

Walker & Dunlop, Inc.  
Form DEFM14A  
July 26, 2012

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**WALKER & DUNLOP, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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    - (1) Amount Previously Paid:
    - (2) Form, Schedule or Registration Statement No.:
    - (3) Filing Party:
    - (4) Date Filed:
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**WALKER & DUNLOP, INC.**

7501 Wisconsin Avenue, Suite 1200E  
Bethesda, Maryland 20814

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held On August 30, 2012  
9:00 a.m. Eastern Daylight Time**

Dear Stockholder:

You are cordially invited to attend the special meeting (the "Special Meeting") of stockholders of Walker & Dunlop, Inc. (the "Company") to be held on August 30, 2012, at 9:00 a.m., Eastern Daylight Time, at the Hilton Garden Inn, 7301 Waverly Street, Bethesda, Maryland 20814.

At the Special Meeting, you will be asked to vote on proposals to:

1. approve the Company's issuance of shares (the "Stock Consideration") of its common stock (the "Share Issuance Proposal") in connection with the proposed acquisition of CWCapital LLC ("CWCapital") by the Company's indirect wholly owned operating subsidiary, Walker & Dunlop, LLC (the "Purchaser"), pursuant to a purchase agreement (the "Purchase Agreement"), dated as of June 7, 2012, among the Company, the Purchaser, CWCapital and CW Financial Services LLC, a Delaware limited liability company (the "Seller"), for aggregate consideration, net of certain expenses and adjustments, of approximately \$220 million, consisting of \$80 million paid in cash from the Purchaser and \$140 million paid through the issuance of a number of shares expected to equal 11,647,255 shares of Common Stock, or approximately 34 percent of the Company on a fully diluted basis, subject to adjustment as described below under "The Purchase Agreement" on page 44;
2. (i) approve amendments to the Company's 2010 Equity Incentive Plan (the "Equity Incentive Plan") that would increase the number of shares reserved and individual limits of categories of awards under, add additional performance measures applicable to, extend the termination date of, and make certain other related technical amendments to, the Equity Incentive Plan, and (ii) re-approve material terms and conditions relating to performance-based compensation under the Equity Incentive Plan (the "Plan Amendment Proposal");
3. adjourn the Special Meeting, for up to 20 additional days, solely to the extent necessary to solicit additional proxies if there are insufficient votes to approve the Share Issuance Proposal at the time of the Special Meeting (the "Adjournment Proposal"); and
4. transact such other business as may properly come before the Special Meeting or any adjournment thereof.

**The Board has unanimously determined that the Share Issuance Proposal, the Plan Amendment Proposal and the Adjournment Proposal are in the best interest of the Company and its stockholders. The Board unanimously recommends that you vote *for* the Share Issuance Proposal, *for* the Plan Amendment Proposal and *for* the Adjournment Proposal.**

Only stockholders of record at the close of business on July 6, 2012 will be entitled to vote at the Special Meeting or any adjournment thereof.

The obligations of the Company, the Purchaser and the Seller to complete the Purchaser's acquisition of CWCapital are subject to the conditions set forth in the Purchase Agreement, which are summarized in the accompanying proxy statement. More information about the Company, CWCapital, the Special Meeting and the Purchase Agreement is contained in the accompanying proxy statement. **You are encouraged to read carefully the accompanying proxy statement, including the documents incorporated by reference, in its entirety.**

**Neither the U.S. Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the acquisition of CWCapital, passed upon the merits or fairness of the**

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acquisition or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

We look forward to seeing you at the Special Meeting.

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, YOU ARE URGED TO COMPLETE, DATE AND SIGN THE ACCOMPANYING PROXY CARD AND RETURN IT PROMPTLY IN THE POSTAGE-PAID ENVELOPE PROVIDED. IF YOU ATTEND THE SPECIAL MEETING, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON, IF YOU DESIRE, AS DISCUSSED IN THIS PROXY STATEMENT.**

By order of our Board of Directors,

Richard M. Lucas  
*Executive Vice President,  
General Counsel and Secretary*

Bethesda, Maryland  
Dated: August 1, 2012

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**ADDITIONAL INFORMATION**

Additional business and financial information about the Company can be found in documents previously filed with the U.S. Securities and Exchange Commission (the "SEC"). This information is available to you without charge at the SEC's website at <http://www.sec.gov>. You can also obtain additional copies of this proxy statement, as well as other relevant materials, by visiting the Company's website at [www.walkerdunlop.com](http://www.walkerdunlop.com) or by requesting them in writing using the following contact information:

Walker & Dunlop, Inc.  
Attn: Investor Relations  
7501 Wisconsin Avenue, Suite 1200E  
Bethesda, Maryland 20814

See "Where You Can Find More Information" beginning on page 110 for more information about the documents previously filed by us with the SEC and incorporated herein by reference.

All information contained in this proxy statement regarding CWCapital LLC and CW Financial Services LLC was provided by CW Financial Services LLC. We do not warrant the accuracy of the information provided by CW Financial Services LLC.

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**WALKER & DUNLOP, INC.**

7501 Wisconsin Avenue, Suite 1200E  
Bethesda, Maryland 20814

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**PROXY STATEMENT**

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**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE SPECIAL MEETING**

*The information in this section does not provide all of the information that may be important to you with respect to the matters being considered at the Special Meeting. Therefore, you should read this proxy statement carefully, as well as the full contents of the other documents to which this proxy statement refers or incorporates by reference. These documents contain information that may be important to you in determining how you will vote on the matters to be considered at the Special Meeting.*

**Why am I receiving this proxy statement?**

You are receiving this proxy statement and the accompanying proxy card because you own shares of Walker & Dunlop, Inc.'s common stock, par value \$0.01 per share (the "Common Stock"). This proxy statement contains information related to the solicitation of proxies for use at our Special Meeting of stockholders to be held at 9:00 a.m., Eastern Daylight Time, on August 30, 2012, and at any adjournments or postponements thereof (the "Special Meeting"), for the purposes stated in the accompanying Notice of Special Meeting of Stockholders. The Special Meeting will be held at the Hilton Garden Inn, 7301 Waverly Street, Bethesda, Maryland 20814. This solicitation is made by Walker & Dunlop, Inc. on behalf of our Board of Directors (the "Board"). Unless otherwise stated, as used in this proxy statement, the terms "we," "our," "us", "Walker & Dunlop" and the "Company" refer to Walker & Dunlop, Inc. This proxy statement is dated August 1, 2012. This proxy statement, the Notice of Special Meeting of Stockholders and the enclosed proxy card are first being mailed to stockholders beginning on or about August 1, 2012.

**What information is presented in this proxy statement?**

The information contained in this proxy statement relates to the proposals to be voted on at the Special Meeting, the voting process and other required information.

**What is the purpose of the Special Meeting?**

The purpose of the Special Meeting is to vote upon the following three proposals:

- (i) A proposal to approve the issuance of shares of our Common Stock in connection with the acquisition (the "Acquisition") of all of the limited liability company membership interests in CWCapital LLC ("CWCapital"), a Massachusetts limited liability company and a direct wholly owned subsidiary of CW Financial Services LLC ("CW Financial" or the "Seller"), pursuant to a purchase agreement (the "Purchase Agreement"), dated as of June 7, 2012, by and among Walker & Dunlop, as parent, Walker & Dunlop, LLC (the "Purchaser"), CW Financial and CWCapital (the "Share Issuance Proposal") for aggregate consideration, net of certain expenses and adjustments, of approximately \$220 million. Of the \$220 million, \$80 million will be paid in cash from the Purchaser (the "Cash Consideration"), and the remaining \$140 million will be paid through the issuance of shares. The number of shares to be issued in connection with the Acquisition (the "Stock Consideration") is expected to equal 11,647,255 shares of Common Stock (which represents approximately 34 percent of the Company on a fully diluted basis), subject to

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adjustment as described below under "The Purchase Agreement" on page 44. A copy of the Purchase Agreement is attached as *Annex A* to this proxy statement and incorporated by reference herein.

(ii) A proposal to (a) approve amendments to the Company's 2010 Equity Incentive Plan (the "Equity Incentive Plan") that would increase the number of shares reserved and individual limits of categories of awards under, add additional performance measures applicable to, extend the termination date of, and make certain other related technical amendments to, the Equity Incentive Plan, and (b) re-approve material terms and conditions relating to performance-based compensation under the Equity Incentive Plan (the "Plan Amendment Proposal"). A copy of the Amended Equity Incentive Plan is attached to this proxy statement as *Annex H* and incorporated by reference herein.

(iii) A proposal to adjourn the Special Meeting, for up to 20 additional days, solely to the extent necessary to solicit additional proxies if there are insufficient votes to approve the Share Issuance Proposal at the time of the Special Meeting (the "Adjournment Proposal").

This document contains important information about the Acquisition, the Purchase Agreement, the other agreements entered into in connection with the Acquisition, the Equity Incentive Plan, and the Special Meeting, and you should read it, and the documents incorporated by reference into this proxy statement, carefully and in their entirety.

**Why is the Company seeking stockholder approval for the Share Issuance Proposal and the Plan Amendment Proposal?**

Because our Common Stock is listed on the New York Stock Exchange ("NYSE"), Walker & Dunlop is subject to the NYSE's rules and regulations. These rules require stockholder approval prior to the issuance of common stock, or of securities convertible into or exercisable for common stock, in any transaction or series of related transactions where, in general, the issuance involves more than 20 percent of the outstanding common stock or voting rights of a listed company (the "NYSE 20% Cap"). In connection with the purchase of all of the outstanding limited liability company interests of CWCcapital, we will issue, in a private placement to the Seller, a number of shares expected to equal 11,647,255 shares of Common Stock (which represents approximately 34 percent of the Company on a fully diluted basis), subject to adjustment as described below under "The Purchase Agreement" on page 44.

As with the Share Issuance Proposal, the Plan Amendment Proposal requires stockholder approval pursuant to NYSE rules. Those rules provide that stockholder approval is required for any "material revision" to an equity compensation plan (which, under the Rule, includes material increase in the number of shares available under the plan (other than an increase solely to reflect a reorganization, stock split, merger, spin-off or similar transaction)).

**Who is CWCcapital?**

CWCcapital is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. CWCcapital's clients are owners and developers of commercial real estate across the country. CWCcapital has approximately 180 employees located in 14 offices across the United States. CWCcapital originates and sells multifamily mortgage loans pursuant to the programs of 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 CWCcapital has long-established relationships. CWCcapital is approved as a Fannie Mae Delegated Underwriting and Servicing ("DUS"<sup>TM</sup>) lender nationally, a Freddie Mac Program Plus



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lender in Massachusetts, Georgia, Alaska, California, Idaho, Oregon, Washington, New Jersey, the New York City metro area, Fairfield and New Haven counties in Connecticut, and Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania and an approved Freddie Mac Targeted Affordable Housing lender. CWCcapital is also a HUD Multifamily Accelerated Processing ("MAP") lender nationally, and a Ginnie Mae issuer. CWCcapital is also a rated servicer and master servicer and services commercial loans for a number of commercial mortgage backed securities ("CMBS") trusts. CWCcapital retains servicing rights and asset management responsibilities on substantially all loans that it sells to investors.

**What happens if the Share Issuance Proposal and the Plan Amendment Proposal are approved?**

If the Share Issuance Proposal is approved, the Company will issue the Stock Consideration (subject to adjustment as described under "The Purchase Agreement" on page 44) to the Seller pursuant to the terms and conditions of the Purchase Agreement. If the Plan Amendment Proposal is approved, the Company will amend the Equity Incentive Plan to (i) increase the number of shares reserved for issuance by 3,370,000 shares; (ii) change the individual limits to (A) 600,000 shares for grants of stock options and stock appreciation rights ("SARs") in any single calendar year, (B) 600,000 shares for awards other than stock options and SARs in any single calendar year, (C) three million dollars (\$3,000,000) for the maximum amount that may be earned as an annual incentive award or other cash award in any calendar year in respect of performance, and (D) seven million dollars (\$7,000,000) for the maximum amount that may be earned as a performance award or other cash award in any calendar year in respect of performance; (iii) add additional performance measures that may be used as performance goals; and (iv) extend the termination date of the Equity Incentive Plan until the tenth anniversary of the Special Meeting.

**What happens if the Share Issuance Proposal and the Plan Amendment Proposal are not approved?**

If stockholders do not approve the Share Issuance Proposal, the Company will consider its alternatives, including its right to terminate the Purchase Agreement in accordance with its terms. If stockholders do not approve the Plan Amendment Proposal, we will not amend the Equity Incentive Plan to increase the number of shares issuable in connection with awards under the plan.

**Who is entitled to vote at the Special Meeting?**

Only holders of record of our Common Stock at the close of business on July 6, 2012, the record date for the Special Meeting, are entitled to receive notice of the Special Meeting and to vote at the Special Meeting. Our Common Stock constitutes the only class of securities entitled to vote at the Special Meeting.

When you vote by signing and returning the proxy card, you appoint William M. Walker and Deborah A. Wilson as your representatives to vote your Common Stock at the Special Meeting. Mr. Walker and Ms. Wilson, or either of them, will vote your Common Stock as you instruct on your proxy card. Accordingly, your Common Stock will be voted whether or not you attend the Special Meeting. Even if you plan to attend the Special Meeting, we encourage you to vote by signing and returning your proxy card in advance.

