Walker & Dunlop, Inc.
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

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

7501 Wisconsin Avenue, Suite 1200E

Bethesda, Maryland 20814

(301) 215-5500

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

area code, of registrant s principal executive offices)

Not Applicable

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

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

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

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

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

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

As of November 5, 2012 there were 34,618,820 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

September 30, 2012 and December 31, 2011

(In thousands, except share and per share data)

		September 30, 2012 (unaudited)		December 31, 2011
Assets				
Cash and cash equivalents	$	82,613	$	53,817
Restricted cash		6,991		7,164
Pledged securities, at fair value		32,080		18,959
Loans held for sale, at fair value		1,293,320		268,167
Loans held for investment		16,426		
Servicing fees and other receivables, net		28,443		18,501
Derivative assets		37,986		10,638
Mortgage servicing rights		294,704		137,079
Goodwill		53,401		
Intangible assets		12,490		1,196
Other assets		20,250		7,075
Total assets	$	1,878,704	$	522,596
Liabilities and Stockholders Equity				
Liabilities				
Accounts payable and other accrued expenses	$	108,941	$	76,163
Performance deposits from borrowers		12,188		10,425
Derivative liabilities		17,881		5,223
Guaranty obligation, net of accumulated amortization		20,114		9,921
Allowance for risk-sharing obligations		16,844		14,917
Warehouse notes payable		1,279,947		218,426
Notes payable		83,000		23,869
Total liabilities	$	1,538,915	$	358,944
Stockholders Equity				
Stockholders equity:				
Preferred shares, Authorized 50,000,000, none issued.	$		$	

Common stock, $0.01 par value. Authorized 200,000,000; issued and outstanding 33,449,119 shares in 2012 and 21,748,598 shares in 2011.		334		217
Additional paid-in capital		234,981		81,190
Retained earnings		104,474		82,245
Total stockholders equity	$	339,789	$	163,652
Commitments and contingencies				
Total liabilities and stockholders equity	$	1,878,704	$	522,596

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except share and per share data)

(Unaudited)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Revenues				
Gains from mortgage banking activities	$ 53,400	$ 21,562	$ 107,136	$ 69,678
Servicing fees	13,307	8,757	32,513	24,517
Net warehouse interest income	1,248	1,052	3,259	2,828
Escrow earnings and other interest income	708	342	1,772	1,115
Other	1,463	1,643	6,568	6,621
Total revenues	$ 70,126	$ 33,356	$ 151,248	$ 104,759
Expenses				
Personnel	$ 32,173	$ 11,343	$ 61,177	$ 33,413
Amortization and depreciation	17,000	6,267	31,002	16,258
Provision for risk-sharing obligations	(848)	937	1,126	3,447
Interest expense on corporate debt	388	180	719	646
Other operating expenses	9,635	4,977	20,843	12,260
Total expenses	$ 58,348	$ 23,704	$ 114,867	$ 66,024
Income from operations	$ 11,778	$ 9,652	$ 36,381	$ 38,735
Income tax expense	4,680	3,573	14,152	14,886
Net income	$ 7,098	$ 6,079	$ 22,229	$ 23,849
Basic earnings per share	$ 0.28	$ 0.28	$ 0.97	$ 1.10
Diluted earnings per share	$ 0.28	$ 0.28	$ 0.96	$ 1.10
Basic weighted average shares outstanding	25,091,153	21,629,463	22,881,795	21,614,062
Diluted weighted average shares outstanding	25,443,601	21,782,383	23,101,832	21,727,540

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)

	Nine Months Ended September 30, 2012		2011	
Cash flows from operating activities:				
Net income	$	22,229	$	23,849
Adjustments to reconcile net income to net cash used in operating activities:				
Gain attributable to fair value of future servicing rights, net of guaranty obligation		(52,091)		(37,328)
Gain on sale of MSR, less prepayment of MSR		(9)		235
Provision for risk-sharing obligations		1,126		3,447
Amortization and depreciation		31,002		16,258
Originations of loans held for sale		(2,594,190)		(2,007,164)
Sales of loans to third parties		1,691,226		2,213,038
Stock compensation		3,384		1,724
Tax benefit from vesting of equity awards		7		
Cash paid to settle risk-sharing obligations		(2,030)		(680)
Amortization of leasehold inducement		(58)		
Cash allowance received from landlord		1,301		
Cash received from sale of assets acquired		2,244		
Changes in:				
Restricted cash and pledged securities		(3,291)		(3,999)
Servicing fees and other receivables		498		(7,595)
Derivative fair value adjustments		(9,701)		319
Other assets		(5,536)		(1,061)
Accounts payable and other accruals		9,850		8,956
Performance deposits from borrowers		1,763		3,588
Net cash (used in) provided by operating activities	$	(902,276)	$	213,587
Cash flows from investing activities:				
Capital expenditures	$	(4,668)	$	(1,686)
Acquisition of CWCapital LLC, net of cash acquired and other assets		(208,109)		
Net increase in loans held for investment		(16,368)		
Net cash used in investing activities	$	(229,145)	$	(1,686)
Cash flows from financing activities:				
Borrowings (repayments) of warehouse notes payable, net	$	951,670	$	(158,300)
Borrowings (repayments) of notes payable, net		59,131		(2,853)
Debt issuance costs		(1,108)		
Proceeds from issuance of common stock		150,698		2,053
Repurchase of common stock		(167)		
Tax benefit from vesting of equity awards		(7)		
Net cash provided by (used in) financing activities	$	1,160,217	$	(159,100)
Net increase in cash and cash equivalents	$	28,796	$	52,801
Cash and cash equivalents at beginning of period		53,817		33,285
Cash and cash equivalents at end of period	$	82,613	$	86,086

Supplemental Disclosure of Cash Flow Information:				
Cash paid to third parties for interest	$	4,296	$	2,869
Cash paid for taxes	$	8,256	$	10,956

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 & Dunlo consolidated companies. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012, or thereafter.

Walker & Dunlop is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. The Company originates, sells and services a range of multifamily and other commercial real estate financing products. The Company s clients are owners and developers of commercial real estate across the country. The Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs), the Government National Mortgage Association (Ginnie Mae) and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, HUD), with which Walker & Dunlop has long-established relationships. The Company retains servicing rights and asset management responsibilities on nearly all loans that it sells to GSEs and HUD. Walker & Dunlop is approved as a Fannie Mae Delegated Underwriting and Servicing (DUS TM) lender nationally, a Freddie Mac Program Plus lender in 22 states and the District of Columbia, a HUD Multifamily Accelerated Processing (MAP) lender nationally, and a Ginnie Mae issuer. The Company also originates and services loans for a number of life insurance companies and other institutional investors, in which cases it does not fund the loan but rather acts as a loan broker.

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

On June 7, 2012, the Company entered into a purchase agreement (the Purchase Agreement), by and among the Company, its indirect wholly owned subsidiary, Walker & Dunlop, LLC, CWCapital LLC (CWCapital) and CW Financial Services LLC (CW Financial), pursuant to which Walker & Dunlop, LLC agreed to acquire all of CW Financial s interests in CWCapital (the Acquisition), for approximately $220 million, consisting of a cash payment to CW Financial of $80 million and the Company s issuance in a private placement to CW Financial of approximately 11.6 million shares of common stock. The Acquisition closed, pursuant to the terms of the Purchase Agreement, on September 4, 2012, at which time the total consideration transferred was valued at approximately $231 million. The increase in the fair value of the consideration transferred is the result of an increase in the fair value of the Company s common stock from execution of the Purchase Agreement to the closing date. Upon closing of the Acquisition, CWCapital became an indirect wholly owned subsidiary of the Company. By virtue of the Company s ownership of CWCapital, the Company also acquired a 50% ownership in ARA Finance LLC, a joint venture with ARA Finco LLC, in which ARA Finco LLC owns the remaining 50% of ARA Finance LLC. The Company accounts for its investment in ARA Finance LLC under the equity method of accounting.

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Comprehensive Income For the three and nine months ended September 30, 2012 and 2011, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

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

The Company places cash and temporary investments with high-credit-quality financial institutions and believes no significant credit risk exists. The counterparties to the loans held for sale and funding commitments are owners of multifamily properties located throughout the United States. Mortgage loans are generally transferred or sold within 60 days from the date that a mortgage loan is funded.

There is no material counterparty risk with respect to the Company s funding commitments as each potential borrower must make a non-refundable good faith deposit when the funding commitment is executed. The counterparty to the forward sale is generally an investment bank. There is a risk that the purchase price agreed to by the investor will be reduced in the event of a late delivery. The risk for non-delivery of a loan primarily results from the risk that a borrower does not close on the funding commitment in a timely manner. This risk is generally a risk mitigated by the non-refundable good faith deposit.

Goodwill and Other Intangible Assets The Company accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The Company recognizes identifiable assets acquired and liabilities (both specific and contingent) assumed at their fair values at the acquisition date. Furthermore, acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the acquired assets.

We do not amortize goodwill; instead, we evaluate goodwill for impairment at least annually. In addition to our annual impairment evaluation, we evaluate whether events or circumstances have occurred in the period subsequent to our annual impairment testing which indicate that it is more likely than not an impairment loss has occurred. We evaluate our identified intangibles for impairment annually or if other events or circumstances indicate that the carrying value may be impaired.

See Notes 3 and 4 for additional information on goodwill and other intangible assets.

Loans Held for Sale Loans held for sale represent originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded. The Company initially measures all originated loans at fair value. Subsequent to initial measurement, the Company measures all mortgage loans at fair value, unless the Company documents at the time the loan is originated that it will measure the specific loan at the lower of cost or fair market value for the life of the loan. Electing to use fair value allows a better offset of the change in fair value of the loan and the change in fair value of the derivative instruments used as economic hedges. During the period prior to its sale, interest income on a loan held for sale is calculated in accordance with the terms of the individual loan. There were no loans held for sale that were valued at the lower of cost or market or on a non-accrual status at September 30, 2012 and December 31, 2011.

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

The co-broker fees for the three and nine months ended September 30, 2012 were $5.2 million and $13.6 million; and were $3.6. million and $17.4 million for the three and nine months ended September 30, 2011, respectively.

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Transfer of financial assets is reported as a sale when (a) the transferor surrenders control over those assets and (b) consideration other than beneficial interests in the transferred assets is received in exchange. The transferor is considered to have surrendered control over transferred assets if, and only if, certain conditions are met. The Company has determined that all loans sold have met these specific conditions and accounts for all transfers of mortgage loans and mortgage participations as completed sales.

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

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

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

Subsequent to the initial measurement date, the liability is amortized over the life of the guaranty period using the straight-line method. We evaluate the allowance for risk-sharing obligations by monitoring the performance of each loan for events or conditions which may signal a potential default. In instances where payment under the guaranty on a specific loan is determined to be probable and estimable, we record an additional liability for the estimated allowance for risk-sharing through a charge to the provision for risk-sharing obligations, along with a write-off of the associated loan-specific MSR (Note 6).

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

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

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

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

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

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

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

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

Deferred tax assets are recognized only to the extent that it is more likely than not that they will be realizable based on consideration of available evidence, including future reversals of existing taxable temporary differences, projected future taxable income and tax planning strategies. Net deferred tax liabilities are included in Accounts payable and other accrued expenses in the accompanying condensed consolidated balance sheets.

We had no accruals for tax uncertainties as of September 30, 2012 or December 31, 2011.

Net Warehouse Interest Income The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans that are held for sale and those 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. 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 interst income and expense are earned or incurred on loans held for investment after a loan is closed and before a loan is repaid. Included in net warehouse interest income for the three and nine months ended September 30, 2012 and 2011 are the following components (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Warehouse interest income	$ 4,169	$ 2,654	$ 9,722	$ 6,755
Warehouse interest expense	2,921	1,602	6,463	3,927
Net warehouse interest income	$ 1,248	$ 1,052	$ 3,259	$ 2,828

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

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

NOTE 3 ACQUISITION OF CWCAPITAL LLC

On June 7, 2012, the Company entered into a Purchase Agreement, by and among the Company, its indirect wholly owned subsidiary, Walker & Dunlop, LLC, CWCapital and CW Financial, pursuant to which Walker & Dunlop, LLC agreed to acquire all of CW Financial s interests in CWCapital, for approximately $220 million (comprising a cash payment to CW Financial of $80 million and the balance consisting of the Company s issuance in a private placement to CW Financial of approximately 11.6 million shares of common stock).

CWCapital, a Massachusetts limited liability company, was one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending, originating and selling mortgage loans pursuant to the programs of

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Fannie Mae, Freddie Mac, Ginnie Mae and HUD. CWCapital had approximately 180 employees in 14 offices nationwide. In reaching its decision to recommend and approve the transaction, the Company s management and board of directors considered a variety of factors weighing positively in favor of the Acquisition, including but not limited to, strategic benefits, CWCapital s businesses, operating results, financial condition and management, the consideration and terms of the Purchase Agreement, financing and closing agreements.

