger than expected in 2018. The 2018 Scorecard also provides exclusions for loans to properties located in underserved markets including rural, small multifamily, and senior assisted living and for loans to finance multifamily properties that invest in energy or water efficiency improvements.

The GSEs reported a combined loan origination volume of $54.6 billion during the first half of 2018 compared to $57.4 billion during the first half of 2017, a decrease of 5%. Fannie Mae's volume decreased 16% from the first half of 2017 to the first half of 2018. This reduction in overall GSE year-to-date loan origination volume contributed to a 3% decline in our GSE loan origination volume year over year. The GSEs reported a combined loan origination volume of $30.3 billion during the second quarter of 2018 compared to $27.3 billion during the second quarter of 2017, an increase of 11%. This increase in overall GSE loan origination volume for the second quarter of 2018 helped increase our GSE loan origination volume for the second quarter 9% year over year. We expect the GSEs to maintain their historical market share in a multifamily market that is projected by Freddie Mac to be $305.0 billion in 2018. We believe our market leadership positions us to be a significant lender with the GSEs for the foreseeable future. Our originations with the GSEs are some of our most profitable executions as they provide significant non-cash gains from mortgage servicing rights, and cash revenue streams in the future. A decline in our GSE originations would negatively impact our financial results as our non-cash revenues would decrease disproportionately with loan origination volume and future servicing fee revenue would be constrained or decline. We do not know whether the FHFA will impose stricter limitations on GSE multifamily production volume beyond 2018 as a new director of the FHFA will be appointed in January 2019.

We continue to significantly grow our capital markets platform to gain greater access to capital, deal flow, and borrower relationships. The apparent appetite for debt funding within the broader commercial real estate market, along with additions of brokered loan originators over the past several years, has resulted in significant growth in our brokered originations. Our brokered loan originations were down in the second quarter of 2018 compared to the second quarter of 2017 as our quarterly loan origination volume can fluctuate due to the timing of deal flow. Our outlook for our capital markets platform is positive as we expect continued growth in commercial and multifamily markets in the near future.

Over the last few years, HUD has reduced the cost of borrowing, making HUD loans more competitive and returning them to relevance for our core multifamily borrowers over the past two years, as evidenced by a 54% increase in HUD loan originations from 2016 to 2017. Our HUD loan origination volume decreased 43% from the second quarter of 2017 to the second quarter of 2018 as the timing of HUD loan originations tends to be volatile. HUD remains a strong source of capital for new construction loans and healthcare facilities. We expect that HUD will continue to be a meaningful supplier of capital to our borrowers. We continue to add resources and scale to our HUD lending platform, particularly in the area of construction lending, seniors housing, and skilled nursing, where HUD remains an important provider of capital.

Many of our borrowers continue to seek higher returns by identifying and acquiring the transitional properties that the Interim Program is designed to address. We entered into the Interim Program JV to both increase the overall capital available to transitional properties and dramatically expand our capacity to originate Interim Program loans. The demand for transitional lending has brought increased competition from lenders, specifically banks, mortgage REITs, and life insurance companies. All are actively pursuing transitional properties by leveraging their low cost of capital and desire for short-term, floating-rate, high-yield commercial real estate investments. We originated $216.9 million of interim loans during the first half of 2018 compared to $163.2 million during the first half of 2017, and $192.2 million during the second quarter of 2018 compared to $26.6 million during the second quarter of 2017. Included within the origination volume for the three and six months ended June 30, 2018 is a loan portfolio of $93.5 million, 90% of which we sold to our Interim Program JV partner in the third quarter of 2018.

Finally, as we have stated, multifamily property values are at near historic highs on the back of positive fundamentals across the industry. As a result, we saw increased activity within the investment sales business during the first half of 2018. The overall investment sales market grew slightly in 2017, and the momentum carried over in the first half of 2018. The overall growth in the market, along with the additions we have made to our investment sales team over the past year, resulted in a 28% increase in our investment sales volume from the first half of 2017 to the first half of 2018 and a 37% increase from the second quarter of 2017 to the second quarter of 2018. We continue our efforts to expand our investment sales platform more broadly across the United States and to increase the size of our investment sales team to capture what we believe will be strong multifamily investment sales activity over the coming quarters.

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Results of Operations

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

SUPPLEMENTAL OPERATING DATA

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Transaction Volume:				
Loan Origination Volume by Product Type				
Fannie Mae	$ 2,269,544	$ 2,188,841	$ 3,510,046	$ 4,077,777
Freddie Mac	1,316,491	1,111,434	2,636,468	2,274,384
Ginnie Mae - HUD	230,710	403,981	583,126	611,013
Brokered (1)	1,700,498	1,948,918	3,274,407	3,279,216
Interim Loans	192,205	26,637	216,918	163,187
Total Loan Origination Volume	$ 5,709,448	$ 5,679,811	$ 10,220,965	$ 10,405,577
Investment Sales Volume	483,575	351,825	821,320	638,555
Total Transaction Volume	$ 6,193,023	$ 6,031,636	$ 11,042,285	$ 11,044,132
Key Performance Metrics:				
Operating margin	30 %	34 %	30 %	35 %
Return on equity	20	21	19	24
Walker & Dunlop net income	$ 41,112	$ 34,567	$ 77,973	$ 77,788
Adjusted EBITDA (2)	49,969	50,988	102,119	101,293
Diluted EPS	1.28	1.08	2.44	2.43
Key Expense Metrics (as a percentage of total revenues):				
Personnel expenses	40 %	38 %	39 %	37 %
Other operating expenses	9	7	9	7
Key Revenue Metrics (as a percentage of loan origination volume):				
Origination related fees	0.97 %	1.01 %	1.02 %	1.04 %
Gains attributable to MSRs	0.82	0.79	0.78	0.87
Gains attributable to MSRs, as a percentage of Agency loan origination volume (3)	1.23	1.21	1.18	1.30

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SUPPLEMENTAL OPERATING DATA – continued

(dollars in thousands)	As of June 30,	
Managed Portfolio:	2018	2017
Servicing Portfolio by Product Type		
Fannie Mae	$ 33,606,531	$ 29,573,946
Freddie Mac	28,197,494	22,380,103
Ginnie Mae - HUD	9,653,432	8,919,840
Brokered (4)	6,232,255	5,128,453
Interim Loans	131,029	288,412
Total Servicing Portfolio	$ 77,820,741	$ 66,290,754
Assets under management	932,318	—
Total Managed Portfolio	$ 78,753,059	$ 66,290,754
Key Servicing Portfolio Metrics (end of period):		
Weighted-average servicing fee rate (basis points)	25.4	26.5
Weighted-average remaining servicing portfolio term (years)	9.8	10.1

(1) Brokered transactions for life insurance companies, commercial mortgage backed securities, commercial banks, the JCR separate account, and other capital sources.
(2) This is a non-GAAP financial measure. For more information on adjusted EBITDA, refer to the section below titled "Non-GAAP Financial Measures."
(3) The fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained, as a percentage of Agency volume.
(4) Brokered loans serviced for life insurance companies, commercial mortgage backed securities, commercial banks, and other capital sources.