**Who can attend the Special Meeting?**

If you are a holder of our Common Stock at the close of business on July 6, 2012, the record date for the Special Meeting, or a duly appointed proxy, you are authorized to attend the Special Meeting. You will need to present proof of share ownership and valid picture identification, such as a driver's license or passport, before being admitted. If your Common Stock is held beneficially in the name of a

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bank, broker or other holder of record (*i.e.*, street name), you must present proof of your ownership by presenting a bank or brokerage account statement reflecting your ownership as of the record date.

Cameras, recording equipment and other electronic devices will not be permitted at the Special Meeting. For directions to the Special Meeting, contact Investor Relations at (301) 634-2143.

**What are the voting rights of stockholders?**

Each share of Common Stock outstanding on the record date entitles its holder to cast one vote on each matter to be voted on.

**How do I vote?**

If you hold your shares of Common Stock directly (*i.e.*, not in a bank or brokerage account), you may vote by completing and returning the accompanying proxy card or by attending the meeting and voting in person.

If your shares of Common Stock are held in street name, you should follow the voting instructions provided to you by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in most cases, submit voting instructions by the internet or by telephone to your broker or nominee. If you provide specific instructions, your broker or nominee should vote your shares of Common Stock as directed. Additionally, if you want to vote in person and hold your shares in street name, you will need a legal proxy from your broker to vote at the Special Meeting.

**What will constitute a quorum at the Special Meeting?**

The presence at the Special Meeting, in person or by proxy, of the holders of a majority of the outstanding shares of our Common Stock entitled to vote at the Special Meeting will constitute a quorum, permitting the stockholders to conduct business at the Special Meeting. We will include abstentions in the calculation of the number of shares considered to be present at the Special Meeting, including for purposes of determining the presence of a quorum at the meeting. Because no "routine" matters will be considered at the Special Meeting, absent instructions from the beneficial owner, brokers are not permitted to vote on any proposal (resulting in a "broker non-vote") and unvoted shares held in street name will not be counted as present for purposes of determining whether there is a quorum at the Special Meeting.

As of July 6, 2012, there were 22,851,290 shares of Common Stock outstanding.

**How many votes are needed to approve each of the proposals?**

Under Section 312.03 of the NYSE Listed Company Manual, approval of either the Share Issuance Proposal or the Plan Amendment Proposal requires the affirmative vote of the holders of a majority of the votes cast at the Special Meeting, provided that the total votes cast (either for, against or abstaining) on the proposal represent over 50 percent of all outstanding securities entitled to vote on the proposal. Accordingly, either a failure to cast a vote for a proposal or a broker non-vote on a proposal could have the effect of a vote against the proposal if such failure to cast a vote or broker non-vote results in the total number of votes cast on the proposal not representing over 50 percent of all shares of Common Stock entitled to vote on the proposal. Approval of the Adjournment Proposal requires the affirmative vote of the holders of a majority of the votes cast at the Special Meeting.

Because approval of each of the Share Issuance Proposal and the Plan Amendment Proposal is based on the affirmative vote of a majority of votes cast, a stockholder's failure to vote its shares of Common Stock will not affect the outcome of the vote on the proposal, assuming 50 percent in interest of all securities entitled to vote on the proposal are voted on the proposal. Broker non-votes are not treated as votes cast with respect to the proposals. Accordingly, for each such proposal, a broker

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non-vote will not count as a "vote cast" for purposes of determining whether the proposal has been approved by a majority of votes cast on such proposal and, assuming that the total vote cast on such proposal represents over 50 percent in interest of all securities entitled to vote, broker non-votes will have no effect on the outcome of the vote on such proposal. Abstentions will be treated as "votes cast" for purposes of determining whether the total vote cast on each such proposal represents over 50 percent in interest of all securities entitled to vote on the proposal as required by the NYSE. Accordingly, an abstention will have the same effect as a vote "AGAINST" each such proposal for purposes of determining whether the proposal has been approved by a majority of votes cast on such proposal. Abstentions will have no effect on the Adjournment Proposal.

**How are proxy card votes counted?**

If the accompanying proxy card is properly signed and returned to us, and not revoked, the persons designated as proxy holders will vote the shares of Common Stock represented by that proxy as directed by you. If you return your signed proxy card but fail to indicate your voting preferences, the persons designated as proxy holders will vote the shares of Common Stock represented by that proxy as recommended by the Board.

**How does the Board recommend that I vote?**

The Board unanimously recommends that you vote "FOR" the approval of the Share Issuance Proposal, "FOR" the approval of the Plan Amendment Proposal and "FOR" the approval of the Adjournment Proposal.

**Will my shares of Common Stock be voted if I do not provide my proxy and I do not attend the Special Meeting?**

If you do not provide a proxy, vote your shares of Common Stock or instruct your broker how to vote, your shares will not be voted. Your broker may not vote your shares for non-routine matters if you do not provide the broker with voting instructions. The Share Issuance Proposal and the Plan Amendment Proposal are considered non-routine matters. As a result, if you hold shares of our Common Stock in street name and do not provide voting instructions to your broker, your shares will not be voted on these proposals, so please vote your shares.

**May I change my vote after I return my proxy card?**

Yes. You may change or revoke a previously granted proxy at any time before it is exercised by either (i) submitting a later-dated proxy, in person at the Special Meeting or by mail, or (ii) delivering instructions to our Secretary at our principal executive offices located at 7501 Wisconsin Avenue, Suite 1200E, Bethesda, Maryland 20814. Please note that attendance at the Special Meeting will not, in itself, constitute revocation of a previously granted proxy.

If your shares of Common Stock are held in street name, then you may submit new voting instructions by contacting your broker or nominee. You may also vote in person at the Special Meeting if you obtain a legal proxy from your broker as described above.

**Will any other matters be voted on at the Special Meeting?**

As of the date of this proxy statement, we do not know of any other matters that will be presented for consideration at the Special Meeting other than those matters discussed in this proxy statement. If any other matters properly come before the Special Meeting and call for a stockholder vote, valid proxies will be voted by the holders of the proxies in accordance with the recommendation of the Board or, if no recommendation is given, in their own discretion.

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**Who is soliciting my proxy?**

This solicitation of proxies is made by and on behalf of our Board. We will pay the costs of soliciting proxies, which will consist primarily of the cost of printing, postage and handling. In addition to soliciting proxies by mail, our officers, directors and other employees, without additional compensation, may solicit proxies personally or by other appropriate means. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to beneficial owners and will be reimbursed for their reasonable out-of-pocket expenses incurred in sending proxy materials to beneficial owners.

**What rights do I have if I vote against the proposals?**

There are no appraisal or dissenter's rights with respect to any matter to be voted on at the Special Meeting.

**What happens if the Special Meeting is postponed or adjourned?**

Your proxy will still be valid and may be voted at the postponed or adjourned meeting. You will still be able to change or revoke your proxy until it is voted.

**Is there a list of stockholders entitled to vote at the Special Meeting?**

The names of stockholders of record entitled to vote at the Special Meeting will be available at the Special Meeting and for ten days prior to the Special Meeting, between the hours of 9:00 a.m. and 4:30 p.m., at our principal executive offices at 7501 Wisconsin Avenue, Suite 1200E, Bethesda, Maryland 20814, by contacting the Secretary.

**Who can help answer my questions?**

If you have questions about any of the proposals, need additional copies of this proxy statement, or require assistance in voting your shares, you should contact Investor Relations, by phone at (301) 634-2143 to Walker & Dunlop, Inc., Attention: Investor Relations, 7501 Wisconsin Avenue, Suite 1200E, Bethesda, MD 20814, or by e-mail to [charvey@walkerdunlop.com](mailto:charvey@walkerdunlop.com).

**You should rely only on the information provided in this proxy statement. We have not authorized anyone to provide you with different information. You should assume that the information in this proxy statement is accurate only as of the date of this proxy statement or, where information relates to another date set forth in this proxy statement, then as of that date.**

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**SUMMARY**

*Below is a summary of the terms of the Share Acquisition Proposal and the Plan Amendment Proposal. This summary highlights selected information from this proxy statement, and may not contain all of the information that is important to you. To better understand the proposals described below, you should read this entire proxy statement carefully, as well as those additional documents to which we refer you. You may obtain the information incorporated by reference into this proxy statement by following the instructions set forth in "Where You Can Find More Information" on page 110 of this proxy statement.*

**Special Meeting (page 22)**

The Special Meeting will be held on August 30, 2012, at 9:00 a.m., Eastern Daylight Time, at the Hilton Garden Inn, 7301 Waverly Street, Bethesda, Maryland 20814. The Special Meeting of our stockholders is being held to consider and vote on proposals to:

1. approve the Company's issuance of shares of our Common Stock, pursuant to the terms and conditions of the Purchase Agreement, in connection with the proposed acquisition of CWCapital by our indirect wholly owned operating subsidiary, the Purchaser, for aggregate consideration, net of certain expenses and adjustments, of approximately \$220 million, consisting of \$80 million paid in cash from the Purchaser and \$140 million paid through the issuance of a number of shares expected to equal 11,647,255 shares of Common Stock (or approximately 34 percent of the Company on a fully diluted basis), subject to adjustment as described below under "The Purchase Agreement" on page 44;
2. (i) approve amendments to the Equity Incentive Plan that would increase the number of shares reserved and individual limits of categories of awards under, add additional performance measures applicable to, extend the termination date of, and make certain other related technical amendments to, the Equity Incentive Plan, and (ii) re-approve material terms and conditions relating to performance-based compensation under the Equity Incentive Plan;
3. adjourn the Special Meeting, for up to 20 additional days, solely to the extent necessary to solicit additional proxies if there are insufficient votes to approve the Share Issuance Proposal at the time of the Special Meeting; and
4. transact such other business as may properly come before the Special Meeting or any adjournment thereof.

**The Acquisition (page 26)**

On June 7, 2012, Walker & Dunlop and the Purchaser, an indirect subsidiary of Walker & Dunlop, entered into a Purchase Agreement with CWCapital, a Massachusetts limited liability company, and CW Financial, a Delaware limited liability company and the parent of CWCapital, pursuant to which the Purchaser will purchase all of the outstanding limited liability company interests of CWCapital.

On the terms and subject to the conditions of the Purchase Agreement, a portion of the Acquisition will be paid through the issuance of a number of shares expected to equal 11,647,255 shares of Common Stock (which represents approximately 34 percent of the Company on a fully diluted basis), subject to adjustment as described below under "The Purchase Agreement" on page 44.

**The Companies (page 26)**

***Walker & Dunlop***

Through its indirect operating subsidiary, the Purchaser, Walker & Dunlop is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. As Fannie Mae DUS, Freddie Mac Program Plus® and MAP- and LEAN-approved FHA



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lenders, the Multifamily and FHA Finance groups are focused on lending to property owners, investors, and developers of multifamily properties across the country. Walker & Dunlop's proprietary Interim Loan Program provides financing for multifamily properties that do not currently qualify for permanent financing. 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 operating subsidiary entities, we provide institutional advisory, asset management and investment management services specializing in debt, structured debt and equity.

*CWCapital*

CWCapital is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. CWCapital's clients are owners and developers of commercial real estate across the country. CWCapital has approximately 180 employees located in 14 offices across the United States. CWCapital originates and sells multifamily mortgage loans pursuant to the programs of Fannie Mae and Freddie Mac, Ginnie Mae and HUD, with which CWCapital has long-established relationships. CWCapital is approved as a Fannie Mae DUS™ lender nationally, a Freddie Mac Program Plus lender in Massachusetts, Georgia, Alaska, California, Idaho, Oregon, Washington, New Jersey, the New York City metro area, Fairfield and New Haven counties in Connecticut, and Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania and an approved Freddie Mac Targeted Affordable Housing lender. CWCapital is also a MAP lender nationally, and a Ginnie Mae issuer. CWCapital is also a rated servicer and master servicer and services commercial loans for a number of CMBS trusts. CWCapital retains servicing rights and asset management responsibilities on substantially all loans that it sells to investors.

**Board Recommendation (page 31)**

**Our Board unanimously recommends that you vote *FOR* the Share Issuance Proposal authorizing the issuance of shares of our Common Stock in connection with our proposed acquisition of CWCapital; *FOR* the Plan Amendment Proposal to amend the Equity Incentive Plan; and *FOR* the Adjournment Proposal.**

**Reasons for the Acquisition (page 31)**

In evaluating the Acquisition, the Purchase Agreement and the related stock issuance, the Board consulted with our management and legal and financial advisors, and, in reaching its decision to approve the Acquisition and the Purchase Agreement, our Board discussed and considered a variety of factors weighing positively in favor of the Acquisition, including but not limited to, the following:

management's view that our purchase of CWCapital would result in a combined company with an enhanced national origination platform, significantly larger servicing portfolio and broader scale of operations than we have on a standalone basis;

CWCapital's loan origination capabilities, including its origination growth by loan product type since 2009;

the size and volume by product type of CWCapital's servicing portfolio;

CWCapital's quality employees;

the consideration, taking into account its total value and composition; and

the overall terms of the Purchase Agreement, including the parties' respective representations, warranties, covenants and conditions to their respective obligations in such agreement.

See the section entitled "Reasons for the Acquisition" on page 31 for further discussion of our Board's reasons for the merger.





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**Opinion of Walker & Dunlop's Financial Advisor (page 34)**

On June 7, 2012, Keefe, Bruyette & Woods, Inc. ("KBW"), our financial advisor in connection with the Acquisition, delivered its oral opinion to the Board, which was subsequently confirmed by delivery of a written opinion, dated June 7, 2012, to the effect that, as of such date, subject to assumptions and qualifications described in the opinion, the consideration to be paid by Walker & Dunlop in the Acquisition was fair, from a financial point of view, to Walker & Dunlop.