The Acquisition closed on September 4, 2012, pursuant to the terms of the Purchase Agreement. Upon closing of the Acquisition, CWCapital became an indirect wholly owned subsidiary of the Company and was renamed Walker & Dunlop Capital, LLC. The consideration transferred at the close of the Acquisition totaled approximately $231 million, consisting of $80 million in cash and 11,647,255 shares of the Company s common stock at a closing date fair value of $151 million.

The Company recorded the fair value of the assets acquired and liabilities assumed as of August 31, 2012, the date which the Company obtained control pursuant to the Closing Side Letter by and among the Company, Walker & Dunlop, LLC, CWCapital and CW Financial, whereby the closing of the Acquisition was deemed to have occurred and become effective at 11:59 p.m. on August 31, 2012. The Company has also included CWCapital s results of operations and cash flows in its financial statements from August 31, 2012 forward. Amounts recorded upon the closing of the acquisition of CWCapital, are as follows (in thousands):

		August 31, 2012
Assets acquired and liabilities assumed		
Cash	$	22,955
Pledged securities		9,657
Servicing fees and other accounts receivable		11,777
Loans held for sale		332,841
Derivative assets		19,852
Mortgage servicing rights		130,543
Other assets		3,905
Mortgage pipeline intangible asset		18,700
Accounts payable		(22,921)
Derivative liabilities		(16,107)
Guaranty obligation		(8,254)
Allowance for risk-sharing obligation		(4,063)
Notes payable		(321,222)
Goodwill		53,401
Consideration paid	$	231,064

The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date, with the remaining unallocated amount recognized as goodwill. The fair values assigned to identifiable intangible assets acquired and liabilities assumed were determined using the following approaches:

- Mortgage servicing rights: market and income approaches
- Mortgage pipeline: market and income approaches

The recognized goodwill of $53.4 million, all of which is expected to be tax deductible over 15 years, is attributed to the value of the assembled workforce, the broader scale of operations of the combined company s national platform and the long-term expected synergies associated with the combination.

Any changes in the estimated fair values of the assets acquired and liabilities assumed as a result of the completion of the allocation of the purchase price could change the amount of the purchase price allocable to goodwill.

The total revenues and income from operations of CWCapital, since the acquisition date and included in the accompanying consolidated statements of income for both the three and nine months ended September 30, 2012, were $27.0 million and $3.9 million, respectively.

The revenues and earnings of the combined entity, as though the Acquisition had occurred as of January 1, 2011, for the nine months ended September 30, 2012 and 2011, are as follows (in thousands):

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Supplementary pro forma information (in thousands, except per share data)	For the nine months ended September 30, 2012		2011	
Revenues	$	256,839	$	194,172
Income from operations (1)	$	67,370	$	47,493
Net income	$	53,218	$	33,682
Diluted earnings per share	$	2.30	$	1.55
Diluted shares outstanding		23,101,832		21,727,540

(1) Income from operations includes pro forma adjustments related to interest expense for additional term debt financing obtained to close the Acquisition as well as the additional tax expense as a result of the increased combined earnings. Pro forma adjustments increasing interest expense by $0.8 million and $1.1 million and tax expense by $12.1 million and $3.8 million are included in the supplementary pro forma information presented for 2012 and 2011, respectively.

NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS

The following summarizes the Company s goodwill activity for the nine months ended September 30, 2012 (in thousands):

	For the nine months ended, September 30, 2012	
Beginning balance	$	
Goodwill related to the CWCapital acquisition		53,401
Impairment		
Ending balance	$	53,401

The following summarizes the Company s other intangible assets, related to acquisition activity, as of September 30, 2012 (in thousands):

	As of September 30, 2012					
	Gross carrying value		Accumulated amortization		Net carrying value	
Mortgage pipeline intangible asset		18,700		(7,353)		11,347
Mortgage servicing rights		130,543		(2,104)		128,439
	$	149,243	$	(9,457)	$	139,786

The weighted average remaining lives of the Company s intangible assets are as follows:

- Mortgage pipeline: the mortgage pipeline will be amortized ratably over the lives of the underlying mortgage application contracts, a term that is expected to be between 18 and 24 months but is expected to fluctuate based on customer needs and/or mortgage application cancellations.

• Mortgage servicing rights: mortgage servicing rights acquired through the Acquisition are amortized using the effective yield method. The estimated lives of the mortgage servicing rights are derived based upon the stated yield maintenance and/or prepayment protection term of the underlying loans. The weighted average remaining life of the portfolio acquired is 7.5 years.

NOTE 5 GAINS FROM MORTGAGE BANKING ACTIVITIES

The gains from mortgage banking activities consist of the following activity for the three and nine months ended September 30, 2012 and 2011 (in thousands):

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	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Contractual loan origination related fees, net	$ 27,674	$ 9,657	$ 55,045	$ 32,350
Fair value of expected future cash flows from servicing recognized at commitment	27,237	12,664	55,404	39,214
Fair value of expected guaranty obligation	(1,511)	(759)	(3,313)	(1,886)
Total gains from mortgage banking activities	$ 53,400	$ 21,562	$ 107,136	$ 69,678

NOTE 6 MORTGAGE SERVICING RIGHTS

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

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

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

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

The fair value of the MSRs was $320.0 million and $158.5 million at September 30, 2012 and December 31, 2011, respectively.

The Company uses a discounted static cash flow valuation approach and the key economic assumption is the discount rate. For example see the following sensitivities:

The impact of a 100 basis point increase in the discount rate at September 30, 2012, is a decrease in the fair value of $9.4 million.

The impact of a 200 basis point increase in the discount rate at September 30, 2012, is a decrease in the fair value of $18.1 million.

Activity related to capitalized MSRs for the three and nine months ended September 30, 2012 and 2011 was as follows (in thousands):

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the nine months ended September 30, 2011
Beginning balance	$ 149,533	$ 118,597	$ 137,079	$ 106,189
Additions, following the sale of loan	24,585	18,187	51,449	41,319
Additions, CWCapital acquisition	130,543		130,543	
Amortization	(9,228)	(5,768)	(22,279)	(15,937)
Pre-payments and write-offs	(729)	(641)	(2,088)	(1,196)
Ending balance	$ 294,704	$ 130,375	$ 294,704	$ 130,375

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

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

NOTE 7 GUARANTY OBLIGATION AND ALLOWANCE FOR RISK-SHARING OBLIGATIONS

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

A summary of our guaranty obligation for the three and nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Beginning balance	$ 10,746	$ 9,398	$ 9,921	$ 8,928
Guaranty obligation recognized, following the sale of loan	1,778	740	3,565	2,019
Guaranty obligation recognized, CWCapital acquisition	8,254		8,254	
Amortization of guaranty obligation	(664)	(470)	(1,626)	(1,279)
Ending Balance	$ 20,114	$ 9,668	$ 20,114	$ 9,668

We evaluate the allowance for risk-sharing obligations by monitoring the performance of each loan for triggering events or conditions that may signal a potential default. In situations where payment under the guaranty is probable and estimable on a specific loan, we record an additional liability for the estimated allowance for risk-sharing through a charge to the provision for risk-sharing obligations in the income statement, along with a write-off of the loan-specific MSR. The amount of the provision reflects our assessment of the likelihood of payment by the borrower, the estimated disposition value of the underlying collateral and the level of risk-sharing. Historically, the loss recognition occurs at or before the loan becoming 60 days delinquent. A summary of our allowance for risk-sharing for the three and nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Beginning balance	$ 13,629	$ 13,383	$ 14,917	$ 10,873
Provision for risk sharing obligations	(848)	937	1,126	3,447
Allowance for risk-sharing obligations, CWCapital acquisition	4,063		4,063	
Write-offs		(680)	(3,262)	(680)
Ending Balance	$ 16,844	$ 13,640	$ 16,844	$ 13,640

As of September 30, 2012, the maximum quantifiable contingent liability associated with the Company s guarantees under the Fannie Mae DUS agreement was $2.6 billion. The maximum quantifiable contingent liability is not representative of the actual loss we would incur. We would be liable for this amount only if all of the loans we service for Fannie Mae, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

NOTE 8 SERVICING

The total unpaid principal balance of loans the Company was servicing for various institutional investors was $33.9 billion as of September 30, 2012, and reflects the addition of $14.5 billion (unpaid principal balance) of loan servicing on September 4, 2012, through the completion of the Acquisition.

NOTE 9 NOTES PAYABLE

To provide financing to borrowers under GSE and HUD programs, and to assist in funding interim loans, the Company has

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arranged for committed warehouse lines of credit in the aggregate amount of $885 million with certain national banks, a temporary increase commitment of $640 million with a national bank and a $450 million uncommitted facility with Fannie Mae. Consistent with industry practice, two of these facilities are revolving commitments the Company expects to renew annually, one is a revolving commitment the Company expects to renew every two years, and the last facility is provided on an uncommitted basis without a specific maturity date. The Company s ability to originate mortgage loans depends upon its ability to secure and maintain these types of short-term financings on acceptable terms.

The Company had a $150 million committed warehouse line agreement that was scheduled to mature on November 26, 2012. On September 4, 2012, contemporaneously with the closing of the Acquisition, the Company entered into the Warehousing Credit and Security Agreement with a national bank to replace the existing $150 million warehouse line with a $500 million committed warehouse line that matures on September 3, 2013. The Warehousing Credit and Security Agreement provides the Company with the ability to fund its 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 average 30-day London Interbank Offered Rate (LIBOR) plus 185 basis points. On December 6, 2012, the warehousing commitment amount will automatically be reduced to $425 million. On or before December 6, 2012, it is anticipated that an alternative lender will (but is not obligated to) become an assignee of up to at least $75 million of committed capacity, and may provide a maximum total commitment of $200 million. At no time will the maximum total commitment for all lenders under the Warehousing Credit and Security Agreement exceed $625 million.

The Warehousing Credit and Security Agreement contains certain affirmative and negative covenants that are binding on the Company s operating subsidiary (which are in some cases subject to exceptions), including, but not limited to, restrictions on its ability to assume, guarantee or become contingently liable for the obligation of another person, to undertake certain fundamental changes such as reorganizations, mergers, amendments to our certificate of formation or operating agreement, liquidations, dissolutions or dispositions or acquisitions of assets or businesses, to cease to be directly or indirectly wholly owned by the Company, to pay any subordinated debt in advance of its stated maturity or to take any action that would cause the Company s operating subsidiary to lose all or any part of its status as an eligible lender, seller, servicer or issuer or any license or approval required for it to engage in the business of originating, acquiring or servicing mortgage loans.

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

- a tangible net worth covenant;
- an agency compliance covenant;
- a leverage ratio (as defined in the Warehousing Credit and Security Agreement) of not greater than 2.25;
- a liquid assets covenant;
- a servicing delinquencies covenant; and
- a total servicing portfolio covenant.

The Warehousing Credit and Security Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods).

On September 28, 2012, the Company amended this committed warehouse line agreement to provide for a temporary increase commitment (Temporary Increase Agreement) of $640 million, temporarily increasing the warehouse commitment amount available to $1.14 billion until the earliest of December 6, 2012, an event of default under the existing warehouse agreement or the termination of the warehousing commitment pursuant to the terms of the existing warehouse agreement. Borrowings under the Temporary Increase Agreement are only available when outstanding funding under the existing warehouse facility exceeds $500 million and will accrue interest at a rate of the average 30-day LIBOR plus 185 basis points. In the event the aggregate interest accrued over the term of the Temporary Increase Agreement is less than $1 million, the borrower is obligated to pay an amount equal to $1 million minus the actual accrued interest. As of September 30, 2012, there were $899.6 million of borrowings outstanding under this line and corresponding loans held for sale.

On September 4, 2012, contemporaneously with the closing of the Acquisition, the Company amended its $350 million committed warehouse agreement that was scheduled to mature on February 28, 2013. The committed warehouse facility provides the Company with the ability to fund its Fannie Mae, Freddie Mac and HUD loans. The amendment, among other things extended the maturity date to September 3, 2013, reduced the rate for borrowing from the average 30-day LIBOR plus 185 basis points to the average 30-day LIBOR plus 175 basis points and amended the negative and financial covenants to conform to those of our $500 million Warehousing Credit and Security Agreement, described above, with the exception of the leverage ratio covenant, which is not included in the amended facility. As of September 30, 2012, there were $182.7 million of borrowings outstanding under this line and corresponding loans held for sale.

The Company has a $450 million uncommitted facility with Fannie Mae under its ASAP funding program. After approval of

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certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the loan balance and borrowings under this program bear interest at the average 30-day LIBOR plus 115 basis points. As of September 30, 2012, there were $74.9 million of borrowings outstanding under this program. There is no expiration date for this facility.