The following tables present a period-to-period comparison of our financial results for the three and six months ended June 30, 2018 and 2017.

FINANCIAL RESULTS – THREE MONTHS

	For the three months ended June 30,		Dollar	Percentage	
(dollars in thousands)	2018	2017	Change	Change	
Revenues					
Gains from mortgage banking activities	$ 102,237	$ 102,176	$ 61	0	%
Servicing fees	49,317	43,214	6,103	14	
Net warehouse interest income	2,392	5,800	(3,408)	(59)	
Escrow earnings and other interest income	9,276	4,514	4,762	105	
Investment sales broker fees	3,758	2,367	1,391	59	
Other	11,224	8,336	2,888	35	
Total revenues	$ 178,204	$ 166,407	$ 11,797	7	
Expenses					
Personnel	$ 71,426	$ 63,516	$ 7,910	12	%

Amortization and depreciation	35,489	32,860	2,629	8
Provision (benefit) for credit losses	800	(93)	893	(960)
Interest expense on corporate debt	2,343	2,443	(100)	(4)
Other operating expenses	15,176	11,599	3,577	31
Total expenses	$ 125,234	$ 110,325	$ 14,909	14
Income from operations	$ 52,970	$ 56,082	$ (3,112)	(6)
Income tax expense	11,937	21,570	(9,633)	(45)
Net income before noncontrolling interests	$ 41,033	$ 34,512	$ 6,521	19
Less: net income (loss) from noncontrolling interests	(79)	(55)	(24)	44
Walker & Dunlop net income	$ 41,112	$ 34,567	$ 6,545	19

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FINANCIAL RESULTS – SIX MONTHS

(dollars in thousands)	For the six months ended June 30, 2018	2017	Dollar Change	Percentage Change	
Revenues					
Gains from mortgage banking activities	$ 183,746	$ 198,608	$ (14,862)	(7)	%
Servicing fees	97,357	84,739	12,618	15	
Net warehouse interest income	4,249	12,420	(8,171)	(66)	
Escrow earnings and other interest income	16,624	7,806	8,818	113	
Investment sales broker fees	5,889	3,837	2,052	53	
Other	17,791	17,509	282	2	
Total revenues	$ 325,656	$ 324,919	$ 737	0	
Expenses					
Personnel	$ 126,699	$ 119,688	$ 7,011	6	%
Amortization and depreciation	69,124	65,198	3,926	6	
Provision (benefit) for credit losses	323	(225)	548	(244)	
Interest expense on corporate debt	4,522	4,846	(324)	(7)	
Other operating expenses	28,127	23,207	4,920	21	
Total expenses	$ 228,795	$ 212,714	$ 16,081	8	
Income from operations	$ 96,861	$ 112,205	$ (15,344)	(14)	
Income tax expense	19,121	34,633	(15,512)	(45)	
Net income before noncontrolling interests	$ 77,740	$ 77,572	$ 168	0	
Less: net income (loss) from noncontrolling interests	(233)	(216)	(17)	8	

Walker & Dunlop net income	$ 77,973	$ 77,788	$ 185	0

Overview

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

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

Revenues

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

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Loan Origination Volume by Product Type

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Fannie Mae	40 %	39 %	34 %	39 %
Freddie Mac	23	20	26	22
Ginnie Mae - HUD	4	7	6	6
Brokered	30	34	32	31
Interim Loans	3	-	2	2

Gains from Mortgage Banking Activities Detail

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Origination Fees	$ 55,193	$ 57,507	$ 104,009	$ 108,404
Dollar Change	$ (2,314)		$ (4,395)	
Percentage Change	(4) %		(4) %	
MSR Income (1)	$ 47,044	$ 44,669	$ 79,737	$ 90,204
Dollar Change	$ 2,375		$ (10,467)	
Percentage Change	5 %		(12) %	
Origination Fee Rate (2) (basis points)	97	101	102	104
Basis Point Change	(4)		(2)	
Percentage Change	(4) %		(2) %	
MSR Rate (3) (basis points)	82	79	78	87
Basis Point Change	3		(9)	
Percentage Change	4 %		(10) %	
Agency MSR Rate (4) (basis points)	123	121	118	130
Basis Point Change	2		(12)	
Percentage Change	2 %		(9) %	

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

Gains from mortgage banking activities reflect the fair value of loan origination fees, the fair value of loan premiums, net of any co-broker fees, and the fair value of the expected net cash flows associated with the servicing of the loan, net of any guaranty obligations retained (“MSR income”). The decreases in (i) origination fees, (ii) MSR income, (iii) MSR rate, and (iv) Agency MSR rate for the six months ended June 30, 2018 is related primarily to a decrease in Fannie Mae loan origination volume period over period.

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

Servicing Fees. The increases for both the three and six months ended June 30, 2018 were primarily attributable to increases in the average servicing portfolio from 2017 to 2018 as shown below due to new loan originations and relatively few payoffs, partially offset by slight decreases in the servicing portfolio’s weighted-average servicing fee as shown below. The decreases in the weighted-average servicing fee were the result of increases in the percentage of the Freddie Mac loans serviced as a percentage of the total servicing portfolio and decreases in the percentage of the Fannie Mae loans serviced as a percentage of the total servicing portfolio. The servicing fees we earn on Fannie Mae loans are the highest of any of our loan products.