The full text of the KBW opinion is attached as *Annex B* to this proxy statement and incorporated by reference herein. **The KBW opinion was provided to the Board for the use and benefit of the Board in its evaluation of the Acquisition. The KBW opinion is directed only to the fairness from a financial point of view to Walker & Dunlop of the consideration paid by Walker & Dunlop in connection with the Acquisition. The opinion does not address Walker & Dunlop's underlying business decision to acquire CWCapital or the relative merits of the Acquisition as compared to any alternative business strategies or transactions that might be available to Walker & Dunlop.**

**The opinion does not constitute a recommendation to any shareholder of Walker & Dunlop as to how such shareholder should vote with respect to the Acquisition or any other matter. Walker & Dunlop encourages you to read KBW's opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken by KBW.**

**Risk Factors (page 69)**

The Acquisition involves several risks that you should carefully consider when deciding how to vote at the Special Meeting, including but not limited to the risks that:

The market price of our Common Stock may decline as a result of the Acquisition or the issuance of shares of our Common Stock;

The Acquisition will result in changes to our Board and management that may affect the strategy and operations of the Company;

The Acquisition is subject to a number of conditions, including the receipt of consents and clearances from domestic regulatory authorities that may not be obtained, may not be completed on a timely basis or may impose conditions that could have an adverse effect on us; and

Failure to complete the Acquisition could negatively impact our business, financial condition, results of operations or stock prices.

For further information regarding these risks, please see the section entitled "Risk Factors."

**Interests of Directors and Executive Officers in the Acquisition (page 40)**

None of the Company's directors or executive officers has any substantial financial interest, direct or indirect, in any matter to be acted upon, other than being a director or executive officer and a stockholder of the Company. Information regarding security ownership and equity compensation of our directors and executive officers is hereby incorporated by reference to the material appearing under the captions "Voting Securities of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Company's 2012 annual stockholder meeting proxy statement, which was filed with the SEC on April 26, 2012.

**Impact of the Stock Issuance on our Existing Stockholders (page 40)**

If approved and implemented, the Share Issuance Proposal will dilute the ownership and voting interests of our existing stockholders. Assuming the issuance of approximately 11.6 million shares of



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Common Stock in connection with the Acquisition and no other issuances of shares of our Common Stock as of the date of approval by our stockholders, CW Financial would thereby receive approximately 34 percent, on a fully-diluted basis, of our Common Stock issued and outstanding immediately after the closing of such Acquisition (the "Closing"). Therefore, the ownership and voting interests of our existing stockholders will be proportionately reduced.

**Material United States Federal Income Tax Consequences of the Acquisition to Walker & Dunlop and its Stockholders**

Because our stockholders do not participate in the Acquisition, our stockholders will not recognize gain or loss in connection with the Acquisition with respect to their stock in Walker & Dunlop. There will be no material federal income tax consequences to Walker & Dunlop as a result of the Acquisition.

**Accounting Treatment of the Acquisition (page 40)**

We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). Under GAAP, the Acquisition would be accounted for by applying the acquisition method, with Walker & Dunlop treated as the accounting acquirer.

**No Appraisal Rights (page 41)**

None of our stockholders will be entitled to exercise appraisal rights or to demand payment for his, her or its shares of our Common Stock in connection with the Acquisition.

**Regulatory Approvals and Clearances (page 41)**

The completion of the Acquisition is subject to various other conditions, including obtaining the approval of certain governmental and quasi-governmental authorities (including, but not limited to, Fannie Mae, Freddie Mac, Ginnie Mae, HUD and the Federal Housing Administration of HUD), and the termination and expiration of applicable waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"). On July 25, 2012, Walker & Dunlop and CW Financial were notified that the U.S. Federal Trade Commission (the "FTC") and the U.S. Department of Justice (the "DOJ") had granted early termination of the waiting periods under the HSR Act applicable to the consummation of the Acquisition.

**Purchase Agreement (page 44)**

On June 7, 2012, Walker & Dunlop, the Purchaser, CW Financial and CWCapital entered into the Purchase Agreement, providing for the acquisition of CWCapital by our subsidiary, the Purchaser.

On the terms and subject to the conditions of the Purchase Agreement, the Purchaser will acquire all of CW Financial's interests in CWCapital, for approximately \$220 million, net of certain expenses and adjustments. Of the \$220 million, \$80 million will be paid in cash from the Purchaser, through a combination of existing capital and debt financing (the "Financing") anticipated to be obtained by the Company. The remaining \$140 million will be paid through the issuance of a number of shares expected to equal 11,647,255 shares of Common Stock (which represents approximately 34 percent of the Company on a fully diluted basis), subject to adjustment as described below under "The Purchase Agreement" on page 44.

In connection with the transaction, CW Financial will be entitled to request an increase in the number of members of our Board from eight to eleven members, up to two of whom may be designated by CW Financial for each election of directors through the Company's annual meeting to be held in 2014. Our Board has adopted resolutions to automatically increase the number of members of our Board from eight to eleven members, effective as of the Closing.

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**Voting Agreements (page 58)**

Concurrently with the execution and delivery of the Purchase Agreement, William M. Walker, the Company's Chairman, President and Chief Executive Officer; Mallory Walker, Mr. Walker's father and the Company's second largest stockholder; Column Guaranteed LLC ("Column"), the Company's largest shareholder; Richard M. Lucas, Howard W. Smith, III, Richard C. Warner, and Deborah A. Wilson, all executive officers of the Company (together, the "Specified Stockholders"), have entered into voting agreements by which each has agreed to, among other things, vote in favor of the proposal to issue shares of the Company's stock in connection with the Purchase Agreement, against any proposal made to the stockholders of the Company that could reasonably be expected to result in any of the closing conditions in the Purchase Agreement not being fulfilled, and, other than Column, to appoint each executive officer of CW Financial as such Specified Stockholder's attorney-in-fact with respect to the voting for matters related to the Purchase Agreement. The voting agreements cover approximately 47 percent of the Common Stock. Further, the Specified Stockholders have agreed to certain customary restrictions on their ability to sell, encumber or otherwise dispose of their respective shares of Common Stock prior to the Closing (or, in the case of Column only, until the date of the Special Meeting or such earlier date on which the stockholder approval to issue shares of the Common Stock to CW Financial pursuant to the Purchase Agreement is obtained), subject to certain exceptions.

**Registration Rights Agreement (page 60)**

On the date on which the transactions contemplated by the Purchase Agreement close (the "Closing Date"), the Company will enter into a Registration Rights Agreement with CW Financial, pursuant to which the Company will agree, as soon as practicable after the Closing Date, to file with the SEC a registration statement to register for resale the shares of Common Stock to be issued to CW Financial pursuant to the Purchase Agreement.

**Closing Agreement (page 63)**

On the Closing Date, the Company will enter into a Closing Agreement with CW Financial and CWCapital. Under the terms of the Closing Agreement, CW Financial and its subsidiaries will generally be subject to "standstill" provisions for the period during which CW Financial has a right to appoint Board designees. In addition, each of the Company and its subsidiaries and CW Financial and its subsidiaries will be subject to restrictive covenants, including non-solicitation of employees, confidentiality and non-disparagement covenants, and, in the case of CW Financial and its subsidiaries, a non-competition covenant, for a period of two years after the Acquisition. The Closing Agreement also provides that CW Financial will not transfer any of the shares of Common Stock issued to it pursuant to the Purchase Agreement prior to the 180th day following the Closing Date, except for transfers to one or more of CW Financial's affiliates. See "Closing Agreement" beginning on page 63.

**Summary Historical Financial Data (page 73)**

*Summary Historical Consolidated Financial Data of Walker & Dunlop*

The following table presents summary historical consolidated financial data for Walker & Dunlop as of and for the quarters ended March 31, 2012 and 2011 and as of and for the years ended December 31, 2011, 2010 and 2009, derived from our unaudited condensed consolidated interim financial statements included in our quarterly report on Form 10-Q for the quarter ended March 31, 2012 and our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2011, which reports are incorporated by reference in this proxy statement. The summary financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical consolidated financial statements and notes thereto for 2011, 2010 and 2009, which are included in our annual report on Form 10-K for the year ended December 31, 2011 and incorporated

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by reference in this proxy statement. The historical results do not necessarily indicate results expected for any future period.

(in thousands except share and per share amounts)	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,		
	2012 (unaudited)	2011 (unaudited)	2011	2010	2009
<b>Statement of Income Data(1)(2)</b>					
<b>Revenues</b>					
Gains from mortgage banking activities	\$ 19,802	\$ 16,827	\$ 102,712	\$ 85,203	\$ 57,946
Servicing fees	9,379	7,713	33,581	27,024	20,981
Net warehouse interest income	937	717	4,198	3,586	4,186
Escrow earnings and other interest income	539	370	1,474	2,056	1,769
Other	3,745	3,370	10,385	3,965	3,879
<b>Total Revenues</b>	<b>\$ 34,402</b>	<b>\$ 28,997</b>	<b>\$ 152,350</b>	<b>\$ 121,834</b>	<b>\$ 88,761</b>
<b>Expenses</b>					
Personnel	\$ 11,641	\$ 9,207	\$ 51,162	\$ 42,459	\$ 32,177
Amortization and depreciation	7,259	4,907	22,514	16,959	12,917
Provision for risk-sharing obligations, net	1,224	746	4,724	7,469	2,265
Interest expense on corporate debt	168	252	823	1,334	1,684
Other operating expenses	4,616	3,020	16,466	13,471	11,114
<b>Total Expenses</b>	<b>\$ 24,908</b>	<b>18,132</b>	<b>\$ 95,689</b>	<b>\$ 81,692</b>	<b>\$ 60,157</b>
<b>Income from Operations</b>	<b>\$ 9,494</b>	<b>\$ 10,865</b>	<b>\$ 56,661</b>	<b>\$ 40,142</b>	<b>\$ 28,604</b>
Gain on Bargain Purchase(3)	\$	\$	\$	\$	\$ 10,922
Income tax expense(1)(4)	\$ 3,655	\$ 4,226	\$ 21,797	\$ 31,915	\$
<b>Net income(1)(4)</b>	<b>\$ 5,839</b>	<b>\$ 6,639</b>	<b>\$ 34,864</b>	<b>\$ 8,227</b>	<b>\$ 39,526</b>
Basic earnings per share(1)(4)	\$ 0.27	\$ 0.31	\$ 1.61	\$ 0.55	
Diluted earnings per share(1)(4)	\$ 0.27	\$ 0.31	\$ 1.60	\$ 0.55	
Weighted average basic number of shares(4)	21,750,573	21,582,746	21,621,534	15,033,741	14,306,873
Weighted average diluted number of shares(4)	21,848,280	21,651,192	21,747,672	15,036,411	14,306,873
<b>Pro forma net income data (unaudited)</b>					
Income from operations, as reported				\$ 40,142	\$ 28,604
Pro forma income tax expense(1)(4)				15,535	11,070
Pro forma income from operations, net of tax(1)(4)				\$ 24,607	\$ 17,534
Bargain purchase gain					10,922
Pro forma net income(1)(4)				\$ 24,607	\$ 28,456
Pro forma basic and diluted earnings per share(1)(4)				\$ 1.64	\$ 1.99
<b>Balance Sheet Data(1)</b>					
Cash and cash equivalents	\$ 40,811	\$ 53,817	\$ 53,817	\$ 33,285	\$ 10,390
Restricted cash and pledged securities	24,682	26,123	26,123	18,861	19,159
Mortgage servicing rights	142,621	137,079	137,079	106,189	81,427
Loans held for sale	268,207	268,167	268,167	302,851	101,939
Total Assets	517,456	522,596	522,596	485,620	243,732
Warehouse notes payable	236,685	218,426	218,426	248,419	96,612
Notes payable	22,969	23,869	23,869	27,621	32,961
Total Liabilities	347,407	358,944	358,944	360,978	173,921
Total Equity	170,049	163,652	163,652	124,642	69,811
<b>Supplemental Data(2)</b>					
Operating margin	28%	37%	37%	33%	32%

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Total originations	\$ 674,465	\$ 507,497	\$ 4,025,917	\$ 3,171,618	\$ 2,229,772
Servicing portfolio	\$ 16,850,945	\$ 14,856,510	\$ 16,778,285	\$ 14,619,294	\$ 13,203,317

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(1)

Our combined effective federal and state tax rate for the year ended December 31, 2011 was 38.5%. Our predecessor entities historically operated as pass-through tax entities (partnerships, LLCs and S-corporations). Accordingly, our historical earnings have resulted in only nominal federal and state corporate level expense. The tax liability has been the obligation of our owners. Upon closing of our initial public offering on December 20, 2010

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(the "IPO"), our tax status changed to a C-corporation and our income became subject to both federal and state corporate tax. Concurrent with the closing of certain formation transactions in connection with the IPO (through which Walker & Dunlop, LLC became a wholly owned subsidiary of Walker & Dunlop, Inc.) (the "Formation Transaction") and the Company's change in tax status, we recognized approximately \$31.6 million of net deferred tax liabilities. For the 12 days following the closing of the Formation Transaction, we recognized income tax expense of \$0.3 million. For the year ended December 31, 2010, we recognized aggregate tax expense of \$31.9 million; and recognized net deferred tax liabilities of \$30.2 million and current taxes payable of \$1.7 million at December 31, 2010. Our combined effective federal and state tax rate for income during the 12 days following the closing of the Formation Transaction was 38.7%. We used a combined effective federal and state tax rate of 38.7% to estimate our presented pro forma tax expense, as if the predecessor entities had been tax paying corporations for the years ended December 31, 2010, 2009, 2008, and 2007. In 2009, the Company recorded a gain on bargain purchase of \$10.9 million resulting from the January 2009 transaction through which, among other things, the Company, its affiliate Green Park Financial Limited Partnership, and Column Guaranteed LLC contributed their assets to the then newly formed Purchaser (the "Column transaction"). This gain is not considered taxable income, therefore the pro forma adjustment for income tax expense was calculated based upon income from operations, as reported, of \$28.6 million.