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

The Company has a $35 million committed warehouse line agreement that matures on July 21, 2013, subject to one year extensions at the lenders discretion. The facility provides the Company with the ability to fund first mortgage loans (interim loans) on multifamily real estate properties for periods of up to two years, using available cash in combination with advances under the facility. All borrowings bear interest at the average 30-day LIBOR plus 250 basis points. Borrowings under the facility are full recourse to the Company. As of September 30, 2012, there were $12.4 million of borrowings outstanding under this line and two corresponding loans held for investment.

Upon closing the Acquisition, the Company, Walker & Dunlop, LLC, CW Financial and Walker & Dunlop Capital, LLC (formerly CWCapital) entered into agreements to amend the three outstanding warehouse lines of Walker & Dunlop Capital, LLC that existed immediately prior to the Acquisition (collectively, the Old Warehouse Lines) to (i) freeze the Old Warehouse Lines on the closing date of the acquisition by eliminating the ability of Walker & Dunlop Capital, LLC, or any other entity, to request advances under the Old Warehouse Lines, (ii) provide for repayment in full of any outstanding borrowings under the Old Warehouse Lines, each within a period of not more than 75 days after the closing date, and (iii) substitute CW Financial s guarantees of the Old Warehouse Lines with guarantees by the Company. As of September 30, 2012, there were $110.5 million of borrowings outstanding under these lines.

All of the notes payable, including the warehouse facilities, are senior obligations of the Company. The agreements above contain cross-default provisions, such that if a default occurs under any of our debt agreements, generally the lenders under the Company s other debt agreements could also declare a default. As of September 30, 2012, the Company was in compliance with all of its warehouse line covenants.

Debt Obligations

On October 31, 2006, the Company entered into a $42.5 million term note agreement (the Existing Term Loan Agreement) which, as amended, was scheduled to mature on October 31, 2015. On September 4, 2012, and substantially contemporaneously with the closing of the Acquisition, the Company entered into a senior secured term loan credit agreement (the Credit Agreement) with a group of lenders that replaced the Company s $42.5 million Existing Term Loan Agreement. The Credit Agreement provides for an $83.0 million term loan (the Term Loan). At September 30, 2012, there were $83.0 million of borrowings outstanding under the Credit Agreement.

On September 4, 2012 (the Closing Date), $61.8 million of the Term Loan proceeds were used to pay cash consideration to CW Financial under the Purchase Agreement, $20.7 million of the Term Loan proceeds were used to refinance the Existing Term Loan Agreement and the remaining $0.5 million of the proceeds were used to repay certain existing indebtedness of the Company to former equity holders in our predecessor entities (during 2008, we purchased small amounts of subsidiary equity from certain existing employees and issued notes that were subordinated to the Existing Term Loan Agreement).

The Term Loan amortizes in equal quarterly installments of $2,075,000 commencing 90 days after the Closing Date, with a final maturity date for all remaining amounts due under the Term Loan of August 31, 2017. Other than the scheduled quarterly amortization installments, any payments of Term Loan principal during the first 18 months after the Closing Date (the Lockout Period) must be accompanied by a prepayment penalty fee equal to the amount of interest that would have accrued on the prepaid principal amount during the then remaining portion of the Lockout Period.

Borrowings under the Credit Agreement bear interest at a rate derived from LIBOR for a one-month interest period plus an applicable margin of 3.75%, subject to adjustment if an event of default is continuing.

The obligations of the Company under the Credit Agreement are guaranteed by Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC and Walker & Dunlop Capital, LLC (upon closing of the Acquisition, CWCapital became an indirect wholly-owned subsidiary of the Company and changed its name from CWCapital LLC to Walker & Dunlop Capital, LLC), 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 the Closing Date among the Loan Parties and the lender (the Guarantee and Collateral Agreement).

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The Credit Agreement contains certain affirmative and negative covenants that are binding on the Loan Parties, including, but not limited to, restrictions (subject to specified exceptions) on the ability of the Loan Parties to create liens on their respective property, assets or revenues, to make investments, to incur indebtedness, to merge, dissolve, liquidate or consolidate with or into another person, to make a material disposition, to pay certain dividends or related distributions, to prepay, redeem or defease prior to maturity certain indebtedness, to change the nature of their business, to enter into certain transactions with affiliates, to enter into certain burdensome agreements, to amend certain material documents or to change their respective names or fiscal years.

In addition, the Credit Agreement requires the Loan Parties to abide by certain financial covenants calculated for the Company and its subsidiaries on a consolidated basis. As of September 30, 2012, the Company was in compliance with all financial covenants of the Term Loan. The most significant financial covenants are summarized as follows:

- Four-Quarter EBITDA (as defined in the Credit Agreement and calculated to reflect the Acquisition on a pro forma basis) of not less than $35,000,000;

- Debt Service Coverage Ratio (as defined in the Credit Agreement and calculated excluding interest expense on warehouse credit lines) of not less than 3.0 to 1.0; and

- Maximum ratio of Adjusted Funded Debt to Four-Quarter EBITDA (each as defined in the Credit Agreement) of (i) 4.0 to 1.0 for each of the fiscal quarters ending on September 30, 2012, December 31, 2012, March 31, 2013, and June 30, 2013 and (ii) 3.5 to 1.0 for the fiscal quarter ending September 30, 2013 and each fiscal quarter thereafter.

NOTE 10 FAIR VALUE MEASUREMENTS

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

- *Level 1* Financial assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

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

• *Level 3* Financial assets and liabilities whose values are based on inputs that are both unobservable and significant to the overall valuation.

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

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

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

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hierarchy.

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

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

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of September 30, 2012, and December 31, 2011, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value (in thousands):

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
September 30, 2012				
Assets				
Loans held for sale	$	$ 1,293,320	$	$ 1,293,320
Pledged securities	32,080			32,080
Derivative assets			37,986	37,986
Total	$ 32,080	$ 1,293,320	$ 37,986	$ 1,363,386
Liabilities				
Derivative liabilities	$	$	$ 17,881	$ 17,881
Total	$	$	$ 17,881	$ 17,881
December 31, 2011				
Assets				
Loans held for sale	$	$ 268,167	$	$ 268,167
Pledged securities	18,959			18,959
Derivative assets			10,638	10,638
Total	$ 18,959	$ 268,167	$ 10,638	$ 297,764
Liabilities				
Derivative liabilities	$	$	$ 5,223	$ 5,223
Total	$	$	$ 5,223	$ 5,223

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

Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 60 days) and are not outstanding for more than one period. A roll forward of derivative instruments which require valuations based upon significant unobservable inputs, is presented below for the nine months ended September 30, 2012 and 2011 (in thousands):

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		Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments September 30, 2012
Derivative assets and liabilities, net		
Beginning balance, December 31, 2011	$	5,415
Transfers in (out) of Level 3		
Purchases		
Sales		
Issuances		
Settlements		(92,446)
Realized gains (losses) recorded in earnings		87,031
Unrealized gains (losses) recorded in earnings		20,105
Ending balance, September 30, 2012	$	20,105

		Derivative Instruments September 30, 2011
Derivative assets and liabilities, net		
Beginning balance, December 31, 2010	$	4,900
Transfers in (out) of Level 3		
Purchases		
Sales		
Issuances		
Settlements		(71,374)
Realized gains (losses) recorded in earnings		66,474
Unrealized gains (losses) recorded in earnings		3,204
Ending balance, September 30, 2011	$	3,204

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

			Quantitative Information about Level 3 Measurements		
		Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	$	37,986	Discounted cash flow	Counterparty credit risk	
Derivative liabilities		17,881	Discounted cash flow	Counterparty credit risk	

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

The carrying amounts and the fair values of the Company s financial instruments as of September 30, 2012, and December 31, 2011, are presented below (in thousands):

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	September 30, 2012			
		Carrying Amount		Fair Value
Financial Assets:				
Cash and cash equivalents	$	82,613	$	82,613
Restricted cash		6,991		6,991
Pledged securities		32,080		32,080
Loans held for sale		1,293,320		1,293,320
Loans held for investment		16,426		16,500
Derivative assets		37,986		37,986
Total	$	1,469,416	$	1,469,490
Financial Liabilities:				
Derivative liabilities	$	17,881	$	17,881
Warehouse notes payable		1,279,947		1,279,947
Notes payable		83,000		83,000
Total	$	1,380,828	$	1,380,828

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

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

Cash and Cash Equivalents and Restricted Cash The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments (Level 1).

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

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

Loans Held For Investment Consist of originated interim loans which the Company expects to hold for investment for periods of up to two years, and are valued using discounted cash flow models that incorporate observable prices from market participants (Level 2).

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 average 30-day LIBOR plus an applicable margin. The carrying amounts approximate fair value because of the short maturity of these instruments (Level 1).

Notes Payable Consist of borrowings outstanding under term note agreements. The borrowing rates on the notes payable are based upon average 30-day LIBOR plus an applicable margin. We estimate the fair value by discounting the future cash flows of each instrument 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 (purchase) and sell multifamily mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrowers lock-in a specified interest rate within time frames established by the Company. All mortgagors are evaluated for 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 simultaneously with the rate lock commitment with the borrower. The sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Sale commitments with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

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

- the assumed gain/loss of the expected resultant loan sale to the buyer;
- the expected net future cash flows associated with servicing the loan (Level 2);
- the effects of interest rate movements between the date of the rate lock and the balance sheet date (Level 2); and
- the nonperformance risk of both the counterparty and the Company (Level 3).

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

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

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

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

The fair value of the Company s interest rate lock commitments and forward sales contracts is adjusted to reflect the risk that the agreement will not be fulfilled. The Company s exposure to nonperformance in rate lock and forward sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and forward sale contracts, and the Company s historical experience with the agreements, the risk of nonperformance by the Company s counterparties is not significant.

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		Fair Value Adjustment Components			Balance Sheet Location		
(in thousands)	Notional or Principal Amount	Assumed Gain (Loss) on Sale	Interest Rate Movement Effect	Total Fair Value Adjustment	Derivative Contract Assets	Derivative Contract Liabilities	Fair Value Adjustment To Loans Held for Sale
September 30, 2012							
Rate lock commitments	$ 700,547	$ 22,280	$ 5,749	$ 28,029	$ 31,705	$ (3,733)	$
Forward sale contracts	1,970,266		(7,867)	(7,867)	6,281	(14,148)	
Loans held for sale	1,269,719	21,483	2,118	23,601			23,601
Total		$ 43,763	$	$ 43,763	$ 37,986	$ (17,881)	$ 23,601
December 31, 2011							
Rate lock commitments	$ 226,455	$ 7,781	$ 2,785	$ 10,566	$ 10,566	$	$
Forward sale contracts	482,751		(5,151)	(5,151)	72	(5,223)	
Loans held for sale	256,296	9,505	2,366	11,871			11,871
Total		$ 17,286	$	$ 17,286	$ 10,638	$ (5,223)	$ 11,871

NOTE 11 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 DUS risk-sharing obligations). The Company is required to secure this obligation by assigning restricted cash balances and securities to Fannie Mae. The reserve for loans may be posted over the first 48 months. As of September 30, 2012, the Company had pledged cash and securities in excess of these requirements. In 2010, Fannie Mae increased its collateral requirements for Tier II loans by approximately 25 basis points effective April 1, 2011. In January 2012, Fannie Mae notified its Multifamily DUS lenders that collateral requirements on Fannie Mae Tier II, III and IV loans will remain unchanged for 2012. However, collateral requirements for existing and new Fannie Mae Tier I loans will increase from 50 basis points to 90 basis points and that Level 2 and Level 3 loss sharing requirements will increase. The Company currently has an insignificant number of loans in our portfolio which will be affected by the announced collateral changes and does not expect it will have a material impact on the Company s future operations; however, future changes to collateral requirements may adversely impact the Company. Based on the Company s aggregate Fannie Mae portfolio as of September 30, 2012, the total incremental collateral required for all existing loans over the life of the portfolio, in accordance with Fannie Mae requirements, is expected to be approximately $29.1 million. Under the provisions of the DUS agreement, the Company must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. These requirements were satisfied by the Company as of September 30, 2012 and September 30, 2011.

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

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate the Company s servicing authority for all or some of the portfolio, if at any time it determines that the Company s financial condition is not adequate to support its obligation under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of September 30, 2012. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At September 30, 2012, the net worth requirement was $86.9 million and the Company s net worth was $153.3 million, as defined. As of September 30, 2012, we were required to maintain at least $15.1 million of liquid assets to meet our operational liquidity requirements, as defined in the agreements, for Fannie Mae, Freddie Mac, HUD and Ginnie Mae. As of September 30, 2012, we had operational liquidity of $82.0 million.