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	Servicing Fees Details							
	For the three months ended June 30,				For the six months ended June 30,			
(dollars in thousands)	2018		2017		2018		2017	
Average Servicing Portfolio	$ 76,932,286		$ 65,091,952		$ 76,161,093		$ 64,276,670	
Dollar Change	$ 11,840,334				$ 11,884,423			
Percentage Change	18	%			18	%		
Average Servicing Fee (basis points)	25.5		26.5		25.6		26.4	
Basis Point Change	(1.0)				(0.8)			
Percentage Change	(4)	%			(3)	%		

Net Warehouse Interest Income. The decreases for both the three and six months ended June 30, 2018 were primarily related to decreases in net warehouse interest income from loans held for investment ("LHFI") and decreases in net warehouse interest income from loans held for sale ("LHFS"). The decreases in net warehouse interest income from loans held for investment were largely the result of decreases in the average outstanding balances as shown below. The decreases in net warehouse interest income from loans held for sale were largely the result of decreases in the net spread as shown below. The decreases in the net spread were the result of a greater increase in the short-term interest rates on which our borrowings are based than in the long-term interest rates on which the majority of our loans held for sale are based.

If the yield curve continues to flatten following future increases in short-term rates, a tightening of the net spread may continue. We expect to see a decrease in net warehouse interest income from LHFI going forward as most of our future Interim Program loan originations are expected to be completed by the Interim Program JV, reducing the balance of LHFI as the existing portfolio matures. This decrease in net warehouse interest income from LHFI is expected to be partially offset by our portion of the net income generated by the Interim Program JV.

	Net Warehouse Interest Income Details						
	For the three months ended June 30,			For the six months ended June 30,			
(dollars in thousands)	2018		2017	2018		2017	
Average LHFS Outstanding Balance	$ 1,063,581		$ 1,011,535	$ 1,015,793		$ 1,116,765	
Dollar Change	$ 52,046			$ (100,972)			
Percentage Change	5	%		(9)	%		
LHFS Net Spread (basis points)	56		96	51		109	
Basis Point Change	(40)			(58)			
Percentage Change	(42)	%		(53)	%		
Average LHFI Outstanding Balance	$ 88,519		$ 307,552	$ 79,332		$ 294,806	
Dollar Change	$ (219,033)			$ (215,474)			
Percentage Change	(71)	%		(73)	%		
LHFI Net Spread (basis points)	411		438	418		428	
Basis Point Change	(27)			(10)			
Percentage Change	(6)	%		(2)	%		

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

Investment Sales Broker Fees. The increases for both the three and six months ended June 30, 2018 were the result of increased investment sales volume as discussed above in the "Overview of Current Business Environment" section.

Other Revenues. The increase for the three months ended June 30, 2018 is primarily related to an increase in investment management fees due to the acquisition of JCR as more fully discussed in the "Business" section above.

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Expenses

Personnel. The increase for the three months ended June 30, 2018 was due to increases in (i) salaries and benefits due to acquisitions and hiring to support our current and future growth, resulting in an increase in the average headcount from 594 in 2017 to 659 in 2018, (ii) the accrual for subjective bonuses as a greater percentage of our year-to-date Company performance occurred in the second quarter in 2018 compared to 2017, and (iii) stock compensation expense due to an increase in the number of equity grants in 2018 compared to 2017.

The increase for the six months ended June 30, 2018 was primarily the result of increases in salaries and benefits due to acquisitions and hiring to support our growth, resulting in an increase in the average headcount from 582 in 2017 to 644 in 2018 and stock compensation expense due to an increase in the number of equity grants in 2018 compared to 2017, partially offset by a decrease in the accrual for subjective bonuses as the Company achieved a greater percentage of full-year profitability metrics in 2017 than in 2018.

Amortization and Depreciation. For both the three and six months ended June 30, 2018, the increases were primarily attributable to loan origination activity and the resulting growth in the average MSR balance during the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017. Over the past 12 months, we have added $65.8 million of MSRs, net of write offs due to prepayment.

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

Income Tax Expense. The decreases for both the three and six months ended June 30, 2018 were largely related to the enactment of the Tax Cuts and Jobs Act (“tax reform”) in December 2017. Tax reform significantly reduced the statutory Federal income tax rate from 35% to 21%. The reduction in the statutory tax rate led to a decrease in our estimated annual effective tax rate from 38.6% for the three and six months ended June 30, 2017 to 25.7% for the three and six months ended June 30, 2018. In addition to the decrease in income tax expense related to the estimated annual effective tax rate for the three months ended June 30, 2018 was an increase in excess tax benefits from $0.1 million during 2017 to $1.7 million during 2018 that reduced income tax expense. The increase in the excess tax benefits was driven primarily by an increase in the number of options exercised, partially offset by the decrease in the Federal statutory tax rate. Partially offsetting the decrease in income tax expense related to the estimated annual effective tax rate for the six months ended June 30, 2018 was a decrease in excess tax benefits that reduced income tax expense from $8.8 million during 2017 to $5.8 million during 2018. The decrease in the excess tax benefits was driven primarily by a reduction in the number of performance-based shares that vested and the decrease in the statutory tax rate.

The effective tax rate for the three months ended June 30, 2018 was 22.5% compared to 38.5% for the three months ended June 30, 2017. The effective tax rate for the six months ended June 30, 2018 was 19.7% compared to 30.9% for the six months ended June 30, 2017. We do not expect to have significant excess tax benefits during the remainder of 2018 and expect our annual estimated effective tax rate to not differ significantly from the 25.7% rate estimated for the three and six months ended June 30, 2018.