- (2) Statement of Income Data for the year ended December 31, 2009 includes the operating results for Walker & Dunlop, LLC's predecessor entities for January 2009 and the operating results for the combined entity for the 11 months following the Column transaction.
- (3) We recognized a gain on bargain purchase of \$10.9 million in connection with the Column transaction in January 2009. The gain on bargain purchase represents the difference between the fair value of the assets acquired and the purchase consideration paid.
- (4) Concurrently with the closing of the IPO in December 2010, the investors in the Walker & Dunlop predecessor entities individually and collectively combined the predecessor entities that had been previously operated and reported as companies under common control. These investors exchanged their member interests for their *pro rata* interest, adjusted for company-specific debt included in the transaction, in 14,741,504 shares in the then newly formed Purchaser. This transaction was reported for accounting purposes as a combination of companies under common control and the stock issuance was reported as a stock-split. In accordance with U.S. generally accepted accounting principles, all financial reports have been prepared as if the stock-split and the combination of the companies under common control had occurred prior to the earliest period presented; certain amounts have been reclassified to conform to the new presentation. The predecessor companies continue to exist as wholly owned subsidiaries of the Company.

*Summary Historical Financial Data of CWCcapital*

CWCcapital is a wholly owned operating subsidiary of CW Financial. On September 1, 2010, Galaxy Acquisition LLC ("Galaxy") acquired all of the membership interests in CW Financial from the former members, which resulted in CWCcapital becoming an indirect, wholly owned subsidiary of Galaxy. Galaxy is indirectly owned by funds managed by affiliates of Fortress Investment Group LLC ("Fortress"). Pursuant to a Transfer Agreement dated as of October 17, 2011, Galaxy transferred its interests in CW Financial to its wholly owned subsidiary, CWFS Holdings LLC. For purposes of the discussion herein, CWFS Holdings LLC is disregarded.

The summary historical financial information of CWCcapital has been derived from the unaudited and audited financial statements of CWCcapital, which financial statements (other than the financial statements for the year ended November 30, 2007) are included in this proxy statement beginning on page F-2. The summary historical financial information and supplemental data as of December 31, 2011 and 2010, and for the year ended December 31, 2011, and the four-month period ended December 31, 2010, have been derived from the audited financial statements of CWCcapital for the period as of and following the acquisition of CW Financial by Galaxy on September 1, 2010 (the "Successor"). The summary historical financial information and supplemental data as of August 31, 2010 and November 30, 2009, 2008 and 2007, and for the nine-month period ended August 31, 2010, and the years ended November 30, 2009, 2008, and 2007, have been derived from the audited historical financial statements of CWCcapital for the period prior to the acquisition of CW Financial by Galaxy on September 1, 2010 (the "Predecessor"). For further information on the acquisition, see "CWCcapital Management's Discussion and Analysis of Financial Condition and Results of Operations Basis of Presentation."

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Certain financial statement items and the summary historical financial information of CWCcapital have been presented below and in "CWCcapital Management's Discussion and Analysis of Financial Condition and Results of Operations" to conform with the presentation contained in Walker & Dunlop's Annual Report on Form 10-K, incorporated by reference in this proxy statement. See "Selected Historical Financial Data of CWCcapital LLC" for further details.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>(in thousands)</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenues</b>		
Gains from mortgage banking	\$ 24,852	\$ 17,748
Servicing fees	7,742	5,028
Net warehouse interest income	830	616
Escrow earnings and other interest income	351	490
Other revenue	1,207	842
<b>Total Revenue</b>	<b>\$ 34,982</b>	<b>\$ 24,724</b>
<b>Expenses</b>		
Compensation expense	12,366	9,010
FV adjustments MSRs, amortization and depreciation	13,165	3,681
Provision for risk-sharing obligations	(1,257)	228
Other operating expenses	3,744	3,960
<b>Total Expenses</b>	<b>\$ 28,018</b>	<b>\$ 16,879</b>
<b>Net income(1)</b>	<b>\$ 6,964</b>	<b>\$ 7,845</b>

	<b>As of March 31,</b>	
	<b>(in thousands)</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Balance Sheet Data</b>		
Cash and cash equivalents	\$ 24,165	\$ 25,206
Restricted cash	24,179	5,066
Mortgage servicing rights	115,052	110,137
Loans held for sale	267,585	104,357
Other assets	44,885	35,322
<b>Total Assets</b>	<b>\$ 475,866</b>	<b>\$ 280,088</b>
Warehouse notes payable	260,732	100,622
Risk share liability	29,421	7,061
Other liabilities	34,980	32,286
<b>Total Liabilities</b>	<b>\$ 325,133</b>	<b>\$ 139,969</b>
<b>Total equity</b>	<b>\$ 150,733</b>	<b>\$ 140,119</b>

(1) No provision has been made in CWCcapital's financial statements for federal income taxes because CWCcapital is a disregarded entity for federal tax purposes and its results are included in Galaxy's tax filings with the Internal Revenue Service.





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	Successor(1)		2010	Predecessor(2)		
	2011	2010		2009	2008	2007
	(in thousands)			(in thousands)		
<b>Revenues</b>						
Gains from mortgage banking(3)	\$ 102,454	\$ 47,724	\$ 37,021	\$ 29,403	\$ 10,461	\$ 24,840
Servicing fees	22,869	6,200	11,713	13,901	10,924	12,097
Net warehouse interest income	2,886	921	713	2,451	6,214	4,826
Escrow earnings and other interest income	1,730	666	1,350	1,085	6,027	9,382
Other revenue	3,701	636	1,633	1,195	596	1,271
<b>Total Revenue</b>	<b>\$ 133,640</b>	<b>\$ 56,147</b>	<b>\$ 52,430</b>	<b>\$ 48,035</b>	<b>\$ 34,222</b>	<b>\$ 52,416</b>
<b>Expenses</b>						
Compensation expense	48,429	15,128	20,647	17,337	18,757	23,322
FV adjustments MSR, amortization and depreciation(4)	40,279	957	11,066	12,112	10,808	13,270
Provision for risk-sharing obligations	1,689	25	2,992	1,605	372	(60)
Other operating expenses	17,376	5,550	22,095	37,092	19,856	36,081
<b>Total Expenses</b>	<b>\$ 107,773</b>	<b>\$ 21,660</b>	<b>\$ 56,800</b>	<b>\$ 68,146</b>	<b>\$ 49,793</b>	<b>\$ 72,613</b>
<b>Net income (loss)(5)</b>	<b>\$ 25,867</b>	<b>\$ 34,487</b>	<b>\$ (4,370)</b>	<b>\$ (20,111)</b>	<b>\$ (15,571)</b>	<b>\$ (20,197)</b>
<b>Balance Sheet Data</b>						
Cash and cash equivalents	21,773	32,812	25,542	12,240	27,920	38,802
Restricted cash	23,678	2,661	2,161	2,161	2,161	2,390
Mortgage servicing rights(4)	113,516	101,944	67,312	61,622	54,676	51,430
Loans held for sale	717,030	230,150	84,719	285,322	296,530	172,847
Other assets	61,685	43,798	44,599	9,093	7,342	11,181
<b>Total Assets</b>	<b>\$ 937,682</b>	<b>\$ 411,365</b>	<b>\$ 224,333</b>	<b>\$ 370,438</b>	<b>\$ 388,629</b>	<b>\$ 276,650</b>
Warehouse notes payable	695,216	232,552	82,452	285,303	296,027	173,959
Notes payable				2,138		10,000
Risk share liability	31,252	6,833	5,891	2,899	1,293	922
Other liabilities	67,637	39,706	46,453	13,557	26,158	44,802
<b>Total Liabilities</b>	<b>\$ 794,105</b>	<b>\$ 279,091</b>	<b>\$ 134,796</b>	<b>\$ 303,897</b>	<b>\$ 323,478</b>	<b>\$ 229,683</b>
<b>Total equity</b>	<b>\$ 143,577</b>	<b>\$ 132,274</b>	<b>\$ 89,537</b>	<b>\$ 66,541</b>	<b>\$ 65,151</b>	<b>\$ 46,967</b>

- (1) Summary financial data for the Successor includes balance sheet data as of December 31, 2011 and 2010, and income statement data for the year ended December 31, 2011 and for the four-month period September 1, 2010 through December 31, 2010.
- (2) The summary financial data for the Predecessor includes balance sheet data as of August 31, 2010, November 30, 2009, 2008 and 2007. The income statement data is for the nine-month period from December 1, 2009 through August 31, 2010, and years ended November 30, 2009, 2008, and 2007.
- (3) Effective December 1, 2009, CWC Capital changed its accounting policy to recognize the fair value of rate lock agreements ("rate locks"), commitments to sell securities and commitments to sell loans at inception, which includes the fair value of all future cash flows. Please refer to "CWC Capital Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies" for further information.
- (4) The Predecessor elected the amortization method to account for mortgage servicing rights ("MSRs") subsequent to initial recognition. The Successor elected to measure and carry its MSRs using the fair value option.

(5)

No provision has been made in CWCapital's financial statements for federal income taxes because CWCapital is a disregarded entity for federal tax purposes and its results are included in Galaxy's tax filings with the Internal Revenue Service.

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The following summary pro forma condensed combined financial information is based on the respective historical statements of Walker & Dunlop and CWCapital after giving effect to the Acquisition described below and elsewhere in this proxy statement and the assumptions and adjustments described in the section entitled "Unaudited Pro Forma Combined Financial Information" beginning on page 94.

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

(In thousands, except share and per share data)

	March 31, 2012					March 31, 2012
	Walker & Dunlop	CWCapital	Pro Forma Adjustments			Pro Forma Combined
<b>Assets</b>						
Cash and cash equivalents	\$ 40,811	\$ 24,165	\$ (27,440)	A	\$	37,536
Restricted cash	5,083	24,179				29,262
Pledged securities, at fair value	19,599					19,599
Loans held for sale, at fair value	268,207	267,585				535,792
Loans held for investment	6,947					6,947
Servicing fees and other receivables, net	15,140	6,622				21,762
Derivative assets	10,264	32,136				42,400
Mortgage servicing rights	142,621	115,052	5,598	B		263,271
Goodwill			75,211	F		75,211
Intangible assets purchase related			3,402	D		3,402
Other assets	8,784	6,127	(1,800)	E		13,111
<b>Total assets</b>	<b>\$ 517,456</b>	<b>\$ 475,866</b>	<b>\$ 54,971</b>		<b>\$</b>	<b>1,048,293</b>
<b>Liabilities and Stockholders' Equity</b>						
<b>Liabilities</b>						
Accounts payable and other accrued expenses	\$ 56,216	\$ 10,907	\$ 75	D	\$	67,198
Performance deposits from borrowers	5,806	3,195				9,001
Derivative liabilities	762	20,878				21,640
Guaranty obligation, net of accumulated amortization	10,447		5,598	B		16,045
Allowance for risk-sharing obligations	14,522	29,421				43,943
Warehouse notes payable	236,685	260,732				497,417
Notes payable	22,969		60,031	A		83,000
<b>Total liabilities</b>	<b>\$ 347,407</b>	<b>\$ 325,133</b>	<b>\$ 65,704</b>		<b>\$</b>	<b>738,244</b>
<b>Equity</b>						
Stockholders' equity:						
Preferred share.	\$	\$	\$		\$	
Common stock, \$0.01 par value.	218		116	C		334
Additional paid-in capital	81,747	105,280	34,604	C		221,631
Retained earnings	88,084	45,453	(45,453)	C		88,084
<b>Total stockholders' equity</b>	<b>\$ 170,049</b>	<b>\$ 150,733</b>	<b>\$ (10,733)</b>		<b>\$</b>	<b>310,049</b>
<b>Commitments and contingencies</b>						
<b>Total liabilities and stockholders' equity</b>	<b>\$ 517,456</b>	<b>\$ 475,866</b>	<b>\$ 54,971</b>		<b>\$</b>	<b>1,048,293</b>



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#### *Notes to Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2012*