Litigation *Capital Funding litigation* On February 17, 2010, Capital Funding Group, Inc. (Capital Funding) filed a lawsuit in the state Circuit Court of Montgomery County, Maryland against Walker & Dunlop, LLC, our wholly owned subsidiary, for

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alleged breach of contract, unjust enrichment and unfair competition arising out of an alleged agreement that Capital Funding had with Column Guaranteed, LLC (Column) to refinance a large portfolio of senior healthcare facilities located throughout the United States (the Golden Living Facilities). Capital Funding alleges that a contract existed between it and Column (and its affiliates) whereby Capital Funding allegedly had the right to perform the HUD refinancing for the Golden Living Facilities and according to which Capital Funding provided certain alleged proprietary information to Column and its affiliates relating to the refinancing of the Golden Living Facilities on a confidential basis. Capital Funding further alleges that Walker & Dunlop, LLC, as the alleged successor by merger to Column, is bound by Column s alleged agreement with Capital Funding, and breached the agreement by taking for itself the opportunity to perform the HUD refinancing for the Golden Living Facilities.

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

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

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

On July 19, 2011, the Circuit Court for Montgomery County, Maryland issued an order granting the defendants motion to dismiss the case; without prejudice. After the initial case was dismissed without prejudice, Capital Funding filed an amended complaint. In November 2011, the Circuit Court of Montgomery County rejected the Company s motion to dismiss the amended complaint. The parties agreed to postpone the commencement of a trial that was scheduled to begin July 9, 2012, and are pursuing settlement.

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

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

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

NOTE 12 SHARE BASED PAYMENT

In 2010, the Company s shareholders approved the adoption of the Walker & Dunlop, Inc. 2010 Equity Incentive Plan (the 2010 Equity Incentive Plan). There are 5,510,000 shares of stock authorized for issuance under the 2010 Equity Incentive Plan to directors, officers and employees.

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On June 29, 2012, the Company s Board of Directors approved amendments to the 2010 Equity Incentive Plan that: (i) increased the number of shares reserved for issuance under the 2010 Equity Incentive Plan by 3,370,000 to 5,510,000, (ii) increased individual limits of categories of awards under the 2010 Equity Incentive Plan, (iii) added additional performance measures applicable to the 2010 Equity Incentive Plan, (iv) extended the termination date of the 2010 Equity Incentive Plan, and (v) made certain other related technical amendments to the 2010 Equity Incentive Plan (collectively, the 2010 Equity Incentive Plan Amendments). The Company s stockholders voted on and approved the 2010 Equity Incentive Plan Amendments and re-approved the material terms and conditions relating to performance-based compensation under the 2010 Equity Incentive Plan at the August 30, 2012 Special Meeting of Stockholders.

During 2012, the Company granted stock options, under the 2010 Equity Incentive Plan, to officers and certain employees, with an exercise price equal to the closing price of the Company s common stock on the date of grant. The stock options have a 10 year term and vest ratably over periods of two to three years dependent solely on continued employment. In addition, the Company granted restricted shares, under the 2010 Equity Incentive Plan, to officers, employees and non-employee directors, without cost to the grantee. The restricted share awards granted to officers and employees vest ratably over three years dependent on continued employment, performance conditions, or some combination thereof. Restricted share awards to non-employee directors fully vest one year from the date of grant.

At September 30, 2012, an additional 3,647,588 shares remain available for grant under the 2010 Equity Incentive Plan.

The following table provides additional information regarding the Company s 2010 Equity Incentive Plan for the nine months ended September 30, 2012 (dollars in thousands, except per share amounts):

	Options / Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life (Years)	Aggregate Intrinsic Value
Restricted Shares				
Nonvested at beginning of period	449,236			
Granted	780,162			
Vested	(66,674)			
Forfeited	(37,562)			
Nonvested at end of period	1,125,162	$		$ 17,294
Stock Options				
Outstanding at beginning of period	214,987			
Granted	297,981			
Exercised				
Forfeited				
Expired				
Outstanding at end of period	512,968	$ 12.83	9.1	$ 1,304
Exercisable at end of period	71,660	$ 12.52	8.5	$ 204

The fair value of stock option awards granted during 2012 was estimated on the grant date using the Black-Scholes option pricing model, based on the following inputs:

		2012
Estimated option life		6.00 years
Risk free interest rate		1.09%
Expected volatility		45.76%
Expected dividend rate		0.00%
Weighted average grant date fair value per share of options granted	$	5.79

The fair values of the restricted stock that vested during the three and nine months ended September 30, 2012 and 2011 (in

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thousands) were as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Restricted stock	$ 128	$	$ 827	$

For the three months ended September 30, 2012 and September 30, 2011 share based payment expense was $1.7 million and $0.7 million, respectively. For the nine months ended September 30, 2012 and September 30, 2011 share based payment expense was $3.4 million and $1.7 million, respectively. As of September 30, 2012 the total unrecognized compensation cost for outstanding restricted shares and options was $11.7 million, net of estimated forfeitures. The unrecognized compensation cost will be recognized over each grant s applicable vesting period, with the latest vesting date being July 1, 2017.

NOTE 13 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 nine months ended September 30, 2012 and 2011:

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Weighted average number of shares outstanding used to calculate basic earnings per share	25,091,153	21,629,463	22,881,795	21,614,062
Dilutive securities				
Unvested restricted shares	352,448	152,920	220,037	113,478
Weighted average number of shares and share equivaltents outstanding used to calculate diluted earnings per share	25,443,601	21,782,383	23,101,832	21,727,540

The assumed proceeds used in the treasury method used for calculating the dilutive impact of restricted stock awards includes the unrecognized compensation costs and excess tax benefits associated with the awards. Options issued under the 2010 Equity Incentive Plan to purchase 214,987 shares of common stock (in both 2012 and 2011), and 161,788 and 30,000 restricted shares were outstanding during the three months ended September 30, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. Options issued under the 2010 Equity Incentive Plan to purchase 214,987 shares of common stock (in both 2012 and 2011), and 161,788 and 30,000 restricted shares were outstanding during the nine months ended September 30, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

NOTE 14 STOCKHOLDERS EQUITY

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

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	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders Equity
Balances at December 31, 2011	21,748,598	$ 217	$ 81,190	$ 82,245	$ 163,652
Net income				22,229	22,229
Issuance of common shares in connection with equity incentive plans	56,674		(167)		(167)
Issuance of common shares in connection with the acquisition of CWCapital LLC	11,647,255	117	150,581		150,698
Repurchase and retirement of common stock	(13,408)				
Stock-based compensation			3,384		3,384
Tax benefit from vesting of restricted shares			(7)		(7)
Balances at September 30, 2012	33,439,119	$ 334	$ 234,981	$ 104,474	$ 339,789

NOTE 15 TRANSACTIONS WITH RELATED PARTIES

As of September 30, 2012, Credit Suisse Securities (USA) LLC, through its ownership of Column, owns a 14% interest in the Company. From time to time, Credit Suisse refers HUD related financing opportunities to the Company, for which it receives fees. For the three and nine months ended September 30, 2012, Credit Suisse earned fees of $0.1 million and $0.9 million, respectively, for the referral of HUD transactions to the Company (co-broker fees). At September 30, 2012, the Company had accrued $0.1 million of co-broker fees payable to Credit Suisse.

On February 9, 2012, the Company entered into an amendment to the agreement regarding the allocation of origination fees and trade premiums generated by certain transactions, amending the terms of the allocation of origination fees and trade premiums between Credit Suisse and the Company and providing for other terms and conditions with respect to future loan origination opportunities. The amendment resulted in a $2.5 million reduction in the amount the Company owed to Credit Suisse at December 31, 2011, which was recognized as Other revenues in the nine months ended September 30, 2012.

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

A third party entity, Walker & Dunlop Multifamily Equity I, LLC (the Managing Member), in which Mr. Walker and other individuals hold ownership, is the managing member of an investment fund. The Company provides consulting and related services to the Managing Member pursuant to a corporate services agreement for a fee which approximates our cost for such services. The amount of such fees was $0.2 million and $0.1 million for the three months ended September 30, 2012 and 2011; and was approximately $0.6 million and $0.5 million for the nine months ended September 30, 2012 and 2011.

On September 4, 2012, the Company consummated the acquisition of CWCapital LLC and at such time, Fortress Investment Group LLC and its subsidiaries became a related party by virtue of its ownership of approximately 34% of the issued and outstanding common stock of the Company. Following the closing of the Acquisition, pursuant to the Transition Services Agreement, the Company has agreed to pay CW Financial $1.0 million per month for at least three months, for support services during the integration period. For both the three and nine months ended September 30, 2012, the amount of such fees paid to CW Financial was $1.0 million.

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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. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those expressed or contemplated in those forward looking statements as a result of certain factors, including those set forth under the headings Forward-Looking Statements and Risk Factors elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

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

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

- the future of Fannie Mae and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs) and their impact on our business;
- our growth strategy;
- our ability to integrate CWCapital s business with our own successfully;
- our projected financial condition, liquidity and results of operations;
- our ability to obtain and maintain warehouse and other loan funding arrangements;
- availability of and our ability to retain qualified personnel and our ability to develop relationships with borrowers, key principals and lenders;
- degree and nature of our competition;
- the outcome of pending litigation;

- changes in governmental regulations and policies, tax laws and rates, and similar matters and the impact of such regulations, policies and actions;
- our ability to comply with the laws, rules and regulations applicable to us;
- trends in the commercial real estate finance market, interest rates, commercial real estate values, the credit and capital markets or the general economy; and
- general volatility of the capital markets and the market price of our common stock.

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

Business

We are one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. We originate, sell and service a range of multifamily and other commercial real estate financing products. Our clients are owners and developers of commercial real estate across the country. We originate and sell loans through the programs of Fannie Mae, Freddie Mac, the Government National Mortgage Association (Ginnie Mae) and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, HUD), with which we have long-established relationships. We retain servicing rights and asset management responsibilities on nearly all loans that we originate for GSE and HUD programs. We are approved as a Fannie Mae Delegated Underwriting and Servicing (DUS) lender nationally, a Freddie Mac Program Plus lender in 22 states and the District of Columbia, a HUD Multifamily Accelerated Processing (MAP) lender nationally, and a Ginnie Mae issuer. We also originate and service loans for a number of life insurance companies, commercial banks and other institutional investors, in which cases we do not fund the loan but rather act as a loan broker. Additionally, through our subsidiary entities, we provide institutional advisory, asset management and investment management services specializing in debt, structured debt and equity.

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

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

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

We are currently not exposed to interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to establishing the coupon rate for the loan. We also seek to mitigate the risk of a loan not closing. We have agreements in place with the GSEs and HUD that specify the cost of a failed loan delivery, also known as a pair off fee, in the event we fail to deliver the loan to the investor. The pair off fee is typically less than the deposit we collect from the borrower. Any potential loss from a catastrophic change in the property condition while the loan is held for sale using warehouse facility financing is mitigated through property insurance equal to replacement cost. We are also protected contractually from any failure to close by an investor. We have experienced only one failed delivery in our history and did not incur any loss.

We have risk-sharing obligations on most loans we originate under the Fannie Mae DUS program. When a Fannie Mae DUS loan is subject to full risk-sharing, we absorb losses on the first 5% of the unpaid principal balance of a loan, and above 5% we share a percentage of the loss with Fannie Mae, with our maximum loss capped at 20% of the unpaid principal balance of a loan (subject to doubling or tripling if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). We may, however, request modified risk-sharing at the time of origination, which reduces our potential risk-sharing losses from the levels described above. We regularly request modified risk-sharing based on such factors as the size of the loan, market conditions and loan pricing. We may also request modified risk-sharing on large transactions if we do not believe that we are being fully compensated for the risks of the transactions or to manage overall risk levels. Except for certain Fannie Mae DUS loans acquired in the acquisition of certain assets of Column Guaranteed LLC, in 2009, which were acquired subject to their existing Fannie Mae DUS risk-sharing levels, our current credit management policy is to cap each loan balance subject to full risk-sharing at $60 million. Accordingly, we currently elect to use modified risk-sharing for loans of more than $60 million in order to limit our maximum loss exposure on any one loan to $12 million (such exposure would occur in the event that the underlying collateral is determined to be completely without value at the time of loss).

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

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

On June 7, 2012, the Company entered into a purchase agreement (the Purchase Agreement), by and among the Company, its indirect wholly owned subsidiary, Walker & Dunlop, LLC, CWCapital LLC (CWCapital) and CW Financial Services LLC (CW Financial), pursuant to which Walker & Dunlop, LLC agreed to acquire all of CW Financial s interests in CWCapital (the Acquisition), for approximately $220 million (comprising a cash payment to CW Financial of $80 million and the balance consisting of the Company s issuance in a private placement to CW Financial of approximately 11.6 million shares of common stock).