Non-GAAP Financial Measures

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

We use adjusted EBITDA to evaluate the operating performance of our business, for comparison with forecasts and strategic plans, and for benchmarking performance externally against competitors. We believe that adjusted EBITDA, when read in conjunction with our

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GAAP financials, provides useful information to investors by offering:

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

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

ADJUSTED FINANCIAL METRIC RECONCILIATION TO GAAP

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2018	2017	2018	2017
Reconciliation of Walker & Dunlop Net Income to Adjusted EBITDA				
Walker & Dunlop Net Income	$ 41,112	$ 34,567	$ 77,973	$ 77,788
Income tax expense	11,937	21,570	19,121	34,633
Interest expense on corporate debt	2,343	2,443	4,522	4,846
Amortization and depreciation	35,489	32,860	69,124	65,198
Provision (benefit) for credit losses	800	(93)	323	(225)
Net write-offs	—	—	—	—
Stock compensation expense	5,332	4,310	10,793	9,257
Gains attributable to mortgage servicing rights (1)	(47,044)	(44,669)	(79,737)	(90,204)
Adjusted EBITDA	$ 49,969	$ 50,988	$ 102,119	$ 101,293

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

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

ADJUSTED EBITDA – THREE MONTHS

	For the three months ended June 30,		Dollar	Percentage
(dollars in thousands)	2018	2017	Change	Change
Origination fees	$ 55,193	$ 57,507	$ (2,314)	(4) %
Servicing fees	49,317	43,214	6,103	14
Net warehouse interest income	2,392	5,800	(3,408)	(59)
Escrow earnings and other interest income	9,276	4,514	4,762	105
Other revenues	15,061	10,758	4,303	40
Personnel	(66,094)	(59,206)	(6,888)	12

Net write-offs	—	—	—	N/A
Other operating expenses	(15,176)	(11,599)	(3,577)	31
Adjusted EBITDA	$ 49,969	$ 50,988	$ (1,019)	(2)

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ADJUSTED EBITDA – SIX MONTHS

(dollars in thousands)	For the six months ended June 30, 2018	2017	Dollar Change	Percentage Change	
Origination fees	$ 104,009	$ 108,404	$ (4,395)	(4)	%
Servicing fees	97,357	84,739	12,618	15	
Net warehouse interest income	4,249	12,420	(8,171)	(66)	
Escrow earnings and other interest income	16,624	7,806	8,818	113	
Other revenues	23,913	21,562	2,351	11	
Personnel	(115,906)	(110,431)	(5,475)	5	
Net write-offs	—	—	—	N/A	
Other operating expenses	(28,127)	(23,207)	(4,920)	21	
Adjusted EBITDA	$ 102,119	$ 101,293	$ 826	1	

See the tables above for the components of the change in adjusted EBITDA for the three and six months ended June 30, 2018. For the three months ended June 30, 2018, the decrease in origination fees was largely related to the decrease in HUD loan origination volume period over period as HUD loans have some of the highest loan originations fees of any of our products. Servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new loan originations. Net warehouse interest income decreased largely as a result of a decline in the average balances of loans held for investment and a decrease in the net interest margin on loans held for sale due to a flattening yield curve. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate following the increases in short-term interest rates over the past year. Other revenues increased primarily due to increases in investment sales broker fees and investment management fees. The increase in personnel expense was primarily due to increased salaries expense due to a rise in headcount and increased bonus expense as a greater percentage of our year-to-date Company performance occurred in the second quarter in 2018 compared to 2017. Other operating expenses increased largely due to increased occupancy expenses due to the larger average headcount year over year and increased professional fees due to the JCR acquisition and our hiring efforts.

For the six months ended June 30, 2018, the decrease in origination fees was largely related to the decrease in Fannie Mae loan origination volume period over period. Servicing fees increased due to an increase in the average servicing portfolio period over period as a result of new loan originations. Net warehouse interest income decreased largely as a result of a decline in the average balances of loans held for investment and a decrease in the net interest margin on loans held for sale due to a flattening yield curve. Escrow earnings and other interest income increased as a result of increases in the average escrow balance outstanding and the average earnings rate following the increases in short-term interest rates over the past year. Other revenues increased primarily due to an increase in investment sales broker fees. The increase in personnel expense was primarily due to increased salaries expense due to a rise in headcount. Other operating expenses increased largely due to increased occupancy expenses due to the larger average headcount year over year and increased professional fees due to the JCR acquisition and our hiring efforts.

Financial Condition

Cash Flows from Operating Activities

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

Cash Flow from Investing Activities

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

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Cash Flow from Financing Activities

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

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

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

SIGNIFICANT COMPONENTS OF CASH FLOWS

(dollars in thousands)	For the six months ended June 30, 2018	2017	Dollar Change	Percentage Change	
Net cash provided by (used in) operating activities	$ (254,150)	$ 420,112	$ (674,262)	(160)	%
Net cash provided by (used in) investing activities	(138,590)	(94,533)	(44,057)	47	
Net cash provided by (used in) financing activities	275,887	(377,531)	653,418	(173)	
Total of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period	169,827	159,407	10,420	7	
Cash flows from operating activities					
Net receipt (use) of cash for loan origination activity	$ (300,363)	$ 380,863	$ (681,226)	(179)	%
Net cash provided by (used in) operating activities, excluding loan origination activity	46,213	39,249	6,964	18	
Cash flows from investing activities					
Purchases of pledged available-for-sale securities	$ (38,566)	$ —	$ (38,566)	N/A	%
Funding of preferred equity investments	(1,100)	(11,385)	10,285	(90)	
Distributions from Interim Program JV	1,209	—	1,209	N/A	
Acquisitions, net of cash received	(33,102)	(15,000)	(18,102)	121	
Originations of loans held for investment	(151,754)	(167,079)	15,325	(9)	
Total principal collected on loans held for investment	87,688	100,980	(13,292)	(13)	
Net payoff of (investment in) loans held for investment	$ (64,066)	$ (66,099)	$ 2,033	(3)	%
Cash flows from financing activities					
Borrowings (repayments) of warehouse notes payable, net	$ 323,153	$ (414,266)	$ 737,419	(178)	%

Borrowings of interim warehouse notes payable	50,455	128,660	(78,205)	(61)
Repayments of interim warehouse notes payable	(61,049)	(75,615)	14,566	(19)
Repurchase of common stock	(21,457)	(17,590)	(3,867)	22
Cash dividends paid	(15,699)	—	(15,699)	N/A
Payment of contingent consideration	(5,150)	—	(5,150)	N/A

Changes in cash flows from operations were driven primarily by loans acquired and sold. Such loans are held for short periods of time, generally less than 60 days, and impact cash flows presented as of a point in time. The decrease in cash flows from operations is primarily attributable to the use of $0.3 billion for the funding of loan originations, net of sales of loans to third parties during the first half of 2018 compared to the receipt of $0.4 billion for the funding of loan originations, net of sales to third parties during the first half of 2017. Excluding cash used for the origination and sale of loans, net cash provided by operations was $46.2 million during the first half of 2018 compared to net cash provided by operations of $39.2 million during the first half of 2017. The significant components of the change included a smaller reduction to net income related to gains attributable to future servicing rights of $10.5 million, partially offset by a smaller increase to net income related to the change in the fair value of premiums and origination fees of $5.4 million.