- A) To reflect the planned financing and cash consideration payment of \$80 million upon consummation of the Acquisition, as well as a \$7.5 million increase to the cash consideration pursuant to the terms of the excess working capital adjustment outlined in the Purchase Agreement, as of March 31, 2012. The level of working capital held by CWCapital is expected to fluctuate significantly and is expected to more closely approximate the target working capital, as defined in the Purchase Agreement, at the time of the Acquisition closing. Additionally, in conjunction with the closing of the Acquisition, we plan to repay our existing term debt with proceeds obtained through the Commitment Letter, increasing the total term debt outstanding at the close of the Acquisition to \$83 million.
- B) To reflect the gross presentation of the guaranty obligation associated with Fannie Mae DUS loans with risk-sharing obligations. CWCapital historically recorded the guaranty obligation as a component of the fair value of the associated mortgage servicing right ("MSR") resulting in a net MSR presentation; however, Walker & Dunlop records and presents the MSR and the guaranty obligation as an asset and a liability, respectively. The adjustment reflects the manner in which the MSRs and guaranty obligation will be presented following the consummation of the Acquisition.
- C) To reflect the value of the Common Stock to be issued to CW Financial as partial consideration (\$140 million, based upon the preliminary purchase price consideration) and the elimination of CWCapital's member's net equity balances.
- D) To reflect the preliminary purchase price allocation recognition of certain intangible assets and liabilities - above market lease liability, below market lease asset and a mortgage pipeline asset. The above and below market lease asset and liability reflect our estimation of the fair value of certain leases that will be assumed upon closing of the Acquisition and, upon closing, are expected to be amortized over the remaining lives of the respective leases. The mortgage pipeline asset recognized reflects the estimated fair value of the origination related fees and MSRs related to the loan applications and leads currently being processed by CWCapital. Due to the short lifecycle from application through rate lock, loan funding and subsequent sale, significant fluctuation is expected in the underlying application pipeline, and as a result, the value attributed to this asset at consummation of the Acquisition and final purchase price allocation may differ materially from the estimate provided herein.
- E) To reflect the adjustment to values of certain intangible, prepaid and other assets based upon estimated fair value in the business combination.
- F) To reflect the establishment of goodwill of \$75.2 million estimated as a result of the preliminary purchase price allocation detailed below.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**

For the three months ended March 31, 2012  
(In thousands, except share and per share data)

	Walker & Dunlop	CWCapital	Pro Forma Adjustments	Pro Forma Combined
<b>Revenues</b>				
Gains from mortgage banking activities	\$ 19,802	\$ 24,852	\$	\$ 44,654
Servicing fees	9,379	7,742		17,121
Net warehouse interest income	937	830		1,767
Escrow earnings and other interest income	539	351		890
Other	3,745	1,207		4,952
<b>Total revenues</b>	<b>\$ 34,402</b>	<b>\$ 34,982</b>	<b>\$</b>	<b>\$ 69,384</b>
<b>Expenses</b>				
Personnel	\$ 11,641	\$ 12,366	\$	\$ 24,007
Amortization and depreciation	7,259	290		7,549
Provision for risk-sharing obligations	1,224	(1,257)		(33)
Fair value losses MSRs, net		12,875		12,875
Interest expense on corporate debt	168		579	747
Other operating expenses	4,616	3,744		8,360
<b>Total expenses</b>	<b>\$ 24,908</b>	<b>\$ 28,018</b>	<b>\$ 579</b>	<b>\$ 53,505</b>
<b>Income from operations</b>	<b>\$ 9,494</b>	<b>\$ 6,964</b>	<b>\$ (579)</b>	<b>\$ 15,879</b>
Income tax expense	3,655		2,458	6,113
<b>Net income</b>	<b>\$ 5,839</b>	<b>\$ 6,964</b>	<b>\$ (3,037)</b>	<b>\$ 9,766</b>
Basic and diluted earnings per share	\$ 0.27			\$ 0.29
Diluted earnings per share	\$ 0.27			\$ 0.29
Basic weighted average shares outstanding	21,750,573		11,647,255	33,397,828
Diluted weighted average shares outstanding	21,848,280		11,647,255	33,495,535

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**

For the year ended December 31, 2011  
(In thousands, except share and per share data)

	Walker & Dunlop	CWCapital	Pro Forma Adjustments	Pro Forma Combined
<b>Revenues</b>				
Gains from mortgage banking activities	\$ 102,712	\$ 102,454	\$	\$ 205,166
Servicing fees	33,581	22,869		56,450
Net warehouse interest income	4,198	2,886		7,084
Escrow earnings and other interest income	1,474	1,730		3,204
Other	10,385	3,701		14,086
<b>Total revenues</b>	<b>\$ 152,350</b>	<b>\$ 133,640</b>	<b>\$</b>	<b>\$ 285,990</b>
<b>Expenses</b>				
Personnel	\$ 51,162	\$ 48,429	\$	\$ 99,591
Amortization and depreciation	22,514	96		22,610
Provision for risk-sharing obligations	4,724	1,689		6,413
Fair value losses MSRs, net		40,183		40,183
Interest expense on corporate debt	823		2,372	3,195
Other operating expenses	16,466	17,376		33,842
<b>Total expenses</b>	<b>\$ 95,689</b>	<b>\$ 107,773</b>	<b>\$ 2,372</b>	<b>\$ 205,834</b>
<b>Income from operations</b>	<b>\$ 56,661</b>	<b>\$ 25,867</b>	<b>\$ (2,372)</b>	<b>\$ 80,156</b>
Income tax expense	21,797		9,063	30,860
<b>Net income</b>	<b>\$ 34,864</b>	<b>\$ 25,867</b>	<b>\$ (11,435)</b>	<b>\$ 49,296</b>
Basic and diluted earnings per share	\$ 1.61			\$ 1.48
Diluted earnings per share	\$ 1.60			\$ 1.48
Basic weighted average shares outstanding	21,621,534		11,647,255	33,268,789
Diluted weighted average shares outstanding	21,747,672		11,647,255	33,394,927

Notes to Unaudited Pro Forma Condensed Combined Statements of Income For the Three Months Ended March 31, 2012, and For the Year Ended December 31, 2011

- 1) To reflect the additional interest expense associated with the financing expected to be obtained pursuant to the Commitment Letter, as if the \$83 million aggregate borrowings had been outstanding as of January 1, 2011 under the terms of the Commitment Letter. The pro forma adjustment depicts the increased interest expense costs in excess of Walker & Dunlop's interest expense related to the term debt, which we plan to repay at the close of the Acquisition.
- 2) To reflect the provision for income taxes related to pro forma adjustments included in the pro forma combined statements of income at Walker & Dunlop's effective combined income tax rate. No provision has been made in CWCapital's financial statements for federal income taxes as CWCapital is a disregarded entity for federal tax purposes and its results are included



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in Galaxy's tax filings with the Internal Revenue Service. Therefore, the tax obligation has been reflected on Galaxy's financial statements. Following the closing of the Acquisition, all earnings will be included in Walker & Dunlop's tax filings and will be the obligation of Walker & Dunlop.

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**SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This proxy statement contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, including statements regarding expected synergies and other anticipated benefits of our Acquisition, the expected future operating results of the combined company, the expected timing of completion of the Acquisition and other of our expectations, beliefs, plans, intentions and strategies. We have tried to identify these statements by using words such as "expect," "anticipate," "believe," "could," "should," "estimate," "expect," "intend," "may," "plan," "predict," "project" and "will" and similar terms and phrases, but such words, terms and phrases are not the exclusive means of identifying such statements. These forward-looking statements are made based on management's expectations and beliefs concerning future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict and many of which are beyond management's control. Actual results, performance and achievements could differ materially from those expressed in, or implied by, these forward-looking statements due to a variety of risks, uncertainties and other factors, including the following:

**Relating to the Acquisition and Share Issuance Proposal**

the risk that the Acquisition is not completed on a timely basis or at all;

the ability to integrate CWCcapital into our business successfully and the amount of time and expense spent and incurred in connection with the integration;

the risk that the economic benefits and other synergies that we anticipate as a result of the Acquisition are not fully realized or take longer to realize than expected;

the risk that certain risks and liabilities associated with the Acquisition have not been discovered;

the risk that we or CWCcapital may be unable to obtain antitrust or other regulatory clearance required for the transaction, or that required antitrust or other regulatory clearance may delay the transaction or result in the imposition of conditions that could adversely affect the operations of the combined company or cause the parties to abandon the Acquisition;

the risk that any necessary quasi-governmental approvals or other third party consents may not be obtained, that the Financing may not be consummated or that other conditions of the Acquisition are not satisfied;

limitations imposed by our credit facilities;

the impact of the issuance of our Common Stock as consideration for the Acquisition on our current holders of Common Stock, including dilution of their ownership and voting interests;

adverse effects on the market price of our Common Stock caused by the sale of such stock held by CWCcapital stockholders following the Acquisition;

the effect of the Acquisition on our and CWCcapital's relationship with our and their respective clients, customers, vendors and personnel; and

adverse effects on the market price of our Common Stock and on our operating results because of a failure to complete the Acquisition.

**Relating to our Business Generally**

intense competition;

the loss of servicing contracts;

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changes in our relationship with loan originators;

adverse litigation judgments or settlements;

changes in general economic and business conditions or demographic trends;

the impact of public and private regulations;

the financial difficulties or bankruptcy of our major clients;

insurance losses that are worse than expected or adverse events not covered by insurance;

extraordinary events affecting real estate lending, including emergency safety measures, military or terrorist attacks, cyber terrorism and natural disasters;

uncertainty in the credit markets;

availability, terms and deployment of capital; and

our ability to obtain credit on acceptable terms.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the section below entitled "Risk Factors" beginning on page 69 and in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our Quarterly Reports on Form 10-Q and other reports we have filed with the SEC since December 31, 2011, which are incorporated by reference herein. See the section entitled "Where You Can Find More Information" beginning on page 110 for more information about the documents incorporated by reference in this proxy statement.

All of our forward-looking statements should be considered in light of these factors. All of our forward-looking statements speak only as of the date they were made, and we undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events or otherwise, except as may be required under applicable securities laws and regulations. Any forward-looking statements in this proxy statement are not guarantees of future performance, and actual results, developments and business decisions may differ from those contemplated by those forward-looking statements, possibly materially. Accordingly, you should not place undue reliance on any such forward-looking statements.

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**WALKER & DUNLOP SPECIAL MEETING**

We are furnishing this proxy statement to our stockholders as part of the solicitation of proxies by our Board for use at the Special Meeting of stockholders to be held on August 30, 2012, and at any adjournment, postponement or continuation thereof. This document is first being mailed to our stockholders on or about August 1, 2012.

*Date, Time and Place*

The Special Meeting of our stockholders will be held at the Hilton Garden Inn, 7301 Waverly Street, Bethesda, Maryland 20814 on August 30, 2012 at 9:00 a.m. local time.

*Purpose of the Special Meeting*

At the Special Meeting, our stockholders will be asked to approve the issuance of a number of shares expected to equal 11,647,255 shares of Common Stock, subject to adjustment as described below under "The Purchase Agreement" on page 44, as partial consideration in connection with the acquisition by our wholly owned operating subsidiary, the Purchaser, of all of the limited liability company membership interests in CWCapital from the Seller for aggregate consideration, net of certain expenses and adjustments, of approximately \$220 million. Of the \$220 million, \$80 million will be paid in cash from the Purchaser, and the remaining \$140 million will be paid through the issuance of Common Stock. This proposal is referred to in this proxy statement as the Share Issuance Proposal.

You are also being asked to (1) approve an amendment to our Equity Incentive Plan to (i) increase the number of shares reserved for issuance by 3,370,000 shares; (ii) change the individual limits to (A) 600,000 shares for grants of stock options and SARs in any single calendar year, (B) 600,000 shares for awards other than stock options and SARs in any single calendar year, (C) three million dollars (\$3,000,000) for the maximum amount that may be earned as an annual incentive award or other cash award in any calendar year in respect of performance, and (D) seven million dollars (\$7,000,000) for the maximum amount that may be earned as a performance award or other cash award by any one person in any calendar year in respect of performance; (iii) add additional performance measures that may be used as performance goals; and (iv) extend the termination date of the Equity Incentive Plan until the tenth anniversary of the Special Meeting; and (2) re-approve material terms and conditions relating to performance-based compensation under the Equity Incentive Plan. This proposal is referred to in this proxy statement as the Plan Amendment Proposal.

You also are being asked to consider and vote on a proposal to adjourn the special meeting, for up to 20 additional days, solely to the extent necessary to solicit additional proxies if there are insufficient votes to approve the Share Issuance Proposal at the time of the Special Meeting, which is referred to in this proxy statement as the Adjournment Proposal.

We are seeking stockholder approval of the Share Issuance Proposal to satisfy our obligations under Section 312.03(c) of the NYSE Listed Company Manual, which requires stockholder approval prior to the issuance of Common Stock, or securities convertible or exchangeable for Common Stock, if the issuance would constitute more than 20 percent of the total number of shares of Common Stock outstanding before the issuance. If the Acquisition is completed, we will issue the Stock Consideration to CW Financial, which we anticipate will represent approximately 34 percent, on a fully-diluted basis, of the total number of shares of our Common Stock issued and outstanding immediately following the consummation of the Acquisition. In addition, the Acquisition may be classified as a change of control under applicable NYSE rules because of, among other things, the addition of two new directors to our Board who are designated for appointment by CW Financial and the issuance of over 20 percent of our Common Stock as the Stock Consideration. To the extent of such classification, if any, we are also seeking stockholder approval to satisfy our obligations under Section 312.03(d) of the NYSE Listed

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Company Manual, which requires stockholder approval prior to the issuance of securities in connection with a change of control.

In addition, we are seeking stockholder approval of the Plan Amendment Proposal, as required by Section 303A.08 of the NYSE Listed Company Manual, because it is a "material revision" to an "equity compensation plan" (which includes a material increase in the number of shares available under the plan if the increase is not solely to reflect a reorganization, stock split, merger, spin-off or similar transaction).