The Acquisition closed, pursuant to the terms of the Purchase Agreement, on September 4, 2012. Upon closing of the Acquisition, CWCapital became an indirect wholly owned subsidiary of the Company and was renamed Walker & Dunlop Captial, LLC. The consideration transferred at the close of the Acquisition totaled approximately $231 million, consisting of $80 million in cash and 11,647,255 shares of the Company s common stock at a closing date fair value of $151 million.

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Basis of Presentation

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

Critical Accounting Policies

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

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

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

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

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

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

Goodwill and Other Intangible Assets. The Company accounts for business combinations using the acquisition method of accounting, under which the purchase price of the acquisition is allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. The Company recognizes identifiable assets acquired, liabilities (both specific and contingent) assumed at their fair values at the acquisition date. Furthermore, acquisition-related costs, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the acquired assets.

We do not amortize goodwill; instead, we evaluate goodwill for impairment at least annually. In addition to our annual impairment evaluation, we evaluate whether events or circumstances have occurred in the period subsequent to our annual impairment testing which indicate that it is more likely than not an impairment loss has occurred. We evaluate our identified intangibles for impairment annually or if other events or circumstances indicate that the carrying value may be impaired.

Overview of Current Business Environment

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

The passage of Dodd-Frank introduced complex, comprehensive legislation into the financial and real estate recoveries, which will have far reaching effects on the industry and its participants. While we are not a banking institution, there is uncertainty as to how, in the coming years, Dodd-Frank may affect us or our competitors. In addition, the scope, extent and timing of GSE reform continues to be uncertain. Although we cannot predict what actions Congress or other governmental agencies may take affecting the GSEs and/or HUD, we

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expect some regulatory change is likely. In the interim, the GSEs and HUD continue to supply a significant level of capital to the multifamily market and are expected to continue to do so as commercial and multifamily debt refinancing activity is expected to increase.

Results of Operations

Following is a discussion of our results of operations for the three and nine months ended September 30, 2012 and 2011. The financial results are not necessarily indicative of future results. Our business is not typically subject to seasonal trends. However, our quarterly results have fluctuated in the past and are expected to fluctuate in the future, reflecting the interest rate environment, the volume of transactions and general economic conditions. Please refer to the table below, which provides supplemental data regarding our financial performance.

	For the three months ended September 30,		**For the nine months ended September 30,**	
(Dollars in thousands)	**2012**	**2011**	**2012**	**2011**
Origination Data:				
Origination Volumes by Investor				
Fannie Mae	$ 1,134,185	$ 389,884	$ 2,012,225	$ 1,248,972
Freddie Mac	552,971	178,787	860,779	443,218
Ginnie Mae - HUD	228,135	57,746	438,056	422,331
Other (1)	265,504	280,250	881,174	609,025
Total	$ 2,180,795	$ 906,667	$ 4,192,234	$ 2,723,546
Key Metrics (as a percentage of total revenues):				
Personnel expenses	46%	34%	40%	32%
Other operating expenses	14%	15%	14%	12%
Total expenses	83%	71%	76%	63%
Operating margin	17%	29%	24%	37%
Key Origination Metrics (as a percentage of origination volume):				
Origination related fees	1.27%	1.07%	1.31%	1.19%
Fair value of MSRs created, net	1.18%	1.31%	1.24%	1.37%
Fair value of MSRs created, net as a percentage of GSE and HUD origination volume (2)	1.34%	1.90%	1.57%	1.77%

	As of September 30,	
	2012	**2011**
Servicing Portfolio by Type:		
Fannie Mae	$ 18,452,944	$ 10,136,692
Freddie Mac	8,422,748	2,715,788
Ginnie Mae - HUD	4,422,182	1,262,989
Other (1)	2,588,688	1,825,330
Total	$ 33,886,562	$ 15,940,799
Key Servicing Metrics (end of period):		
Weighted-average servicing fee rate	0.23%	0.22%

(1) CMBS, life insurance companies, commercial banks and interim loans. 2012 origination volume includes $29.8 million interim loan volume, which are classified as held for investment while outstanding.

(2) The fair value of the expected net future cash flows associated with the servicing of the loan, net of any guaranty obligation retained, as a percentage of GSE and HUD volume reflects revenue recognized, as a percentage of loan origination volume, on those loans which the Company will record an MSR upon sale of the loan. No MSRs are recorded on Other originations or interim loan originations. For the three and nine months ended September 30, 2012, interim loan volume was $13.3 and $29.8 million, respectively.

Non-GAAP Financial Measures

To supplement the condensed consolidated financial statements presented in accordance with U.S. generally accepted accounting principles, or GAAP, the Company presents the following non-GAAP financial measures:

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- Adjusted net income;
- Adjusted earnings per diluted share;
- Adjusted total expenses;
- Adjusted operating income; and
- Adjusted operating margin.

These supplemental measures exclude acquisition and integration costs specifically related to the CWCapital acquisition, and amortization of customer contracts and other intangible assets acquired from CWCapital. The Company believes that these non-GAAP measures facilitate a review of the comparability of the Company s operating performance on a period-to-period basis because such costs are not, in our view, related to the Company s ongoing operational performance. We use non-GAAP measures to evaluate the operating performance of our business, for comparison with forecasts and strategic plans, and for benchmarking performance externally against competitors.

These non-GAAP measures are not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. We believe that these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company s results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate the Company s results of operations in conjunction with the corresponding GAAP measures. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP measures.

Adjusted net income, adjusted earnings per diluted share, adjusted total expenses, adjusted operating income and adjusted operating margin are calculated as follows:

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ADJUSTED FINANCIAL METRICS RECONCILIATION TO GAAP

(in thousands, except share and per share amounts)	For the three months ended September 30, 2012	2011	For the nine months ended September 30, 2012	2011
Reconciliation of GAAP Net Income and GAAP Diluted Earnings Per Share to Adjusted Net Income and Adjusted Diluted Earnings Per Share				
GAAP net income	$ 7,098	$ 6,079	$ 22,229	$ 23,849
Shares (in 000s) (1)	25,444	21,782	23,102	21,728
GAAP diluted earnings per share	$ 0.28	$ 0.28	$ 0.96	$ 1.10
GAAP net income	$ 7,098	$ 6,079	$ 22,229	$ 23,849
Adjustments:				
Severance costs	$ 1,058	$	$ 1,058	$
Amortization of intangibles	7,353		7,353	
Transition services agreement	1,000		1,000	
Deal-related expenses (2)	2,334		3,338	
Income tax impact of adjustments	(4,569)		(4,959)	
Adjusted net income	$ 14,274	$ 6,079	$ 30,019	$ 23,849
Shares (in 000s) (1)	25,444	21,782	23,102	21,728
Adjusted diluted earnings per share	$ 0.56	$ 0.28	$ 1.30	$ 1.10
Reconciliation of GAAP Income from Operations and GAAP Operating Margin to Adjusted Income from Operations and Adjusted Operating Margin				
GAAP income from operations	$ 11,778	$ 9,652	$ 36,381	$ 38,735
Total revenues	70,126	33,356	151,248	104,759
GAAP operating margin	17%	29%	24%	37%
GAAP income from operations	$ 11,778	$ 9,652	$ 36,381	$ 38,735
Adjustments:				
Severance costs	$ 1,058	$	$ 1,058	$
Amortization of intangibles	7,353		7,353	
Transition services agreement	1,000		1,000	
Deal-related expenses (2)	2,334		3,338	
Adjusted income from operations	$ 23,523	$ 9,652	$ 49,130	$ 38,735
Total revenues	70,126	33,356	151,248	104,759
Adjusted operating margin	34%	29%	32%	37%
Reconciliation of GAAP Total Expenses to Adjusted Total Expenses				
GAAP total expenses	$ 58,348	$ 23,704	$ 114,867	$ 66,024
Adjustments:				
Severance costs	$ 1,058	$	$ 1,058	$
Amortization of intangibles	7,353		7,353	
Transition services agreement	1,000		1,000	
Deal-related expenses (2)	2,334		3,338	
Adjusted total expenses	$ 46,603	$ 23,704	$ 102,118	$ 66,024

(1): Diluted weighted average shares outstanding.

(2): Includes legal and advisory fees incurred in connection with the transaction.

Overview

Our net income was $7.1 million for the three months ended September 30, 2012, compared to $6.1 million for the three months ended September 30, 2011, a 17% increase. For the nine months ended September 30, 2012, our net income was $22.2 million, compared to $23.8 million for the same period in 2011, a 7% decrease. Our adjusted net income for the three months ended September 30, 2012, was $14.3 million, compared to $6.1 million in 2011, a 135% increase. Our adjusted net income for the nine months ended September 30, 2012, was

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$30.1 million, compared to $23.8 million in the same period in 2011, a 26% increase.

Our total revenues were $70.1 million for the three months ended September 30, 2012, compared to $33.4 million for the three months ended September 30, 2011, a 110% increase. The increase in revenues for the three months ended September 30, 2012, was primarily attributable to the 141% increase in origination volumes and 52% increase in servicing fees, when compared to the same period in the prior year. For the nine months ended September 30, 2012, our total revenues were $151.2 million, compared to $104.8 million for the same period a year ago, a 44% increase. The increase in revenues for the nine months ended September 30, 2012, was primarily attributable to the 54% increase in origination volumes and the 33% increase in servicing fees, when compared to the same period in the prior year.

Our total expenses were $58.3 million for the three months ended September 30, 2012, compared to $23.7 million for the three months ended September 30, 2011, a 146% increase. During the nine months ended September 30, 2012, our total expenses were $114.9 million, compared to $66.0 million for the same period a year ago, a 74% increase. Increases in expenses for the three and nine month periods are primarily attributable to specific expenses incurred as a result of the Acquisition, increases in fixed compensation costs as a result of the growth of our Company following the acquisition, and increases in variable commission costs resulting from the increase in origination volumes period over period. Removing the impact of the Acquisition, adjusted total expenses were $46.6 million for the three months ended September 30, 2012, compared to $23.7 million for the same period a year ago, a 97% increase. During the nine months ended September 30, 2012, adjusted total expenses were $102.1 million, compared to $66.0 million for the same period a year ago, a 55% increase.

Our consolidated income from operations was $11.8 million for the three months ended September 30, 2012, compared to $9.7 million for the three months ended September 30, 2011, a 22% increase. For the nine months ended September 30, 2012, our consolidated income from operations was $36.4 million, compared to $38.7 million for the same period a year ago, a 6% decrease. Our operating margins were 17% and 24% for the three and nine months ended September 30, 2012, respectively, compared to 29% and 37% for the three and nine months ended September 30, 2011, respectively. Consolidated income from operations and operating margins were impacted by expenses specifically attributable to the Acquisition. Adjusted income from operations was $23.5 million for the three months ended September 30, 2012, compared to $9.6 million for the same period a year ago, an increase of 144%. Adjusted income from operations for the nine months ended September 30, 2012 was $49.1 million, compared to $38.7 million for the same period a year ago, an increase of 27%. Our adjusted operating margins were 34% and 32% for the three and nine months ended September 30, 2012, respectively, compared to 29% and 37% for the three and nine months ended September 30, 2011, respectively.

Revenues

Gains From Mortgage Banking Activities. Gains from mortgage banking activities were $53.4 million for the three months ended September 30, 2012, compared to $21.6 million for the three months ended September 30, 2011, a 148% increase. For the nine months ended September 30, 2012, gains from mortgage banking activities were $107.1 million, compared to $69.7 million for the same period a year ago, a 54% increase. Gains from mortgage banking activities reflect the fair value of loan origination fees, premiums or losses on the sale of loans, net of any co-broker fees (collectively, loan origination related fees), and the fair value of the expected net future cash flows associated with the servicing of the loan, net of any guaranty obligations retained.

Loan origination related fees were $27.7 million for the three months ended September 30, 2012, compared to $9.7 million for the three months ended September 30, 2011, a 187% increase. The increase is primarily attributable to the 141% increase in origination volume to $2.2 billion for the three months ended September 30, 2012. The increase in originations for the three months ended September 30, 2012 reflects origination growth of $247.0 million, or 27%, on a standalone basis for Walker & Dunlop, and $1.0 billion of loan originations from the newly integrated

CWCapital team. Origination fees as a percentage of origination volumes were 127 basis points for the three months ended September 30, 2012, up from 107 basis points for the same period in 2011, a 19% increase. The increase in loan origination fees as a percentage of loan origination volumes is primarily attributable to increased loan origination related fees across the Company s product offerings, particularly HUD originations. For the nine months ended September 30, 2012, loan origination related fees were $55.0 million, compared to $32.4 million for the same period a year ago, a 70% increase. These increases were primarily attributable to a 54% increase in loan origination volume, to $4.2 billion for the nine months ended September 30, 2012. Loan origination activity for the nine months ended September 30, 2012 includes eight months of Walker & Dunlop on a standalone basis, and one month as a combined enterprise. For the nine months ended September 30, 2012, origination fees as a percentage of origination volumes were 131 basis points, an increase of 10% from 119 basis points for the nine months ended September 30, 2011.