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The change in cash provided by (used in) investing activities is primarily attributable to decreases in the net investment in loans held for investment and funding of preferred equity investments, partially offset by increases in purchases of pledged available-for-sale ("AFS") securities and cash used for acquisitions. The net investment in loans held for investment during the first half of 2018 was $64.1 million compared to net investment of $66.1 million during the first half of 2017. Of the $64.1 million of the net investment in loans held for investment during 2018, $74.7 million was funded using corporate cash, with an additional $10.6 million of interim warehouse borrowings (included in cash flows from financing activities) repaid during 2018. Of the $66.1 million of the net investment in loans held for investment during 2017, $53.0 million was funded using interim warehouse borrowings, with the remaining $13.1 million funded using corporate cash. The decrease in funding of preferred equity investments is due to our reaching the full commitment amount in the first quarter of 2018. The increase in purchases of pledged AFS securities is due to a Company initiative to invest pledged collateral in AFS securities that began at the end of the fourth quarter of 2017. The increase in cash used for acquisitions is due principally to the difference in the size of the acquired company and the inclusion of contingent consideration (non-cash consideration) for the acquisition consummated in 2017 but not the acquisition of JCR in 2018.

The substantial change in cash provided by (used in) financing activities was primarily attributable to the significant change in net warehouse borrowings period to period, partially offset by a decrease in net borrowings of interim warehouse notes payable and increases in cash used to repurchase and retire shares of our common stock, cash used to pay dividends, and cash paid for contingent consideration for a prior acquisition. The change in net borrowings (repayments) of warehouse borrowings during the first half of 2018 was due to a small increase in the unpaid principal balance of loans held for sale funded by Agency Warehouse Facilities (as defined below) from December 31, 2017 to June 30, 2018. During 2018, the unpaid principal balance of loans held for sale funded by Agency Warehouse Facilities increased $300.4 million from their December 31, 2017 balance compared to a decrease of $261.1 million during the same period in 2017. Additionally, as of June 30, 2017, we held $119.8 million of interim loans that were classified as loans held for sale as we intended to sell the loans at that time. Interim loans are typically classified as loans held for investment and are not funded by warehouse borrowings. Substantially all of the loans held for sale at the end of each period were funded with warehouse borrowings, with some loans held for sale funded with corporate cash.

The change in net borrowings of interim warehouse notes payable was principally due to the Company's fully funding a portfolio of loans held for investment at the end of the second quarter of 2018. This funding is expected to be short term. We typically fund a large portion of loans held for investment with interim warehouse borrowings. The increase in share repurchase activity was principally related to shares repurchased under a share buyback program, partially offset by a decrease in the repurchase of shares to settle employee tax obligations for performance-based share awards. During the first half of 2018, we repurchased 244 thousand shares under share buyback programs for an aggregate cost of $11.4 million compared to zero shares repurchased during the first half of 2017. No performance-based awards vested during 2018 compared to 0.6 million shares during 2017. During the first quarter of 2018, we paid the first cash dividend in our history as a public company and continued to pay a cash dividend in the second quarter of 2018. We paid $5.2 million to settle contingent consideration liabilities associated with an acquisition completed during the first quarter of 2017 as the first of three annual earn-out periods ended during the first quarter of 2018.

Liquidity and Capital Resources

Uses of Liquidity, Cash and Cash Equivalents

Our significant recurring cash flow requirements consist of (i) short-term liquidity necessary to fund loans held for sale; (ii) liquidity necessary to fund loans held for investment under the Interim Program; (iii) liquidity necessary to pay cash dividends; (iv) liquidity necessary to fund our portion of the equity necessary for the operations of the Interim Program JV; (v) working capital to support our day-to-day operations, including debt service payments and payments for salaries, commissions, and income taxes; and (vi) working capital to satisfy collateral requirements for our Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae, and our warehouse facility lenders.

Fannie Mae has established standards for capital adequacy and reserves the right to terminate our servicing authority for all or some of the portfolio if at any time it determines that our financial condition is not adequate to support our obligations under the DUS agreement. We are required to maintain acceptable net worth as defined in the standards, and we satisfied the June 30, 2018 requirements. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At June 30, 2018, the net worth requirement was $161.9 million and our net worth, as defined in the requirements, was $664.9 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of June 30, 2018, we were required to maintain at least $31.9 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 June 30, 2018, we had operational liquidity, as defined in the requirements, of $117.2 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

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As noted previously, under certain limited circumstances, we may make preferred equity investments in entities controlled by certain of our borrowers that will assist those borrowers to acquire and reposition properties. The terms of such investments are negotiated with each investment. As of June 30, 2018, we have funded $42.8 million of such investments. We expect these preferred equity investments to be repaid to us within the next year.

Prior to 2018, we retained all earnings for the operation and expansion of our business and therefore did not pay cash dividends on our common stock. However, we paid a cash dividend of $0.25 per share for each of the first and second quarters of 2018, and on July 31, 2018, our Board of Directors declared a cash dividend of $0.25 per share for the third quarter of 2018. We expect to continue to make regular quarterly dividend payments for the foreseeable future. Over the past three years, we have repurchased 1.0 million shares of our common stock under share repurchase programs for a cost of $36.5 million, invested $126.2 million of cash in acquisitions and the purchase of mortgage servicing rights, funded $42.8 million of preferred equity investments, and paid cash dividends of $15.7 million. On occasion, we may use cash to fully fund loans held for investment or loans held for sale instead of using our warehouse line. As of June 30, 2018, we used corporate cash to fully fund loans held for investment and loans held for sale with an unpaid principal balance of $93.6 million. We continually seek opportunities to execute additional acquisitions and purchases of mortgage servicing rights and complete such acquisitions if the economics of these acquisitions are favorable. In February 2018, our Board of Directors approved a new stock repurchase program that permits the repurchase of up to $50.0 million of shares of our common stock over a 12-month period beginning on February 9, 2018. We have not repurchased any shares under the 2018 repurchase program.