As of the date of this proxy statement, we do not know of any other matters that will be presented for consideration at the Special Meeting other than those matters discussed in this proxy statement. If any other matters properly come before the Special Meeting and call for a stockholder vote, valid proxies will be voted by the holders of the proxies in accordance with the recommendation of the Board or, if no recommendation is given, in their own discretion.

*Record Date; Shares of Common Stock Outstanding and Entitled to Vote*

The record date for the Special Meeting is July 6, 2012. If you were a stockholder of record of our Common Stock at the close of business on the record date, you are entitled to notice of, and to vote at, the Special Meeting and any adjournments or postponements thereof. Our Common Stock is the only class of securities we have issued and outstanding. At the close of business on the record date, 22,851,290 shares of our Common Stock were outstanding and entitled to vote. Stockholders are entitled to one vote on each matter submitted to stockholders at the Special Meeting for each share of our Common Stock held as of the record date.

*Vote Required*

Each of the Share Issuance Proposal and the Plan Amendment Proposal must be approved by the affirmative vote of the holders of a majority of the votes cast at the Special Meeting, provided that total votes cast (either for, against or abstaining) on the proposal represent over 50 percent of all outstanding securities entitled to vote on the proposal. Approval of the Adjournment Proposal requires the affirmative vote of the holders of a majority of the votes cast at the Special Meeting. A properly executed proxy marked "Abstain" with respect to the Share Issuance Proposal or the Plan Amendment Proposal will be counted for purposes of determining whether there is a quorum and will have the effect of a vote *AGAINST* such proposal. Abstentions will have no effect on the Adjournment Proposal.

*Quorum*

A quorum of stockholders is necessary to hold a valid meeting. The presence at the Special Meeting, in person or by proxy, of the holders of a majority of the outstanding shares of our Common Stock entitled to vote at the Special Meeting will constitute a quorum at the Special Meeting. We will include abstentions in the calculation of the number of shares considered to be present at the Special Meeting, including for purposes of determining the presence of a quorum. Broker non-votes will not be counted as present for purposes of determining whether there is a quorum at the Special Meeting.

Neither the Share Issuance Proposal nor the Plan Amendment Proposal can be approved unless the total votes cast (either for, against or abstaining) on the proposal represent over 50 percent of all outstanding securities entitled to vote on the proposal. Accordingly, a failure to cast a vote for either proposal or a broker non-vote on either proposal could have the effect of a vote against the proposal if such failure to cast a vote or broker non-vote results in the total number of votes cast on the proposal not representing over 50 percent of all shares of Common Stock entitled to vote on the proposal.

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*Voting Your Shares*

If you hold your shares of Common Stock directly (*i.e.*, not in a bank or brokerage account), you may vote by completing and returning the accompanying proxy card or by attending the meeting and voting in person.

If your shares of Common Stock are held in street name, you should follow the voting instructions provided to you by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in most cases, submit voting instructions by the internet or by telephone to your broker or nominee. If you provide specific instructions, your broker or nominee should vote your shares of Common Stock as directed. Additionally, if you want to vote in person and hold your shares in street name, you will need a legal proxy from your broker to vote at the Special Meeting.

When you vote by signing and returning the proxy card, you appoint William M. Walker and Deborah A. Wilson as your representatives to vote your Common Stock at the Special Meeting. Mr. Walker and Ms. Wilson, or either of them, will vote your Common Stock as you instruct on your proxy card. Accordingly, your Common Stock will be voted whether or not you attend the Special Meeting. Even if you plan to attend the Special Meeting, we encourage you to vote by signing and returning your proxy card in advance.

In order for your proxy to be validly submitted and for your shares to be voted in accordance with your proxy, we must receive your mailed proxy by 11:59 p.m. (EDT), on August 29, 2012. Additionally, telephone and Internet voting for stockholders will close at 11:59 p.m. (EDT), on August 29, 2012.

You may change or revoke a previously granted proxy at any time before it is exercised by either (i) submitting a later-dated proxy, in person at the Special Meeting or by mail, or (ii) delivering instructions to our Secretary at our principal executive offices located at 7501 Wisconsin Avenue, Suite 1200E, Bethesda, Maryland 20814. Please note that attendance at the meeting will not, in itself, constitute revocation of a previously granted proxy.

If your shares of Common Stock are held in street name, then you may submit new voting instructions by contacting your broker or nominee. You may also vote in person at the Special Meeting if you obtain a legal proxy from your broker as described above.

Your vote is very important to us. **Even if you plan to attend the Special Meeting, we encourage you to read this proxy statement and the documents incorporated by reference in this proxy statement and submit your vote promptly so that your shares will be represented and voted in accordance with your instructions.**

*Broker Non-Votes*

Brokers holding shares of stock for beneficial owners have the authority to vote on certain "routine" matters, in their discretion, in the event they have not received instructions from the beneficial owners. However, when a proposal is not a "routine" matter and a broker has not received voting instructions from the beneficial owner of the shares with respect to that proposal, the broker may not vote the shares for that proposal. A "broker non-vote" occurs when a broker holds shares for a beneficial owner, in a fiduciary capacity, but does not vote on a particular matter because the broker does not have discretionary voting power with respect to that matter and has not received instructions from such beneficial owner.

The Share Issuance Proposal and the Plan Amendment Proposal are not considered "routine" matters. Accordingly, if you do not provide voting instructions to your broker with respect to each proposal, the broker is prohibited from voting your shares with respect to these proposals. A failure to cast a vote for either proposal or a broker non-vote on either proposal will have the effect of a vote against the proposal if such failure to cast a vote or broker non-vote results in the total number of

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votes cast on the proposal not representing over 50 percent of all shares of Common Stock entitled to vote on the proposal.

*Adjournments and Postponements*

Although it is not currently expected, the Special Meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Any signed proxies received by Walker & Dunlop in which no voting instructions are provided on such matter will be voted "FOR" the Adjournment Proposal. Any adjournment or postponement of the Special Meeting for the purpose of soliciting additional proxies will allow stockholders who have already sent in their proxies to revoke them at any time prior to their use at the Special Meeting as adjourned or postponed.

*Proxy Solicitation Costs*

We will bear the costs of soliciting proxies from the holders of our Common Stock. In addition to the solicitation of proxies by mail, solicitation may be made by certain of our directors, officers and selected other employees telephonically, electronically or by other means of communication. Directors, officers and employees who help us in the solicitation will not be specially compensated for those services, but they may be reimbursed for their out-of-pocket expenses incurred in connection with the solicitation. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward soliciting materials to beneficial owners and will be reimbursed for their reasonable out-of-pocket expenses incurred in sending proxy materials to beneficial owners.

*Recommendation of our Board*

**AFTER CAREFUL CONSIDERATION, OUR BOARD UNANIMOUSLY RECOMMENDS THAT YOU VOTE:**

**FOR THE SHARE ISSUANCE PROPOSAL TO AUTHORIZE THE ISSUANCE OF SHARES OF OUR COMMON STOCK IN CONNECTION WITH THE ACQUISITION;**

**FOR THE PLAN AMENDMENT PROPOSAL TO AMEND THE EQUITY INCENTIVE PLAN AND RE-APPROVE MATERIAL TERMS AND CONDITIONS RELATING TO PERFORMANCE-BASED COMPENSATION; AND**

**FOR THE ADJOURNMENT PROPOSAL.**



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**PROPOSAL 1:  
SHARE ISSUANCE PROPOSAL: ISSUANCE OF SHARES OF OUR COMMON STOCK IN  
CONNECTION WITH OUR PROPOSED ACQUISITION OF CWCAPITAL**

**THE ACQUISITION**

*At the Special Meeting, our stockholders will be asked to consider and vote upon a proposal to approve the issuance of our Common Stock in connection with the Acquisition. Set forth below in this section, and in the section entitled "The Purchase Agreement" beginning on page 44, is a discussion of the Acquisition, including a description of the terms and conditions of the Purchase Agreement. You should review these sections carefully in connection with your consideration of the proposal.*

**General Description of the Acquisition**

On June 7, 2012, Walker & Dunlop, the Purchaser, CW Financial and CWCapital, entered into the Purchase Agreement, providing for the acquisition of CWCapital by the Purchaser. See "The Purchase Agreement" beginning on page 44.

Pursuant to the Purchase Agreement, and subject to the terms and conditions thereof, CW Financial, as the sole owner of the limited liability company interest of CWCapital, will be entitled to receive aggregate consideration of \$220 million, subject to certain adjustments, consisting of (i) a cash payment of \$80 million, to be made through a combination of existing capital and debt financing anticipated to be obtained, and (ii) a non-cash payment equal to the Stock Consideration (as defined below). The "Stock Consideration" is expected to equal 11,647,255 shares of the Common Stock. To mitigate the risk to the Company and CW Financial associated with any potentially significant increase or decrease, respectively, in the price of the Common Stock between the date of the Purchase Agreement and the Closing Date, the parties have agreed that the number of shares constituting the Stock Consideration will be fixed at 11,647,255 shares (and the Common Stock price at \$12.02) within a "collar" of a 30 percent upward or downward fluctuation in the volume weighted average price of the Common Stock. However, if (a) the volume weighted average NYSE trading price of the Common Stock during the 20 consecutive trading days immediately preceding the third trading day prior to the Closing Date (the "Closing Share Value") is greater than \$15.62 (*i.e.*, more than 30 percent greater than \$12.02), then the Stock Consideration will equal the number of shares of Common Stock equal to \$182 million divided by the Closing Share Value, or (b) the Closing Share Value is less than \$8.41 (*i.e.*, more than 30 percent less than \$12.02), then the Stock Consideration will equal the number of shares of Common Stock equal to \$98 million divided by the Closing Share Value. The Stock Consideration's 30 percent-two-way collar may be illustrated as follows:

Closing Share Value Range	Number of Shares Constituting Stock Consideration
Less than \$8.41	\$98 million ÷ Closing Share Value
\$8.41 - \$15.62	11,647,255 shares
Greater than \$15.62	\$182 million ÷ Closing Share Value

**The Companies**

*Walker & Dunlop*

Through its indirect operating subsidiary, the Purchaser, Walker & Dunlop is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. As Fannie Mae DUS, Freddie Mac Program Plus® and MAP- and LEAN-approved FHA lenders, the Multifamily and FHA Finance groups are focused on lending to property owners, investors, and developers of multifamily properties across the country. Walker & Dunlop's proprietary Interim Loan Program provides financing for multifamily properties that do not currently qualify for permanent

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financing. The Capital Markets group specializes in financing commercial real estate for owners and investors across the United States, securing capital from large institutions such as life insurance companies, commercial banks, CMBS lenders, pension funds and specialty finance companies. The Principal Investments group provides institutional advisory, asset management and investment management services with respect to debt, structured debt and equity.

Walker & Dunlop is a Maryland corporation with principal executive offices at 7501 Wisconsin Avenue, Suite 1200E, Bethesda, MD. Our telephone number is (301) 215-5500 and our Internet address is [www.walkerdunlop.com](http://www.walkerdunlop.com).

*Walker & Dunlop, LLC*

The Purchaser is a Delaware limited liability company and indirect wholly owned subsidiary of Walker & Dunlop. The Purchaser's principal executive offices are located in the principal executive offices of Walker & Dunlop, and the Purchaser may be reached by contacting Walker & Dunlop.

*CWCapital LLC*

CWCapital, a Massachusetts limited liability company, is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. CWCapital's clients are owners and developers of commercial real estate across the country. CWCapital has approximately 180 employees located in 14 offices across the United States. CWCapital originates and sells multifamily mortgage loans pursuant to the programs of Fannie Mae and Freddie Mac, Ginnie Mae and HUD, with which CWCapital has long-established relationships. CWCapital is approved as a Fannie Mae DUS<sup>TM</sup> lender nationally, a Freddie Mac Program Plus lender in Massachusetts, Georgia, Alaska, California, Idaho, Oregon, Washington, New Jersey, the New York City metro area, Fairfield and New Haven counties in Connecticut, and Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania and an approved Freddie Mac Targeted Affordable Housing lender. CWCapital is also a MAP lender nationally, and a Ginnie Mae issuer. CWCapital is also a rated servicer and master servicer and services commercial loans for a number of CMBS trusts. CWCapital is an operating subsidiary of CW Financial. CWCapital retains servicing rights and asset management responsibilities on substantially all loans that it sells to investors. The mailing address of the principal executive offices of CWCapital is CWCapital LLC, One Charles River Place, 63 Kendrick Street, Needham, MA 02494, and CWCapital's telephone number is (781) 707-9300.

*CW Financial Services LLC*

CW Financial, a Delaware limited liability company, is the parent and sole owner of the limited liability company interest of CWCapital. CW Financial originates, invests in, manages and advises on commercial and multifamily real estate debt products. The mailing address of the principal executive offices of CW Financial is CW Financial Services LLC, 555 Fifth Avenue, New York, New York 10017, and CW Financial's telephone number is (212) 838-9899.

**Background of the Acquisition**

Our Board and management periodically review and evaluate potential strategic opportunities to enhance stockholder value.

On May 4, 2012, at the direction of Charles Spetka, Chief Executive Officer of CW Financial, and Wesley Edens, Co-Founder, Principal and Co-Chairman of the Board of Fortress, Shekar Narasimhan, the Managing Partner of Beekman Advisors, Inc. ("Beekman Advisors"), strategic advisor to CW Financial, telephoned William Walker, Chairman, President and Chief Executive Officer of the Company, to ask if he was available for a meeting in New York, NY on Monday, May 7, 2012. Mr. Walker was told the meeting was at the request of Messrs. Spetka and Edens. The purpose of the

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meeting was to discuss CWCcapital, a subsidiary of CW Financial, which is a portfolio company of funds managed by affiliates of Fortress, and the Company's potential interest in acquiring CWCcapital.