The fair value of the expected net future cash flows associated with the servicing of originated loans was $25.7 million for the three months ended September 30, 2012, compared to $11.9 million for the three months ended September 30, 2011, a 116% increase. The increase was primarily attributable to the increase in loan origination volume. The fair value of the expected net future cash flows associated with the servicing of originated loans, as a percentage of origination volumes, was 118 basis points for the three months ended September 30, 2012, compared to 131 basis points for the three months ended September 30, 2011, a 10% decrease. However, the fair value of the expected net future cash flows associated with the servicing of originated GSE and HUD loans, as a percentage of origination volumes, was 134 basis points for the three months ended September 30, 2012, compared to 190 basis points for the three months ended September 30, 2011, a 29% decrease. For the nine months ended September 30, 2012, expected net future cash flows were $52.1 million, compared to $37.3 million for the same period a year ago, a 40% increase. This increase was primarily attributable to a 54% increase in loan origination volume. The fair

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value of the expected net future cash flows associated with the servicing of originated loans, as a percentage of origination volumes, was 124 basis points for the nine months ended September 30, 2012, compared to 137 basis points for the nine months ended September 30, 2011. The fair value of the expected net future cash flows associated with the servicing of originated GSE and HUD loans, as a percentage of origination volumes, was 157 basis points for the nine months ended September 30, 2012, compared to 177 basis points for the same period in 2011, an 11% decrease. The decreases observed in the fair value of expected net future cash flows associated with the servicing of originated loans is attributed to large portfolios of loans originated during the quarter, which were highly negotiated transactions, resulting in lower servicing fee rates or shorter yield maintenance terms, both of which have the effect of decreasing the value of the mortgage servicing right that will ultimately be recognized.

Servicing Fees. Servicing fees were $13.3 million for the three months ended September 30, 2012, compared to $8.8 million for the three months ended September 30, 2011, a 52% increase. For the nine months ended September 30, 2012, servicing fees were $32.5 million, compared to $24.5 million for the same period a year ago, a 33% increase. These increases in the three and nine months ended September 30, 2012 were primarily attributable to a 113% increase in the size of the servicing portfolio to $33.9 billion at September 30, 2012, from $15.9 billion at September 30, 2011 coupled with an increase in the weighted-average servicing fee rate to 23 basis points at September 30, 2012 from 22 basis points at September 30, 2011, a 5% increase. The increase in the size of the servicing portfolio is attributed to the closing of the Acquisition and the addition of CWCapital s $14.5 billion of serviced loans.

Net Warehouse Interest Income. Net warehouse interest income was $1.2 million and $3.3 million for the three and nine months ended September 30, 2012, compared to $1.1 million and $2.8 million for the three and nine months ended September 30, 2011, increases of 19% and 15%, respectively. The increases in the three and nine months ended September 30, 2012, were primarily attributable to both increases in origination volumes and increases in the average warehouse balance and the average number of days that loans have been held in warehouse, which have offset decreases in coupon rates on loans funded and outstanding during the warehouse period. The components of net warehouse interest income are (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2012	2011	2012	2011
Warehouse interest income	$ 4,169	$ 2,654	$ 9,722	$ 6,755
Warehouse interest expense	2,921	1,602	6,463	3,927
Net warehouse interest income	$ 1,248	$ 1,052	$ 3,259	$ 2,828

Escrow Earnings and Other Interest Income. Escrow earnings and other interest income was $0.7 million for the three months ended September 30, 2012, compared to $0.3 million for the three months ended September 30, 2011, a 107% increase. During the nine months ended September 30, 2012, escrow earnings and other interest income was $1.8 million, compared to $1.1 million for the same period a year ago, a 59% increase. These increases were primarily attributable to an increase in the rate earned on certain escrow holdings, coupled with greater escrow balances associated with the growth in the servicing portfolio.

Other. Other income was $1.5 million for the three months ended September 30, 2012, compared to $1.6 million for the three months ended September 30, 2011, an 11% decrease. The decrease in the three months ended September 30, 2012, when compared to the same period in 2011 was primarily attributable to decreases in assumption fees. During the nine months ended September 30, 2012, other income was $6.6 million, compared to $6.6 million for the same period a year ago, a 1% decrease. The decrease in the nine months ended September 30, 2012, when compared to the nine months ended September 30, 2011, was primarily attributable to a decrease in assumption fees. In the nine months ended September 30, 2012, the Company recognized a $2.5 million gain resulting from an amendment to the contract that specified the allocation of origination fees and trade premiums for the refinance of a portfolio of loans. While there was no similar transaction for the nine months ended September 30, 2011, during that period a borrower entered into a purchase and sale agreement for properties which served as collateral for a credit facility, which resulted in a $2.5 million assumption fee.

Expenses

Personnel. Personnel expense was $32.2 million for the three months ended September 30, 2012, compared to $11.3 million for the three months ended September 30, 2011, a 184% increase. Personnel expense as a percentage of total revenues was 46% for the three months ended September 30, 2012, compared to 34% for the same period in 2011. For the nine months ended September 30, 2012, personnel expense was $61.2 million, compared to $33.4 million for the same period a year ago, an 83% increase. These increases were primarily attributable to increases in loan origination related fees on which the resulting loan originator commissions are based, as well as increases in compensation expense as the Company invests in its loan origination platform through the addition of origination teams and the integration of CWCapital upon closing the Acquisition, adding 12 new regional offices and 245 full time employees, since September 30, 2011. In addition, Personnel expense for both the three and nine months ended September 30, 2012, includes severance expense of $1.1 million, for which there were no comparable charges in the same periods in 2011.

Amortization and Depreciation. Amortization and depreciation expense was $17.0 million for the three months ended September 30, 2012, compared to $6.3 million for the three months ended September 30, 2011, a 171% increase. For the nine months ended September 30, 2012, amortization and depreciation expense was $31.0 million, compared to $16.3 million for the same period a year ago, a 91% increase. These increases were primarily attributable to amortization expense of $7.4 million related to the amortization of intangible assets and liabilities recognized upon closing the CWCapital acquisition, for which there were no comparable charges in the prior year. In addition, we recognized increased amortization expense due to the MSRs acquired upon closing the Acquisition, that were recorded at their fair value of approximately $130.5 million on September 4, 2012. Finally, the increase reflects the increases in MSRs due to an increase in loan origination volume as a combined company.

Provision for Risk-Sharing Obligations. The provision for risk-sharing obligations was a recovery of $(0.8) million for the three months ended September 30, 2012, compared to a $0.9 million charge for the three months ended September 30, 2011, a $1.8 million, or 190%, decrease. For the nine months ended September 30, 2012, the provision for risk-sharing obligations was $1.1 million, compared to $3.4 million for the same period a year ago, a 67% decrease. For the three months ended September 30, 2012 and 2011, the provision for risk-sharing obligations was negative one basis point and one basis point of the at risk portfolio balances, respectively. During the three months ended September 30, 2012, a property for which we share risk was sold at a price that resulted in no loss sharing obligation for the Company. The previously recognized loss for that property was reversed in the third quarter, resulting in a credit provision. For the nine months ended September 30, 2012 and 2011, the provision for risk-sharing obligations was one basis point and five basis points of the at risk portfolio balances, respectively. In the three months ended September 30, 2012, the recovery recorded to the provision for risk-sharing obligations was primarily attributable to the final loss calculations for three properties, at which time the aggregate proceeds of the sale exceeded previous loss estimates. For the nine months ended September 30, 2012, amounts recorded to the provision for risk-sharing obligations primarily related to the adjustment of the aforementioned loss estimate and the addition of three new loan loss estimates and other insignificant refinements and settlements of loss estimates on loans with existing allowances. We regularly monitor our risk-sharing obligations on all loans and update our loss estimates as current information is received.

The 60+ day delinquency rate increased to 0.15% of the at risk portfolio at September 30, 2012, from 0.0% of the at risk portfolio at September 30, 2011, and the allowance for risk-sharing obligations as a percentage of the specifically identified at risk balances increased to 10.96% at September 30, 2012, compared to 9.13% at September 30, 2011. There were net write-offs of $0.0 million and $3.3 million for the three and nine months ended September 30, 2012, respectively. There were net write-offs of $0.7 million for both the three and nine months ended September 30, 2011. Net write-offs represent the cash settlement of losses previously recorded to the provision. We have not been party to, or incurred any losses relating to, troubled debt restructurings within our at risk servicing portfolio.

Interest Expense on Corporate Debt. The interest expense on corporate debt was $0.4 million for the three months ended September 30, 2012, compared to $0.2 million for the three months ended September 30, 2011, a 116% increase. During the nine months ended September 30, 2012, interest expense on corporate debt was $0.7 million, compared to $0.6 million for the same period a year ago, an 11% increase. These increases were primarily attributable to the expansion of our term loan debt in conjunction with the closing of the Acquisition, at which time we increased our borrowings approximately $61.4 million to an aggregate $83.0 million outstanding at September 30, 2012.

Other Operating Expenses. Other operating expenses were $9.6 million for the three months ended September 30, 2012, compared to $5.0 million for the three months ended September 30, 2011, a 94% increase. For the nine months ended September 30, 2012, other operating expenses were $20.8 million, compared to $12.3 million for the same period a year ago, a 70% increase. These increases in the nine months ended September 30, 2012 were primarily attributable to an increase in professional fees when compared to the same periods in 2011. The increase in professional fees resulted from $3.3 million of legal and advisory charges incurred in completing the Acquisition, $1.0 million pursuant to the transition services agreement with CW Financial, following the completion of the Acquisition, and $0.6 million of recruiting fees paid in connection with the growth of our origination platform.

Income Tax Expense. Income tax expense for the three and nine months ended September 30, 2012 was $4.7 million and $14.1 million, respectively. Income tax expense for the three and nine months ended September 30, 2011 was $3.6 million and $14.9 million, respectively. The increase in the three months ended September 30, 2012 is primarily attributable to the increased income from operations and a slight increase in the effective tax rate, when compared to the three months ended September 30, 2011. The decrease in the nine months ended September 30, 2012 was primarily attributable to lower income from operations compared to the same period in 2011.

Financial Condition

Cash Flows from Operating Activities

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

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Cash Flow from Investing Activities

We usually lease facilities and equipment for our operations. However, when necessary and cost effective, we invest cash in property, plant and equipment.

Cash Flow from Financing Activities

We use our warehouse loan facilities and our corporate cash to fund loan closings. We believe that our current warehouse loan facilities are adequate to meet our increasing loan origination needs. Historically we have used long-term debt to fund acquisitions.

We currently have no intention to pay dividends on our common stock in the foreseeable future.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Our unrestricted cash balance was $82.6 million and $86.1 million as of September 30, 2012, and September 30, 2011, respectively, an $3.5 million decrease.

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. Cash used in operating activities was $902.3 million for the nine months ended September 30, 2012, compared to cash provided by operating activities of $213.6 million for the nine months ended September 30, 2011. The decrease in cash flows used in operations in the nine months ended September 30, 2012 is primarily attributable to the net use of $903.0 million for the funding of loan originations, net of sales of loans to third parties; compared to the receipt of $205.9 million from funding loan originations, net of sales to third parties in the nine months ended September 30, 2011. Excluding cash provided by and used for the sale and purchase of loans, cash flows provided by operations was $0.7 million in the nine months ended September 30, 2012, compared to cash flows provided by operations of $7.7 million for the nine months ended September 30, 2011.

We invested $229.1 million and $1.7 million for the nine months ended September 30, 2012, and 2011, respectively, a $227.4 million increase. The increase is primarily attributable to the investment of $16.4 million in two interim loans held for investment and the remaining increase represents approximately $208.1 million in cash outflows related to the CWCapital acquisition, including net assets acquired, intangibles and goodwill, net of cash acquired.

Cash provided by financing activities was $1,160.2 million for the nine months ended September 30, 2012, compared to $159.1 million cash used in financing activities for the nine months ended September 30, 2011. This increase was primarily attributable to the increased borrowings of warehouse notes payable, concurrent with the funding and subsequent sale of loan originations and the increased borrowings of notes payable.

Liquidity and Capital Resources

Uses of Liquidity, Cash and Cash Equivalents

Our cash flow requirements consist of (i) short-term liquidity necessary to fund mortgage loans, (ii) working capital to support our day-to-day operations, servicer advances consisting of principal and interest advances for Fannie Mae or HUD loans that become delinquent and advances on insurance and tax payments if the escrow funds are insufficient, and (iii) debt service payments, including liquidity necessary to meet the annual $8.3 million debt service requirement of our term note obligation which matures on August 31, 2017.