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

Restricted Cash and Pledged Securities

Restricted cash consists primarily of good faith deposits held on behalf of borrowers between the time we enter into a loan commitment with the borrower and the investor purchases the loan. We are generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program. We are required to secure this obligation by assigning collateral to Fannie Mae. We meet this obligation by assigning pledged securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires collateral for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Collateral held in the form of money market funds holding U.S. Treasuries is discounted 5%, and Agency mortgage-backed securities ("Agency MBS") are discounted 4% for purposes of calculating compliance with the collateral requirements. As of June 30, 2018, we held money market funds holding U.S. Treasuries in the aggregate amount of $55.1 million and Agency MBS with an aggregate fair value of $47.5 million. Additionally, substantially all of the loans for which we have risk sharing are Tier 2 loans. We fund any growth in our Fannie Mae required operational liquidity and collateral requirements from our working capital.

We are in compliance with the June 30, 2018 collateral requirements as outlined above. As of June 30, 2018, reserve requirements for the DUS loan portfolio will require us to fund $64.2 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within our at risk portfolio. As noted previously, during the second quarter of 2018, Fannie Mae increased our risk-sharing cap from $60.0 million to $200.0 million. This increase in the risk-sharing cap will result in a relatively greater level of restricted liquidity required in the future for risk-sharing loans between $60.0 million and $200.0 million. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. We generate sufficient cash flow from our operations to meet these capital standards and do not expect any future changes to have a material impact on our future operations; however, any future changes to collateral requirements may adversely impact our available cash.

Under the provisions of the DUS agreement, we must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. We satisfied these requirements as of June 30, 2018.

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Sources of Liquidity: Warehouse Facilities

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

	June 30, 2018					
(dollars in thousands) Facility	Committed Amount	Uncommitted Amount	Temporary Increase	Total Facility Capacity	Outstanding Balance	Interest rate
Agency Warehouse Facility #1	$ 425,000	$ 300,000	$ —	$ 725,000	$ 200,652	30-day LIBOR plus 1.30%
Agency Warehouse Facility #2	500,000	300,000	—	800,000	204,359	30-day LIBOR plus 1.30%
Agency Warehouse Facility #3	500,000	265,000	—	765,000	375,701	30-day LIBOR plus 1.25%
Agency Warehouse Facility #4	350,000	—	—	350,000	209,517	30-day LIBOR plus 1.30%
Agency Warehouse Facility #5	30,000	—	—	30,000	18,978	30-day LIBOR plus 1.80%
Agency Warehouse Facility #6	250,000	250,000	—	500,000	—	30-day LIBOR plus 1.35%
Agency Warehouse Facility #7	250,000	100,000	—	350,000	37,980	30-day LIBOR plus 1.30%
Fannie Mae repurchase agreement, uncommitted line and open maturity	—	1,500,000	—	1,500,000	169,920	30-day LIBOR plus 1.15%
Total Agency Warehouse Facilities	$ 2,305,000	$ 2,715,000	$ —	$ 5,020,000	$ 1,217,107	
Interim Warehouse Facility #1	$ 85,000	$ —	$ —	$ 85,000	$ 10,290	30-day LIBOR plus 1.90%
Interim Warehouse Facility #2	100,000	—	—	100,000	24,662	30-day LIBOR plus 2.00%
Interim Warehouse Facility #3	75,000	—	—	75,000	—	30-day LIBOR plus 1.90% to 2.50%
	$ 260,000	$ —	$ —	$ 260,000	$ 34,952	

Total Interim Warehouse Facilities					
Total warehouse facilities	$ 2,565,000	$ 2,715,000	$ —	$ 5,280,000	$ 1,252,059

Agency Warehouse Facilities

At June 30, 2018, to provide financing to borrowers under the Agencies' programs, we have seven committed and uncommitted warehouse lines of credit in the amount of $3.5 billion with certain national banks and a $1.5 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). Seven of these facilities are revolving commitments we expect to renew annually (consistent with industry practice), and the other facility is provided on an uncommitted basis without a specific maturity date. Our ability to originate mortgage loans intended to be sold under an Agency execution depends upon our ability to secure and maintain these types of short-term financing agreements on acceptable terms.

Agency Warehouse Facility #1

We have a warehousing credit and security agreement with a national bank for a $425.0 million committed warehouse line that is scheduled to mature on October 29, 2018. The agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance and borrowings under this line bear interest at the 30-day London Interbank Offered Rate ("LIBOR") plus 130 basis points. In addition to the committed borrowing capacity, the agreement provides $300.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #2

We have a warehousing credit and security agreement with a national bank for a $500.0 million committed warehouse line that is scheduled to mature on September 10, 2018. The warehousing credit and security agreement provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at the 30-day LIBOR plus 130 basis points. In addition to the committed borrowing capacity, the agreement provides $300.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

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Agency Warehouse Facility #3

We have a warehousing credit and security agreement with a national bank for a $500.0 million committed warehouse line that is scheduled to mature on April 30, 2019. The committed warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 125 basis points. In addition to the committed borrowing capacity, the agreement provides $265.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. During the second quarter of 2018, the Company executed the ninth amendment to the warehouse agreement that extended the maturity date to April 30, 2019, increased the permanent committed borrowing capacity to $500.0 million, and established additional uncommitted borrowing capacity of $265.0 million. The uncommitted borrowing capacity expires on January 30, 2019. No other material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #4

We have a warehousing credit and security agreement with a national bank for a $350.0 million committed warehouse line that is scheduled to mature on October 5, 2018. The warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 130 basis points. No material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #5

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

Agency Warehouse Facility #6

We have a $250.0 million committed warehouse credit and security agreement with a national bank that is scheduled to mature on September 18, 2018. The warehouse facility provides us with the ability to fund Fannie Mae, Freddie Mac, HUD, and FHA loans. Advances are made at 100% of the loan balance, and borrowings under this line bear interest at 30-day LIBOR plus 135 basis points. In addition to the committed borrowing capacity, the agreement provides $250.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

Agency Warehouse Facility #7

During the first quarter of 2018, we executed a warehousing and security agreement to establish Agency Warehouse Facility #7. The warehouse facility has a committed $250.0 million maximum borrowing amount and is scheduled to mature on February 2, 2019. We can fund Fannie Mae, Freddie Mac, HUD, and FHA loans under the facility. Advances are made at 100% of the loan balance, and the borrowings under the warehouse agreement bear interest at a rate of LIBOR plus 130 basis points. The agreement provides $100.0 million of uncommitted borrowing capacity that bears interest at the same rate as the committed facility. No material modifications have been made to the agreement during 2018.