On May 7, 2012, Messrs. Walker, Edens and Narasimhan met at Fortress's offices in New York. During the course of the discussion, Messrs. Edens and Walker discussed their similar vision of the future of the real estate finance industry and multifamily finance in particular. They also discussed, in general terms, the potential structure for a proposed acquisition of CWCcapital by the Company, including the purchase price consisting of both cash and stock. They agreed to enter into an initial confidentiality agreement to allow them to continue discussions regarding a possible business transaction that would involve the Company acquiring CWCcapital.

On May 8, 2012, at a previously scheduled meeting of our Board, Mr. Walker informed the Board of the potential transaction and provided background on CWCcapital.

On May 10, 2012, we entered into a confidentiality agreement with Galaxy, the indirect parent company of CW Financial, and discussed a tentative timeline for the transaction. Also on May 10, 2012, representatives and advisors of the Company requested preliminary information regarding CWCcapital and had conversations with CW Financial's representatives and advisors. Employees of the Company, along with its financial advisor, KBW, began to review the information provided by CW Financial. Mr. Spetka assembled a team, including Carla Stoner, Executive Vice President and Chief Financial Officer, and Scott Spelfogel, Executive Vice President and General Counsel of CW Financial to assist in providing financial and diligence materials to the Company in its evaluation of a potential transaction.

Between May 10, 2012 and May 16, 2012 representatives and advisors of the Company continued to have conversations with CW Financial's representatives about diligence materials and to review CWCcapital documents. On May 11, 2012, Mr. Walker and Aaron Perlis, Senior Vice President of Business Development for the Company, spoke with KBW representatives to discuss initial due diligence findings. The KBW representatives and Mr. Perlis also held a teleconference with John Cibinic, Partner, of Beekman Advisors, on May 11, 2012 to request additional diligence materials.

On May 14, 2012, Ms. Deborah Wilson, Executive Vice President and Chief Financial Officer of the Company, Mr. Perlis, and KBW representatives, held a teleconference with Ms. Stoner and other representatives of CW Financial to discuss the potential transaction and related accounting policies.

On May 15, 2012, Ms. Wilson, along with Messrs. Walker and Perlis, and KBW representatives held a teleconference to discuss the valuation of CWCcapital based on the information provided to date and the analysis performed by the Company and KBW.

On May 16, 2012, Messrs. Walker and Perlis, KBW representatives and Ms. Wilson held a teleconference on CWCcapital's valuation and proposed transaction terms. Later that day, KBW representatives and Mr. Narasimhan spoke via telephone to discuss a preliminary acquisition proposal from the Company.

On May 17, 2012, Messrs. Walker and Edens spoke via telephone. During the call, Mr. Walker outlined the general terms for the Company to acquire CWCcapital. Mr. Walker proposed a purchase price of \$230 million, to be paid 70 percent in stock and 30 percent in cash, with the stock consideration being subject to restriction on sale during the first six months after closing of the acquisition. Mr. Walker also proposed to provide CW Financial with the right to appoint two members to our Board, contingent upon the addition of a third new director to ensure the Board's independence. Messrs. Walker and Edens agreed to execute a more comprehensive confidentiality agreement and to proceed with discussions. Mr. Walker updated our Board on the proposed acquisition terms discussed above, negotiations, due diligence and proposed timeline. Later that day, the Company executed another confidentiality agreement with Galaxy to further discussions. We engaged Arnold &

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Porter LLP as our counsel on May 17, 2012, and CW Financial engaged Sidley Austin LLP as its counsel on May 17, 2012.

On May 18, 2012, Messrs. Walker, Narasimhan and Spetka met at the Company's offices in Bethesda, and KBW representatives held a teleconference with them to discuss matters relating to the potential acquisition, including the same terms discussed between Mr. Edens and Mr. Walker during the previous day. On the same day, the Company provided access to an electronic data room to CW Financial and its representatives. From May 18, 2012 to June 1, 2012, representatives and advisors of the Company and CW Financial exchanged information, had phone calls and in person meetings with follow up requests for information, conducted due diligence and continued to evaluate and discuss the terms of a potential transaction.

On May 24, 2012, Messrs. Walker, Narasimhan and Michael Berman, Chief Executive Officer of CWCcapital, met at Arnold & Porter LLP's offices in Washington, DC to discuss Mr. Berman's current role with CWCcapital and his expected role with the combined company. In addition they discussed the importance of the human capital at each company and the companies' similar cultures.

On May 25, 2012, CW Financial provided to the Company a written, preliminary non-binding term sheet summarizing the general terms and conditions for the transaction, as discussed on the May 17, 2012 telephone conversation between Messrs. Walker and Edens described above. CW Financial proposed a \$230 million purchase price, to be paid 65 percent in stock (\$149.5 million) and 35 percent in cash (\$80.5 million), with a prohibition on any resale of the stock portion of the consideration during the first six months after closing of the acquisition. This cash and stock composition represented a 5 percent decrease in stock consideration and a 5 percent increase in the cash consideration as compared to what had been previously discussed between CW Financial and the Company. The term sheet introduced (i) the volume weighted average method for determining the stock price and resulting shares to be issued, and (ii) a transition services agreement between CW Financial and the Company (covering certain shared services, including accounting and information technology, to help CWCcapital transition away from CW Financial) for a to-be-agreed upon time after the closing of the transaction. The term sheet also provided CW Financial with the right to appoint two members to our Board, as previously proposed by the Company.

On May 26, 2012, Mr. Walker sent correspondence to our Board providing them with an update on due diligence and negotiations.

On May 28, 2012 and May 29, 2012, representatives of Sidley Austin LLP and Arnold & Porter LLP had telephonic conferences to discuss the preliminary non-binding term sheet. Messrs. Walker, Perlis, Spetka, Narasimhan and Cibinic also met on May 29, 2012 to further negotiate the terms of the proposed transaction. The key terms discussed were transaction-related costs and transition services. Following such conversations, Arnold & Porter LLP commenced preparing initial drafts of the Purchase Agreement and related documents.

On May 31, 2012, Ms. Wilson and Messrs. Walker and Perlis, along with KBW representatives, had several teleconferences during which valuation and potential synergies were discussed. The valuation discussions focused on refining the financial assumptions for CWCcapital based on the Company's due diligence findings. In view of these findings, the Company revised its offer by reducing the aggregate consideration to be paid by \$10 million to reach a new purchase price of \$220 million. In association with this reduction, however, the Company determined to keep the cash component static at \$80 million (36 percent) and reduce the stock portion to \$140 million (64 percent).

Based on the Company's valuation of CWCcapital in light of its diligence, on June 1, 2012, Messrs. Edens and Walker met to continue discussions regarding the acquisition price. At that time, Messrs. Edens and Walker agreed to a purchase price of \$220 million consisting of \$80 million in cash and \$140 million in stock. Company representatives then met with Mr. Spetka and other

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representatives and advisors of CW Financial. The discussion focused on the business and culture of CWCcapital and the Company.

On June 1, 2012, our Board held a special meeting to discuss the status of the potential acquisition. Mr. Walker provided the Board with an overview of the previously described discussions with Messrs. Edens and Spetka. Mr. Walker also provided an overview of the meeting that had occurred earlier in the day with representatives from CW Financial and Beekman Advisors. Our Board discussed with our management and financial advisor diligence findings, the strategic rationale for the acquisition, potential acquisition synergies, risk factors associated with the acquisition and a timeline for executing acquisition documents and closing. Our Board also discussed how the acquisition would create shareholder value and endorsed the strategy of acquiring CWCcapital on the terms discussed at the meeting.

On June 2, 2012, Arnold & Porter LLP distributed proposed drafts of the Purchase Agreement, Voting Agreement, Closing Agreement and Registration Rights Agreement to Sidley Austin LLP.

Commencing on June 4, 2012 through June 7, 2012, the Company and CW Financial, along with their legal counsel and financial advisors, met to negotiate the terms of the Purchase Agreement and related documentation, during which revised drafts of the transaction documents were circulated and discussed, and disclosure schedules to the Purchase Agreement were prepared and circulated. Key terms negotiated during these meetings, which are discussed in detail below under "The Purchase Agreement" on page 44, included (i) the net working capital calculation to be used at closing, (ii) the "collar" calculation and range regarding changes in the trading price of our Common Stock between signing and closing, (iii) the term for survival of representations and warranties and indemnifications, (iv) the terms for the exercise of CW Financial's registration rights and the Company's right of first offer with respect to the shares constituting the Stock Consideration, and (v) the terms of the standstill and non-compete provisions and periods for CW Financial and its affiliates.

On June 4, 2012 and June 5, 2012, Mr. Walker provided the Board with updates regarding the transaction terms, the status of the transaction documents and the timeline for the proposed acquisition. During this time, Mr. Walker also informed Mallory Walker, the Company's second largest shareholder, of the terms of the transaction and had conversations with him about the terms of the Voting Agreement, and Mallory Walker agreed to keep confidential the information shared with him.

Between June 5, 2012 and June 7, 2012, representatives and advisors of the Company and CW Financial also had discussions with representatives and advisors of Credit Suisse AG, parent of Column, the Company's largest shareholder, concerning Column's agreement to enter into a Voting Agreement in support of the Share Issuance Proposal and its agreement to modify certain provisions in its existing registration rights agreement with the Company to effectuate the proposed Registration Rights Agreement between the Company and CW Financial.

On June 7, 2012, our Board held a meeting at which it reviewed the proposed final terms and financial aspects of the Acquisition. Prior to the meeting, our Board consulted with management, was furnished with written summaries of the principal terms of the primary acquisition documents, and reviewed the proposed final drafts of such documents. At this meeting, KBW reviewed with our Board its financial analyses of the consideration payable by Walker & Dunlop in connection with the Acquisition. Also at this meeting, KBW delivered to our Board an oral opinion, confirmed by delivery of a written opinion dated June 7, 2012, to the effect that, as of that date and based on and subject to various assumptions and limitations described in the opinion, the consideration to be paid by the Company in connection with the Acquisition was fair, from a financial point of view, to us. After discussion and deliberation based upon the information considered during its evaluation of the Acquisition, our Board, by unanimous vote, determined that the Purchase Agreement and related transaction documents and the transactions contemplated thereby were advisable and in the best

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interests of the Company and determined to recommend that the Company's stockholders approve the Share Issuance Proposal.

On June 7, 2012, the board of managers of each of CWCapital and CW Financial executed written consents authorizing CWCapital and CW Financial, respectively, to enter into the Purchase Agreement and the transactions contemplated thereby and Mr. Spetka executed the Purchase Agreement on behalf of CW Financial.

On June 7, 2012, the Company entered into the Purchase Agreement with the Purchaser, CWCapital and CW Financial. On the morning of June 8, 2012, the Company issued a press release announcing the Acquisition.

**Board Recommendation**

At the June 7, 2012 meeting, our Board unanimously adopted and approved the Purchase Agreement and believes that the Purchaser's acquisition of CWCapital pursuant to the terms of the Purchase Agreement, including the proposed issuance of shares of our Common Stock in connection with the Acquisition, is in our best interest and in our stockholders' best interests. Accordingly, our Board unanimously recommends that you vote *FOR* the proposal to authorize the issuance of shares of our Common Stock in connection with the Acquisition.

**Reasons for the Acquisition**

As described above in the section entitled "The Acquisition Background of the Acquisition," our Board, in evaluating the Acquisition, the Purchase Agreement and the related stock issuance, consulted with our management and legal and financial advisors, and, in reaching its decision to approve the Acquisition and the Purchase Agreement, our Board discussed and considered a variety of factors weighing positively in favor of the Acquisition, including but not limited to, the following:

*Strategic Benefits.* Our Board considered management's view that our purchase of CWCapital would result in a combined company with an enhanced national origination platform, significantly larger servicing portfolio and broader scale of operations than we have on a standalone basis.

*CWCapital's Businesses, Operating Results, Financial Condition and Management.* Our Board considered information with respect to the businesses, operating results and financial condition of CWCapital, on both a historical and prospective basis, and the quality, breadth and experience of CWCapital's senior management. Our Board considered the following factors, among others:

CWCapital's loan origination and underwriting capabilities, including its origination growth by loan product type since 2009 and the strong historic performance of its at-risk originated servicing portfolio;

the size and volume by product type of CWCapital's servicing portfolio; and

CWCapital's quality employees.

*Consideration.* Our Board evaluated the consideration, taking into account its total value and composition and accretion to earnings per share without synergies. The type and amount of consideration payable in the Acquisition, as approved by our Board, were determined through negotiations between us and CW Financial, and were not the result of recommendations made by any financial advisor.