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate the Company s servicing authority for all or some of the portfolio, if at any time it determines that the Company s financial condition is not adequate to support its obligation under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of September 30, 2012. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At September 30, 2012, the net worth requirement was $86.9 million and the Company s net worth was $153.3 million, as defined. As of September 30, 2012, we were required to maintain at least $15.1 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 September 30, 2012, we had operational liquidity of $82.0 million.

Under our warehouse lines of credit and term note agreements, we are required to comply with various financial covenants. See Sources of Liquidity . As of September 30, 2012, we were in compliance with all such financial covenants.

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

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

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Restricted Cash and Pledged Securities

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

Restricted cash and pledged securities consist primarily of collateral for our risk-sharing obligations and good faith deposits held on behalf of borrowers between the time we enter into a loan commitment with the borrower and the investor purchases the loan. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan and the level of risk-sharing. As of September 30, 2012 we pledged securities of $32.1 million to collateralize our Fannie Mae DUS risk-sharing obligations, which was in excess of current requirements.

We fund any growth in our Fannie Mae required operational liquidity and collateral requirements from our working capital. Fannie Mae has recently increased its collateral requirements for certain segments of the Fannie Mae risk-sharing portfolio by approximately 25 basis points effective April 1, 2011. The incremental collateral required for existing and new loans will be funded over approximately the next three years, in accordance with Fannie Mae requirements. Based on our Fannie Mae portfolio as of September 30, 2012, the additional proposed collateral required by the end of the three year period is expected to be approximately $29.1 million.

Warehouse Facilities

To provide financing to borrowers under GSE and HUD programs, and to assist in funding interim loans, we have arranged for committed warehouse lines of credit in the amount of $885 million with certain national banks, a temporary increase commitment of $640 million and a $450 million uncommitted facility with Fannie Mae. Consistent with industry practice, two of these facilities are revolving commitments we expect to renew annually, one is a revolving commitment we expect to renew every two years, and the last facility is provided on an uncommitted basis without a specific maturity date. Our ability to originate mortgage loans depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

The Company had a $150 million committed warehouse line agreement that was scheduled to mature on November 26, 2012. On September 4, 2012, contemporaneously with the closing of the Acquisition, the Company entered into the Warehousing Credit and Security Agreement with a national bank to replace the existing $150 million warehouse line with a $500 million committed warehouse line that matures on September 3, 2013. The Warehousing Credit and Security Agreement provides the Company with the ability to fund its 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 average 30-day London Interbank Offered Rate (LIBOR) plus 185 basis points. On December 6, 2012, the warehousing commitment amount will automatically be reduced to $425 million. On or before December 6, 2012, it is anticipated that an alternative lender will (but is not obligated to) become an assignee of up to at least $75 million of committed capacity, and may provide a maximum total commitment of $200 million. At no time will the maximum total commitment for all lenders under the Warehousing Credit and Security Agreement exceed $625 million.

The Warehousing Credit and Security Agreement contains certain affirmative and negative covenants that are binding on our operating subsidiary (which are in some cases subject to exceptions), including, but not limited to, restrictions on its ability to assume, guarantee or become contingently liable for the obligation of another person, to undertake certain fundamental changes such as reorganizations, mergers, amendments to our certificate of formation or operating agreement, liquidations, dissolutions or dispositions or acquisitions of assets or businesses, to cease to be directly or indirectly wholly owned by the Company, to pay any subordinated debt in advance of its stated maturity or to take any action that would cause Walker & Dunlop, LLC to lose all or any part of its status as an eligible lender, seller, servicer or issuer or any license or approval required for it to engage in the business of originating, acquiring or servicing mortgage loans.

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

- a tangible net worth covenant;
- an agency compliance covenant;
- a leverage ratio (as defined in the Warehousing Credit and Security Agreement) of not greater than 2.25;
- a liquid assets covenant;
- a servicing delinquencies covenant; and
- a total servicing portfolio covenant.

The Warehousing Credit and Security Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods.

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On September 28, 2012, we amended this committed warehouse line agreement to provide for a temporary increase commitment (Temporary Increase Agreement) of $640 million, temporarily increasing the warehouse commitment amount available to $1.14 billion until the earliest of December 6, 2012, an event of default under the existing warehouse agreement or the termination of the warehousing commitment pursuant to the terms of the existing warehouse agreement. Borrowings under the Temporary Increase Agreement are only available when outstanding funding under the existing warehouse facility exceeds $500 million and will accrue interest at a rate of the average 30-day LIBOR plus 185 basis points. In the event the aggregate interest accrued over the term of the Temporary Increase Agreement is less than $1 million, the borrower is obligated to pay an amount equal to $1 million minus the actual accrued interest. As of September 30, 2012, we had $899.6 million of borrowings outstanding under this line and corresponding loans held for sale.

On September 4, 2012, contemporaneously with the closing of the Acquisition, we amended our $350 million committed warehouse agreement that was scheduled to mature on February 28, 2013. The committed warehouse facility provides us with the ability to fund our Fannie Mae, Freddie Mac, HUD and FHA loans. The amendment, among other things extended the maturity date to September 3, 2013, reduced the rate for borrowing from the average 30-day LIBOR plus 185 basis points to the average 30-day LIBOR plus 175 basis points and amends the negative and financial covenants to conform to those of our $500 million Warehousing Credit and Security Agreement, described above, with the exception of the leverage ratio covenant, which is not included in the amended facility. As of September 30, 2012, we had $182.7 million of borrowings outstanding under this line and corresponding loans held for sale.

We have a $450 million uncommitted facility with Fannie Mae under its ASAP funding program. After approval of certain loan documents, Fannie Mae will fund loans after closing and the advances are used to repay the primary warehouse line. Fannie Mae will advance 99% of the loan balance and borrowings under this program bear interest at the average 30-day LIBOR plus 115 basis points. As of September 30, 2012, we had $74.9 million of borrowings outstanding under this program. There is no expiration date for this facility.

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

We have a $35 million committed warehouse line agreement that matures on July 21, 2013, subject to one year extensions at the lenders discretion. The facility provides us with the ability to fund first mortgage loans on multifamily real estate properties for periods of up to two years, using available cash in combination with advances under the facility. All borrowings bear interest at the average 30-day LIBOR plus 250 basis points. Borrowings under the facility are full recourse to the Company. As of September 30, 2012, we had $12.4 million of borrowings outstanding under this line and two corresponding loans held for investment.

Upon closing the Acquisition, the Company, Walker & Dunlop, LLC, CW Financial and Walker & Dunlop Capital, LLC (formerly CWCapital) entered into agreements to amend the three outstanding warehouse lines of Walker & Dunlop Capital, LLC that existed immediately prior to the Acquisition (collectively, the Old Warehouse Lines) to (i) freeze the Old Warehouse Lines on the closing date of the acquisition by eliminating the ability of Walker & Dunlop Capital, LLC, or any other entity, to request advances under the Old Warehouse Lines, (ii) provide for repayment in full of any outstanding borrowings under the Old Warehouse Lines, each within a period of not more than 75 days after the closing date, and (iii) substitute CW Financial s guarantees of the Old Warehouse Lines with guarantees by the Company. As of September 30, 2012, there were $110.5 million of borrowings outstanding under these lines.

All of the notes payable, including the warehouse facilities, are senior obligations of the Company. The agreements above contain cross-default provisions, such that if a default occurs under any of our debt agreements, generally the lenders under our other debt agreements could also declare a default. As of September 30, 2012, we were in compliance with all of our warehouse line covenants.

Debt Obligations

On October 31, 2006, the Company entered into a $42.5 million term note agreement (the Existing Term Loan Agreement) which, as amended, was scheduled to mature on October 31, 2015. On September 4, 2012, and substantially contemporaneously with the closing of the Acquisition, the Company entered into a senior secured term loan credit agreement (the Credit Agreement) with a group of lenders that replaced the Company s $42.5 million Existing Term Loan Agreement. The Credit Agreement provides for an $83.0 million term loan (the Term Loan). At September 30, 2012, there were $83.0 million of borrowings outstanding under the Credit Agreement.

On September 4, 2012 (the Closing Date), $61.8 million of the Term Loan proceeds were used to pay cash consideration to CW Financial under the Purchase Agreement, $20.7 million of the Term Loan proceeds were used to refinance the Existing Term Loan Agreement and the remaining $0.5 million of the proceeds were used to repay certain existing indebtedness of the Company to former equity holders in our predecessor entities (during 2008, we purchased small amounts of subsidiary equity from certain existing employees and issued notes that were subordinated to the Existing Term Loan Agreement).

The Term Loan amortizes in equal quarterly installments of $2,075,000 commencing 90 days after the Closing Date, with a final maturity date for all remaining amounts due under the Term Loan of August 31, 2017. Other than the scheduled quarterly amortization installments, any payments of Term Loan principal during the first 18 months after the Closing Date (the Lockout Period) shall be

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accompanied by a prepayment penalty fee equal to the amount of interest that would have accrued on the prepaid principal amount during the then remaining portion of the Lockout Period.

Borrowings under the Credit Agreement bear interest at a rate derived from LIBOR for a one-month interest period plus an applicable margin of 3.75%, subject to adjustment if an event of default is continuing.

The obligations of the Company under the Credit Agreement are guaranteed by Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC and Walker & Dunlop Capital, LLC (upon closing of the Acquisition, CWCapital became an indirect wholly-owned subsidiary of the Company and changed its name from CWCapital LLC to Walker & Dunlop Capital, LLC), 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 the Closing Date among the Loan Parties and the lender (the Guarantee and Collateral Agreement).

The Credit Agreement contains certain affirmative and negative covenants that are binding on the Loan Parties, including, but not limited to, restrictions (subject to specified exceptions) on the ability of the Loan Parties to create liens on their respective property, assets or revenues, to make investments, to incur indebtedness, to merge, dissolve, liquidate or consolidate with or into another person, to make a material disposition, to pay certain dividends or related distributions, to prepay, redeem or defease prior to maturity certain indebtedness, to change the nature of their business, to enter into certain transactions with affiliates, to enter into certain burdensome agreements, to amend certain material documents or to change their respective names or fiscal years.

In addition, the Credit Agreement requires the Loan Parties to abide by certain financial covenants calculated for the Company and its subsidiaries on a consolidated basis. As of September 30, 2012, the Company was in compliance with all financial covenants of the Term Loan. The most significant financial covenants are summarized as follows:

- Four-Quarter EBITDA (as defined in the Credit Agreement and calculated to reflect the Acquisition on a pro forma basis) of not less than $35,000,000;
- Debt Service Coverage Ratio (as defined in the Credit Agreement and calculated excluding interest expense on warehouse credit lines) of not less than 3.0 to 1.0; and
- Maximum ratio of Adjusted Funded Debt to Four-Quarter EBITDA (each as defined in the Credit Agreement) of (i) 4.0 to 1.0 for each of the fiscal quarters ending on September 30, 2012, December 31, 2012, March 31, 2013, and June 30, 2013 and (ii) 3.5 to 1.0 for the fiscal quarter ending September 30, 2013 and each fiscal quarter thereafter.