Uncommitted Agency Warehouse Facility

We have a $1.5 billion uncommitted facility with Fannie Mae under its As Soon As Pooled funding program. After approval of certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the loan balance, and borrowings under this program bear interest at 30-day LIBOR plus 115 basis points, with a minimum 30-day LIBOR rate of 35 basis points. There is no expiration date for this facility. No changes have been made to the uncommitted facility during 2018. The uncommitted facility has no specific negative or financial covenants.

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Interim Warehouse Facilities

To assist in funding loans held for investment under the Interim Program, we have three warehouse facilities with certain national banks in the aggregate amount of $260.0 million as of June 30, 2018 (“Interim Warehouse Facilities”). Consistent with industry practice, two of these facilities are revolving commitments we expect to renew annually, and one is a revolving commitment we expect to renew every two years. Our ability to originate loans held for investment depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

Interim Warehouse Facility #1

We have an $85.0 million committed warehouse line agreement that is scheduled to mature on April 30, 2019. The facility provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. Borrowings under the facility are full recourse to the Company and bear interest at 30-day LIBOR plus 190 basis points. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2018, we executed the eighth amendment to the credit and security agreement that extended the maturity date to April 30, 2019. No other material modifications have been made to the agreement during 2018.

Interim Warehouse Facility #2

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

Interim Warehouse Facility #3

We have a $75.0 million repurchase agreement that is scheduled to mature on May 18, 2019. The agreement provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to three years, using available cash in combination with advances under the facility. The borrowings under the agreement bear interest at a rate of 30-day LIBOR plus 190 basis points to 250 basis points (“the spread”). The spread varies according to the type of asset the borrowing finances. Repayments under the credit agreement are interest-only, with principal repayments made upon the earlier of the refinancing of an underlying mortgage or the maturity of an advance under the credit agreement. During the second quarter of 2018, we executed the third amendment to the repurchase agreement that extended the maturity date to May 18, 2019 and lowered the minimum interest rate from 30-day LIBOR plus 200 basis points to 30-day LIBOR plus 190 basis points. No other material modifications have been made to the agreement during 2018.

The Agency and Interim Warehouse Facility agreements above contain cross-default provisions, such that if a default occurs under any of those debt agreements, generally the lenders under our other Agency and Interim debt agreements could also declare a default. We were in compliance with all covenants as of June 30, 2018.

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

Debt Obligations

We have a senior secured term loan credit agreement (the “Term Loan Agreement”). The Term Loan Agreement provides for a $175.0 million term loan that was issued at a discount of 1.0% (the “Term Loan”). At any time, we may also elect to request the establishment of one or more incremental term loan commitments to make up to three additional term loans (any such additional term loan, an “Incremental Term Loan”) in an aggregate principal amount for all such Incremental Term Loans not to exceed $60.0 million.

We are obligated to repay the aggregate outstanding principal amount of the Term Loan in consecutive quarterly installments equal to $0.3 million on the last business day of each quarter. The Term Loan also requires other prepayments in certain circumstances pursuant to the terms of the Term Loan Agreement. The final principal installment of the Term Loan is required to be paid in full on December 20, 2020 (or, if earlier, the date of acceleration of the Term Loan pursuant to the terms of the Term Loan Agreement) and will be in an amount equal to the aggregate outstanding principal of the Term Loan on such date (together with all accrued interest thereon).

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At our election, the Term Loan will bear interest at either (i) the "Base Rate" plus an applicable margin or (ii) the LIBOR Rate plus an applicable margin, subject to adjustment if an event of default under the Term Loan Agreement has occurred and is continuing with a minimum LIBOR Rate of 1.0%. The "Base Rate" means the highest of (a) the administrative agent's "prime rate," (b) the federal funds rate plus 0.50% and (c) LIBOR for an interest period of one month plus 1%. The applicable margin is 3.00% for LIBOR Rate loans and 2.00% for Base Rate loans as of June 30, 2018.

Our obligations under the Term Loan Agreement are guaranteed by Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC, Walker & Dunlop Capital, LLC, and W&D BE, Inc., each of which is a direct or indirect wholly owned subsidiary of the Company (together with the Company, the "Loan Parties"), pursuant to a Guarantee and Collateral Agreement entered into on December 20, 2013 among the Loan Parties and the Agent. As of June 30, 2018, the outstanding principal balance of the Term Loan was $165.7 million.

The Term Loan and the warehouse facilities are senior obligations of the Company. The Term Loan Agreement contains affirmative and negative covenants, including financial covenants. As of June 30, 2018, we were in compliance with all such covenants.

Credit Quality and Allowance for Risk-Sharing Obligations

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

	June 30,	
(dollars in thousands)	2018	2017
Key Credit Metrics		
Risk-sharing servicing portfolio:		
Fannie Mae Full Risk	$ 26,133,613	$ 22,491,811
Fannie Mae Modified Risk	7,352,372	6,878,981
Freddie Mac Modified Risk	53,083	53,225
Total risk-sharing servicing portfolio	$ 33,539,068	$ 29,424,017
Non-risk-sharing servicing portfolio:		
Fannie Mae No Risk	$ 120,546	$ 203,154
Freddie Mac No Risk	28,144,411	22,326,878
GNMA - HUD No Risk	9,653,432	8,919,840
Brokered	6,232,255	5,128,453
Total non-risk-sharing servicing portfolio	$ 44,150,644	$ 36,578,325
Total loans serviced for others	$ 77,689,712	$ 66,002,342
Interim loans (full risk) servicing portfolio	131,029	288,412
Total servicing portfolio unpaid principal balance	$ 77,820,741	$ 66,290,754
Interim Program JV Managed Loans (1)	119,124	—

At risk servicing portfolio (2)	$ 29,951,211	$ 26,095,958
Maximum exposure to at risk portfolio (3)	6,165,096	5,282,883
60+ day delinquencies, within at risk portfolio	5,962	—
Specifically identified at risk loan balances associated with allowance for risk-sharing obligations	5,962	—
60+ day delinquencies as a percentage of the at risk portfolio	0.02 %	0.00 %
Allowance for risk-sharing as a percentage of the at risk portfolio	0.01	0.01
Allowance for risk-sharing as a percentage of the specifically identified at risk loan balances	68.27	N/A
Allowance for risk-sharing as a percentage of maximum exposure	0.07	0.07
Allowance for risk-sharing and guaranty obligation as a percentage of maximum exposure	0.75	0.76

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

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

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

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

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

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

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

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

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

We regularly monitor the credit quality of all loans for which we have a risk-sharing obligation. Loans with indicators of underperforming credit are placed on watch lists, assigned a numerical risk rating based on our assessment of the relative credit weakness, and subjected to additional evaluation or loss mitigation. Indicators of underperforming credit include poor financial performance, poor physical condition, and delinquency. A specific reserve is recorded when it is probable that a risk-sharing loan will foreclose or has foreclosed, a general reserve is recorded for other risk-sharing loans on the watch list, and a guaranty obligation is recorded for risk-sharing loans that are not on the watch list.

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

For the six months ended June 30, 2018, the provision for risk-sharing obligations was $257 thousand compared to a benefit of $35 thousand for the six months ended June 30, 2017. As there is currently only one defaulted loan in the at risk servicing portfolio, the Allowance

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for risk-sharing obligations as of June 30, 2018 is based primarily on our collective assessment of the probability of loss related to the loans on the watch list as of June 30, 2018. The Allowance for risk-sharing obligations as of June 30, 2017 was based entirely on our collective assessment of the probability of loss related to the loans on the watch list as of June 30, 2017.

We have never been required to repurchase a loan.

Off-Balance Sheet Arrangements

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

New/Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

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

Some of our assets and liabilities are subject to changes in interest rates. Earnings from escrows are generally based on LIBOR. 30-day LIBOR as of June 30, 2018 and 2017 was 209 basis points and 122 basis points, respectively. The following table shows the impact on our annual escrow earnings due to a 100-basis point increase and decrease in 30-day LIBOR based on our escrow balances outstanding at each period end. A portion of these changes in earnings as a result of a 100-basis point increase in the 30-day LIBOR would be delayed several months due to the negotiated nature of some of our escrow arrangements.

	As of June 30,	
Change in annual escrow earnings due to (in thousands):	2018	2017
100 basis point increase in 30-day LIBOR	$ 21,517	$ 15,869
100 basis point decrease in 30-day LIBOR	(21,517)	(17,822)

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

	As of June 30,	
Change in annual net warehouse interest income due to (in thousands):	2018	2017
100 basis point increase in 30-day LIBOR	$ (5,946)	$ (5,021)
100 basis point decrease in 30-day LIBOR	5,946	5,021

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

	As of June 30,	
Change in annual earnings due to (in thousands):	2018	2017
100 basis point increase in 30-day LIBOR	$ (1,657)	$ (1,668)
100 basis point decrease in 30-day LIBOR (1)	1,657	367

(1) The decrease in 2017 was 22 basis points due to the 30-day LIBOR floor.

Market Value Risk

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 $28.4 million as of June 30, 2018, compared to $23.8 million as of June 30, 2017. Our Fannie Mae and Freddie Mac servicing arrangements provide for make-whole payments in the event of a voluntary prepayment prior to the expiration of the prepayment protection period. Our servicing contracts with institutional investors and HUD do not require payment of a make-whole amount. As of both June 30, 2018 and 2017, 87% of the servicing fees are protected from the risk of prepayment through make-whole requirements; given this significant level of prepayment protection, we do not hedge our servicing portfolio for prepayment risk.

Item 4. Controls and Procedures

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

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

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We have included in Part I, Item 1A of our 2017 Form 10-K descriptions of certain risks and uncertainties that could affect our business, future performance, or financial condition (the “Risk Factors”). There have been no material changes from the disclosures provided in the 2017 Form 10-K with respect to the Risk Factors. Investors should consider the Risk Factors prior to making an investment decision with respect to the Company’s stock.

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

Issuer Purchases of Equity Securities

Under the 2015 Equity Incentive Plan, subject to the Company's approval, grantees have the option of electing to satisfy tax withholding obligations at the time of vesting or exercise by allowing us to withhold and purchase at the prevailing market price the shares of stock otherwise issuable to the grantee. During the quarter ended June 30, 2018, we did not purchase any shares to satisfy grantee tax withholding obligations on share-vesting events. Additionally, we announced a share repurchase program in the first quarter of 2018. The repurchase program authorized by our Board of Directors permits us to repurchase up to $50.0 million of shares of our common stock over a 12-month period ending February 9, 2019. The Company had $50.0 million of authorized share repurchase capacity remaining as of June 30, 2018. The following table provides information regarding common stock repurchases for the quarter ended June 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs	
April 1-30, 2018	—	N/A	—	$	50,000,000
May 1-31, 2018	—	N/A	—		50,000,000
June 1-30, 2018	—	N/A	—		50,000,000
Total	—	N/A	—	$	50,000,000

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits:

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

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

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4.2		Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 27, 2010)
4.3		Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 27, 2010)
4.4		Piggy-Back Registration Rights Agreement, dated June 7, 2012, by and among Column Guaranteed, LLC, William M. Walker, Mallory Walker, Howard W. Smith, III, Deborah A. Wilson, Richard C. Warner, CW Financial Services LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012 filed on August 9, 2012)
4.5		Voting Agreement, dated as of June 7, 2012, by and among Walker Dunlop, Inc., Walker Dunlop, LLC, Mallory Walker, William M. Walker, Richard Warner, Deborah Wilson, Richard M. Lucas, and Howard W. Smith, III, and CW Financial Services LLC (incorporated by reference to Annex C of the Company's proxy statement filed on July 26, 2012)
4.6		Voting Agreement, dated as of June 7, 2012, by and among Walker Dunlop, Inc., Walker Dunlop, LLC, Column Guaranteed, LLC and CW Financial Services LLC (incorporated by reference to Annex D of the Company's proxy statement filed on July 26, 2012)
31.1	*	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of Walker & Dunlop, Inc.'s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	**	Certification of Walker & Dunlop, Inc.'s Chief Executive Officer and Chief Financial Officer 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 herewith.

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SIGNATURES

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

Date: August 1, 2018	By:	/s/ William M. Walker William M. Walker Chairman and Chief Executive Officer
Date: August 1, 2018	By:	/s/ Stephen P. Theobald Stephen P. Theobald Executive Vice President and Chief Financial Officer