Credit Quality and Allowance for Risk-Sharing Obligations

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

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(Dollars in thousands)	As of and for the three months ended September 30, 2012	2011	As of and for the nine months ended September 30, 2012	2011
Key Credit Metrics				
Fannie Mae servicing portfolio:				
Fannie Mae Full Risk	$ 11,096,910	$ 6,299,110	$ 11,096,910	$ 6,299,110
Fannie Mae Modified Risk	4,131,980	2,312,804	4,131,980	2,312,804
Fannie Mae No Risk	3,224,054	1,524,778	3,224,054	1,524,778
Total Fannie Mae	$ 18,452,944	$ 10,136,692	$ 18,452,944	$ 10,136,692
Freddie Mac servicing portfolio:				
Freddie Mac Modified Risk	$ 69,037		69,037	
Freddie Mac No Risk	8,353,711	2,715,788	8,353,711	2,715,788
Total Freddie Mac	$ 8,422,748	2,715,788	8,422,748	2,715,788
GNMA/HUD servicing portfolio:				
GNMA/HUD Full Risk	$ 5,018		5,018	
GNMA/HUD No Risk	4,417,164	1,262,989	4,417,164	1,262,989
Total GNMA/HUD	$ 4,422,182	1,262,989	4,422,182	1,262,989
Interim loans (full risk) servicing portfolio	$ 16,500		16,500	
Capital markets servicing portfolio	$ 2,572,188	1,825,330	2,572,188	1,825,330
Total servicing portfolio unpaid principal balance	$ 33,886,562	15,940,799	33,886,562	15,940,799
At risk servicing portfolio (1)	$ 12,931,149	$ 7,242,674	$ 12,931,149	$ 7,242,674
60+ Day delinquencies, within at risk portfolio	19,050		19,050	
At risk loan balances associated with allowance for risk-sharing obligations (2)	$ 153,670	$ 149,416	$ 153,670	$ 149,416
Allowance for risk-sharing obligations:				
Beginning balance	$ 13,629	$ 13,383	$ 14,917	$ 10,873
Provision for risk-sharing obligations	(848)	937	1,126	3,447
Allowance for risk-sharing obligations, CWCapital acquisition	4,063		4,063	
Net write-offs		(680)	(3,262)	(680)
Ending balance	$ 16,844	$ 13,640	$ 16,844	$ 13,640
60+ Day delinquencies as a percentage of the at risk portfolio	0.15%	0.00%	0.15%	0.00%
Provision for risk-sharing as a percentage of the at risk portfolio	-0.01%	0.01%	0.01%	0.05%
Allowance for risk-sharing as a percentage of the at risk portfolio	0.13%	0.19%	0.13%	0.19%
Net write-offs as a percentage of the at risk portfolio	0.00%	0.01%	0.03%	0.01%
Allowance for risk-sharing as a percentage of the specifically identified at risk balances	10.96%	9.13%	10.96%	9.13%

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

For example, a $15 million loan with 50% risk-sharing has the same potential risk exposure as a $7.5 million loan with full DUS risk-sharing. Accordingly, if the $15 million loan with 50% risk-sharing was to default, the Company would view the overall loss as

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a percentage of the at risk balance, or $7.5 million, to ensure comparability between all risk-sharing obligations. To date, all of the Company s risk-sharing obligations that we have settled have been from full risk-sharing loans.

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

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

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

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

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

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

A provision for risk-sharing obligations is recorded, and the allowance for risk-sharing obligations is increased, when it is probable that we have incurred risk-sharing obligations. The provisions historically have been for Fannie Mae loans with full risk-sharing. The amount of the provision considers our assessment of the likelihood of payment by the borrower, the value of the underlying collateral and the level of risk-sharing. Historically, the loss recognition occurs at or before the loan becoming 60 days delinquent. Our estimates of value are determined considering broker opinions and other sources of market value information relevant to underlying property and collateral. Risk-sharing obligations are written off against the allowance at final settlement with Fannie Mae.

As of September 30, 2012 and 2011, $19.1 million and $0.0 million, respectively, of our at risk balances were more than 60 days delinquent. For the three months ended September 30, 2012 and 2011, our provisions for risk-sharing obligations were $(0.9) million and $0.9 million, respectively, or one basis point of the at risk balance for both periods.

As of September 30, 2012 and 2011, our allowance for risk-sharing obligations was $16.8 million and $13.6 million, respectively, or 13 basis points and 19 basis points of the at risk balance, respectively. Our risk-sharing obligation with Fannie Mae requires, in the event of delinquency or default, that we advance principal and interest payments to Fannie Mae on behalf of the borrower. Advances made by us are used to reduce the proceeds required to settle any ultimate loss incurred. As of September 30, 2012, we have advanced $6.6 million of principal and interest payments on the loans associated with our $16.8 million allowance. Accordingly, if the $16.8 million in estimated losses is ultimately realized, the Company would be required to fund an additional $10.3 million.

We have never been required to repurchase a loan.

Off-Balance Sheet Risk

We do not have any off-balance sheet arrangements.

New/Recent Accounting Pronouncements

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

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statement disclosures.

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are not currently exposed to interest rate risk during the loan commitment, closing and delivery process. The sale or placement of each loan to an investor is negotiated prior to closing on the loan with the borrower, and the sale or placement is effectuated within 60 days of closing. The interest rate for the loan is set after we have established 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. A 100 basis point increase or decrease in the average 30-day LIBOR would increase or decrease, respectively, our annual earnings by approximately $7.0 million based on our escrow balance as of September 30, 2012. The borrowing cost of our warehouse facilities are based on LIBOR. A 100 basis point increase or decrease in the average 30-day LIBOR would decrease or increase, respectively, our annual net warehouse interest income by approximately $2.7 million based on our outstanding warehouse balance as of September 30, 2012. Approximately $83.0 million of our corporate debt is based on the average 30-day LIBOR. A 100 basis point increase or decrease in the average 30-day LIBOR would decrease or increase, respectively, our annual earnings by approximately $0.8 million based on our outstanding corporate debt as of September 30, 2012. Our loans held for investment and associated warehouse borrowings are based on LIBOR, and reset at the same intervals. As a result, any increase or decrease in the average 30-day LIBOR would have an equal and offsetting impact on our interim loan interest income and expense, and no impact on our annual earnings.

The fair value of our MSRs is subject to market risk. A 100 basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of our MSRs by approximately $9.4 million as of September 30, 2012. Our Fannie Mae and Freddie Mac servicing engagements generally provide for prepayment penalties, which we share in, in the event of a voluntary prepayment prior to the expiration of the prepayment protection period. In our servicing contracts with institutional investors and HUD, we do not share in the prepayment penalties. As of September 30, 2012, 91% of the service fees are protected from the risk of prepayment through our sharing in contractual prepayment penalties; hence, we do not hedge our servicing portfolio for prepayment risk.

Item 4. Controls and Procedures

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

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Capital Funding Litigation Previously, after the initial case was dismissed without prejudice, Capital Funding filed an amended complaint. In November 2011, the Circuit Court of Montgomery County rejected our motion to dismiss the amended complaint. In the second quarter of 2012, the parties agreed to postpone the commencement of a trial that was scheduled to begin July 9, 2012, and are pursuing settlement.

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

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

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

Item 1A. Risk Factors

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2011, and in its Quarterly Report on Form 10-Q for the quarter period ended June 30, 2012, descriptions of certain risks and uncertainties that could affect the Company s business, future performance or financial condition (the Risk Factors). There have been no material changes from the disclosures provided in the Form 10-K for the year ended December 31, 2011, and in the Form 10-Q for the quarterly period ended June 30, 2012, 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.

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

Issuer Purchases of Equity Securities

Under the 2010 Equity Incentive Plan, subject to the Company s approval, grantees have the option of electing to satisfy minimum tax withholding obligations at the time of vesting or exercise by allowing the Company to withhold and purchase the shares of stock otherwise issuable to the grantee. On August 2, 2012, the Company repurchased and retired 3,515 shares of restricted stock at market prices, upon grantee vesting. The following table provides information regarding common stock repurchases for the quarter ended September 30, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased
July 1 - 31, 2012		$		N/A
August 1 - 31, 2012	3,515	12.15	3,515	N/A
September 1 - 30, 2012				N/A
	3,515		3,515	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 2, 2012, each of Andrew C. Florance and Michael D. Malone was appointed to the Board of Directors (the Board) of the Company to fill two of the three vacancies created in September 2012 when the size of the Board was increased from eight to eleven members in connection with the Company s acquisition of CWCapital. Pursuant to the Purchase Agreement, CW Financial is entitled to designate up to two Board members for each election of directors through the Company s annual meeting to be held in 2014. Should CW Financial and its affiliates cease to own at least 20% of the common stock of the Company, CW Financial forfeits the right to nominate one Board designee; and upon ceasing to own at least 10% of the common stock of the Company, CW Financial forfeits the right to nominate its remaining Board designee.

Mr. Malone joined the Board, effective November 2, 2012, as a nominee appointed by CW Financial. Mr. Florance was not selected as a director pursuant to any arrangement or understanding between him and any other person.

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The Board has not yet determined whether Messrs. Malone or Florance will be appointed to any committees of the Board.

Each of Messrs. Florance and Malone will receive the standard compensation received by non-employee directors. These compensation arrangements are discussed in the Company s 2012 proxy statement filed with the Securities and Exchange Commission on April 26, 2012. In addition, we expect to enter into an indemnification agreement with each of Messrs. Malone and Florance, substantially in the form entered into with the Company s other directors.

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 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 3.2 to the Company s Current Report on Form 8-K filed on September 10, 2012)
4.1	Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)
4.2	Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 20, 2010)
4.3	Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on December 20, 2010)
4.4	Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., 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)
4.5	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)
10.1	2010 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on August 12, 2012)
10.2	Closing Side Letter, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and CWCapital LLC (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on

	September 10, 2012)
10.3	Registration Rights Agreement, dated as of September 4, 2012, by and between Walker & Dunlop, Inc. and CW Financial Services LLC (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.4	Closing Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and CWCapital LLC (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.5	Transfer and Joinder Agreement, dated as of September 4, 2012, by and among the Walker & Dunlop, Inc., CW Financial Services LLC and Galaxy Acquisition LLC (incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.6	Credit Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., as borrower, Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC, and Walker & Dunlop Capital, LLC, as guarantors, the lenders referred to therein, and Bank of America, N.A., as administrative agent and collateral agent for the lenders (incorporated by reference to Exhibit 10.5 to the Company s Current Report on Form 8-K filed on September 10, 2012)

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10.7		Warehousing Credit and Security Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, LLC, as borrower, Bank of America, N.A. and the other lenders party thereto from time to time, and Bank of America, N.A., as administrative agent for itself and the other lenders (incorporated by reference to Exhibit 10.6 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.8		Fourth Amendment to Warehousing Credit and Security Agreement, dated as of September 4, 2012, by and between Walker & Dunlop, LLC, as borrower, and PNC Bank, National Association, as lender (incorporated by reference to Exhibit 10.7 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.9		Temporary Increase Agreement, dated September 28, 2012, by and between Walker & Dunlop, LLC, as borrower and Bank of America, N.A. as credit agent and lender (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on October 2, 2012)
10.10		Warehousing Credit and Security Agreement, dated as of October 5, 2012, by and among W&D Interim Lender II LLC, as borrower, Walker & Dunlop, Inc. as guarantor, Bank of America, N.A. and the other lenders party thereto from time to time, and Bank of America, N.A., as administrative agent for itself and the other lenders (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on October 12, 2012)
10.11		Promissory Note, dated October 5, 2012, of W&D Interim Lender II LLC in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on October 12, 2012)
10.12		Guaranty of Walker & Dunlop, Inc., dated as of October 5, 2012, in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on October 12, 2012)
10.13		Pledge and Security Agreement of Walker & Dunlop, Inc., dated as of October 5, 2012, in favor of Bank of America, N.A. (incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on October 12, 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

*: Filed herewith.

#: Furnished, not filed.

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

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SIGNATURE

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

Date: November 8, 2012	By:	/s/ William M. Walker William M. Walker *Chairman, President and Chief Executive Officer*
	By:	/s/ Deborah A. Wilson Deborah A. Wilson *Executive Vice President, Chief Financial Officer and Treasurer*

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Exhibit Index

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 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 3.2 to the Company s Current Report on Form 8-K filed on September 10, 2012)
4.1	Specimen Common Stock Certificate of Walker & Dunlop, Inc. (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company s Registration Statement on Form S-1 (File No. 333-168535) filed on September 30, 2010)
4.2	Registration Rights Agreement, dated December 20, 2010, by and among Walker & Dunlop, Inc. and Mallory Walker, Taylor Walker, William M. Walker, Howard W. Smith, III, Richard C. Warner, Donna Mighty, Michael Yavinsky, Ted Hermes, Deborah A. Wilson and Column Guaranteed LLC (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 20, 2010)
4.3	Stockholders Agreement, dated December 20, 2010, by and among William M. Walker, Mallory Walker, Column Guaranteed LLC and Walker & Dunlop, Inc. (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on December 20, 2010)
4.4	Voting Agreement, dated as of June 7, 2012, by and among Walker & Dunlop, Inc., 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)
4.5	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)
10.1	2010 Equity Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on August 12, 2012)
10.2	Closing Side Letter, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and CWCapital LLC (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.3	Registration Rights Agreement, dated as of September 4, 2012, by and between Walker & Dunlop, Inc. and CW Financial Services LLC (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.4	Closing Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., CW Financial Services LLC and CWCapital LLC (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.5	Transfer and Joinder Agreement, dated as of September 4, 2012, by and among the Walker & Dunlop, Inc., CW Financial Services LLC and Galaxy Acquisition LLC (incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed on September 10, 2012)
10.6	Credit Agreement, dated as of September 4, 2012, by and among Walker & Dunlop, Inc., as borrower, Walker & Dunlop Multifamily, Inc., Walker & Dunlop, LLC, and Walker & Dunlop Capital, LLC, as guarantors, the lenders referred to therein, and Bank of America, N.A., as administrative agent and collateral agent for the lenders (incorporated by reference to Exhibit 10.5 to the Company s Current Report on Form 8-K filed on September 10, 2012)
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