*Financing of the Acquisition.* Our Board considered our expectation that we can finance the Cash Consideration portion of the transaction on favorable terms and maintain a conservative financial position and sound capital structure following the completion of the Acquisition. The Company, the Purchaser, and Walker & Dunlop Multifamily, Inc. (which is the direct parent of the Purchaser) are

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parties, as borrowers, to an Amended and Restated Credit Agreement, originally dated as of January 30, 2009 (as amended and in effect, the "Term Loan Agreement"), with Bank of America, N.A. ("Bank of America"), as Administrative Agent and Collateral Agent, and Bank of America and PNC Bank, National Association, successor to National City Bank, as the lenders thereunder. In order to finance the Cash Consideration payable at the Closing, the Company requested Bank of America (as Administrative Agent and as a lender) and, pursuant to a commitment letter (the "Commitment Letter"), Bank of America has agreed, to commit to amend or replace the Term Loan Agreement in order to provide for an increase in the amount of the borrowings thereunder to the aggregate sum of \$83 million, subject to the terms and conditions therein. Substantially all of the proceeds of such term loan will be used solely for the purposes of the Acquisition. See "The Financing" beginning on page 67.

*Terms of the Purchase Agreement and the Closing Agreements.* In addition to evaluating the reasonableness of the consideration, our Board considered the overall terms of the Purchase Agreement, including the parties' respective representations, warranties, covenants and conditions to their respective obligations in such agreement. In particular, our Board noted the fact that CW Financial is obligated to indemnify us for a number of items, including, among others, adverse consequences resulting from breaches of representations, warranties and covenants, pre-closing and straddle period tax liabilities and certain indebtedness-related expenses. Our Board also noted that the Purchase Agreement provides that, following the Closing, CW Financial will have the ability to designate two individuals for nomination and appointment to our Board. Our Board considered that each such designee (1) will be required to furnish a completed director and officer questionnaire with respect to the background and qualifications of such designee, (2) will be subject to a background check in a manner consistent with background checks customarily engaged in by us for prospective new members of our Board, (3) will make himself or herself available for interviews by our Board and (4) may be denied appointment if our Board determines in good faith, after consideration by the Nominating and Governance Committee of our Board and consultation with outside legal counsel, that such individuals' appointment would constitute a breach of its fiduciary duties. Our Board also considered its ability under the Purchase Agreement to withdraw its recommendation that our stockholders vote in favor of the issuance of shares of our Common Stock in connection with the Acquisition if it determines in good faith, based on such matters as it deems relevant and based on the advice of its outside legal counsel, that the failure to change its recommendation would result in a breach of its fiduciary duties. See "The Purchase Agreement" beginning on page 44.

Our Board also considered the overall terms of the Closing Agreement between the Company, CWC Capital and CW Financial, including the provisions in that agreement designed to provide protection to our Board and the holders of our outstanding Common Stock against potential actions by CW Financial and its subsidiaries. In particular, our Board noted that CW Financial and its subsidiaries will generally be subject to "standstill" provisions for the period during which CW Financial has a right to appoint Board designees. Additionally, our Board noted that CW Financial and its subsidiaries will be subject to restrictive covenants, including non-compete, non-solicitation, confidentiality and non-disparagement covenants, for a period of two years after the Acquisition. See "Closing Agreement" beginning on page 63.

*Restrictions on Resales of Stock Issued in the Acquisition; Terms of the Closing Agreement.* Another important consideration for our Board was the fact that the shares issued in connection with the Acquisition will be "restricted securities" under Rule 144 of the Securities Act of 1933, as amended (the "Securities Act"). The Closing Agreement also provides that CW Financial will not transfer any of the shares of Common Stock issued to it pursuant to the Purchase Agreement prior to the 180th day following the Closing Date, except for transfers to one or more of CW Financial's affiliates. See "Closing Agreement" beginning on page 63.

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*Likelihood of Completion of Acquisition.* Our Board considered the likelihood of the Acquisition being completed, including the terms of the Purchase Agreement and other factors that, taken as a whole, provide a significant degree of assurance that the Acquisition will be completed. In particular, our Board noted that (1) the conditions required to be satisfied prior to completion of the Acquisition are expected to be fulfilled, (2) we have obtained a commitment for debt financing for the transactions contemplated by the Purchase Agreement with customary conditions to financing from reputable financing sources and (3) both parties have made commitments in the Purchase Agreement with respect to obtaining third party consents and regulatory clearances.

*Opinion of Financial Advisor.* Our Board considered the opinion and financial presentation of KBW, dated June 7, 2012, to our Board as to the fairness, from a financial point of view and as of that date, to Walker & Dunlop of the consideration to be paid by Walker & Dunlop in connection with the Acquisition. KBW's opinion was based on and subject to the assumptions made, procedures followed, factors considered and limitations on the review undertaken as more fully described in the section entitled "The Acquisition Opinion of Walker & Dunlop's Financial Advisor" beginning on page 34. KBW's opinion was necessarily based on financial, economic, monetary, market and other conditions and circumstances as in effect on, and the information made available to KBW as of the date of its opinion. Subsequent developments may affect KBW's opinion, and KBW does not have any obligation to update, revise or reaffirm its opinion.

*Other Reasons in Favor of the Acquisition.* The reasons in favor of the Acquisition considered by our Board also include, among others, that the Acquisition would:

enhance our market leadership position to gain economies of scale;

significantly increase our loan originations consistent with the Company's strategic plan;

significantly increase the size of our loan servicing portfolio;

enhance our brand, which would enable us to more effectively retain and recruit loan originators; and

increase our market capitalization, which could potentially attract new investors and provide additional trading volume in the Common Stock over time.

After consideration of these and other factors, our Board determined that any potential negative factors were significantly outweighed by the potential benefits of the Acquisition to our stockholders.

The foregoing discussion of information and factors considered by our Board is not intended to be exhaustive. In light of the variety of factors considered in connection with its evaluation of the Purchase Agreement and the Acquisition, our Board did not find it practicable to, and did not, quantify or otherwise assign relative weights to the specific factors considered in reaching its determinations and recommendations. Rather, our Board viewed its determinations and recommendations as being based on the totality of information and factors presented to and considered by our Board. Moreover, each member of our Board applied his or her own personal business judgment to the process and may have given different weight to different factors.

For the reasons set forth above, our Board approved the Purchase Agreement, determined that the Acquisition was advisable and in the best interest of our stockholders and unanimously recommends that our stockholders vote *FOR* the proposal to authorize the issuance of shares of our Common Stock in connection with the Acquisition.

This explanation of our Board's reasons for the Acquisition and other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors described in the section entitled "Special Note Concerning Forward-Looking Statements" beginning on page 20.



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**Opinion of Walker & Dunlop's Financial Advisor**

On June 7, 2012, Walker & Dunlop executed an engagement agreement with KBW to render financial advisory and investment banking services to Walker & Dunlop. KBW agreed to assist Walker & Dunlop in assessing the fairness, from a financial point of view, of the consideration to be paid in the proposed acquisition by Walker & Dunlop LLC, a wholly-owned subsidiary of Walker & Dunlop, of all of the outstanding limited liability company interests of CWCcapital from CW Financial. Walker & Dunlop selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the Acquisition and is familiar with Walker & Dunlop and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

As part of its engagement, a representative of KBW participated in the meeting of the Walker & Dunlop Board held on June 7, 2012, at which the Board evaluated the proposed acquisition of CWCcapital. At this meeting, KBW reviewed the financial aspects of the proposed acquisition and rendered an opinion that, as of such date, and based upon and subject to factors and assumptions set forth therein, the consideration to be paid in the proposed acquisition was fair from a financial point of view. The Board approved the Purchase Agreement at this meeting.

The full text of KBW's written opinion, dated June 7, 2012, is attached as *Annex B* to this proxy statement and incorporated by reference herein. Walker & Dunlop shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion.

**KBW's opinion speaks only as of the date of the opinion. The opinion is directed to the Walker & Dunlop Board and addresses only the fairness, from a financial point of view, as of the date of the opinion, to Walker & Dunlop of the consideration to be paid in the Acquisition. It does not address the underlying business decision to proceed with the Acquisition and does not constitute a recommendation to any Walker & Dunlop shareholder as to how the shareholder should vote at the Special Meeting on the Acquisition or any related matter.**

In connection with its opinion, KBW reviewed, analyzed and relied upon material bearing upon the financial and operating condition of CWCcapital and Walker & Dunlop, including among other things, the following:

the Purchase Agreement;

the audited financial statements of CWCcapital covering the three years ended December 31, 2011 and the Annual Reports to Stockholders and Annual Reports on Form 10-K of Walker & Dunlop for the three years ended December 31, 2011;

certain interim reports of CWCcapital and certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Walker & Dunlop and certain other communications from CWCcapital and Walker & Dunlop to their respective securityholders; and

other financial information concerning the business and operations of CWCcapital and Walker & Dunlop furnished by CWCcapital and Walker & Dunlop for the purposes of KBW's analysis.

KBW also held discussions with senior management of CWCcapital and Walker & Dunlop regarding the past and current business operations, regulatory and government sponsored entity relations, financial conditions and future prospects of their respective companies and such other matters as KBW deemed relevant to its inquiry.

In addition, KBW compared certain financial and stock market information for Walker & Dunlop and certain financial information of CWCcapital with similar information for certain other companies of the securities of which are publicly traded, reviewed the financial terms of certain business

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combinations in the commercial real estate finance industry and performed such other studies and analyses as KBW considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon the accuracy and completeness of all of the financial and other information provided to it or otherwise publicly available. KBW did not independently verify the accuracy or completeness of any such information or assume any responsibility for such verification or accuracy. KBW relied upon the management of CWCcapital and Walker & Dunlop as to the reasonableness and achievability of the financial and operating forecasts and projections (and the assumptions and bases therefore) provided to KBW, and assumed that such forecasts and projections reflect the best currently available estimates and judgments of such managements and that such forecasts and projections will be realized in the amounts and in the time periods estimated by such managements. KBW is not an expert in the independent verification of the value of mortgage servicing rights or of the adequacy of allowances for risk-sharing obligations and it has assumed, with our consent, that the aggregate allowances for risk-sharing obligations for CWCcapital and Walker & Dunlop are adequate to cover such losses. In rendering its opinion, KBW has not made or obtained any evaluations or appraisals of the property, assets or liabilities (including, but not limited to, the mortgage servicing rights) of CWCcapital or Walker & Dunlop, nor has it examined any individual credit files.

The projections furnished to KBW and used by it in certain of its analyses were developed by Walker & Dunlop's and CWCcapital's senior management teams. Walker & Dunlop and CWCcapital do not publicly disclose internal management projections of the type provided to KBW in connection with its review of the proposed acquisition. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

the Acquisition will be completed substantially in accordance with the terms set forth in the Purchase Agreement with no additional payments or adjustments to the consideration;

the representations and warranties of each party in the Purchase Agreement and in all related documents and instruments referred to in the Purchase Agreement are true and correct;

each party to the Purchase Agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the Purchase Agreement will be satisfied without any waivers or modifications to the Purchase Agreement; and

the course of obtaining the necessary regulatory, contractual or other consents or approvals for the Acquisition, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the Acquisition, including the cost savings, revenue enhancements and related expenses expected to result from the Acquisition.

KBW also considered such financial and other factors as it deemed appropriate under the circumstances, including, among others, the following:

the historical and current financial position and results of operations of CWCcapital and Walker & Dunlop;

the assets and liabilities of CWCcapital and Walker & Dunlop; and

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the nature and terms of certain other transactions involving mortgage finance and commercial real estate finance companies.

KBW further took into account its assessment of general economic, market and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the financial services industry generally. KBW's opinion is necessarily based upon conditions as they existed and could be evaluated on the date thereof and the information made available to KBW through the date thereof. KBW's opinion does not address the underlying business decision of Walker & Dunlop to engage in the Acquisition, or the relative merits of the Acquisition as compared to any strategic alternatives that may be available to the Walker & Dunlop.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, Walker & Dunlop and CWCapital. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the Board in making its determination to approve the Purchase Agreement and the Acquisition. Consequently, the analyses described below should not be viewed as determinative of the decision of the Board with respect to the fairness of the consideration in the Acquisition.

The following is a summary of the material financial analyses presented by KBW to the Board on June 7, 2012, in connection with its fairness opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to the Board, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

*Summary of Proposal.* Pursuant to the terms of the Purchase Agreement, CW Financial will be entitled to receive in aggregate \$80 million in cash and a number of shares assumed to equal 11,647,255 shares of Common Stock, subject to adjustments as set forth in the Purchase Agreement indicating a value of consideration paid at announcement of \$220 million ("Transaction Value"). The terms and conditions are more fully set forth under "The Purchase Agreement" on page 44.

*Selected Companies Analysis.* Using publicly available information, KBW compared the financial performance, financial condition and market performance of CWCapital to the following institutions that conduct businesses with certain characteristics that may be considered similar service providers. Companies included in this group were:

Walker & Dunlop, Inc.  
CB Richard Ellis Group  
Jones Lang LaSalle Inc.  
HFF Inc.

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To perform this analysis, KBW used financial information as of the three-month period ended March 31, 2012 for the respective book values reported by each of the selected companies and used financial information as of the twelve-month period ended March 31, 2012 for the respective earnings before interest, taxes, depreciation and amortization ("EBITDA") of the selected companies. For the purposes of this comparison, for Walker & Dunlop, EBITDA includes net warehouse income and excludes gains and amortization related to mortgage servicing rights and provision expense from the EBITDA calculation ("Adjusted EBITDA"). For CWCcapital, KBW used the most current data available for Adjusted EBITDA which was for the full year ending December 31, 2011. Earnings estimates for 2012 and 2013 were taken from a nationally recognized earnings estimate consolidator for selected companies. For CWCcapital, KBW used CWCcapital's budget for 2012 and earnings estimates for 2013 as developed by Walker & Dunlop management for CWCcapital. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in Walker & Dunlop's and CWCcapital's historical financial statements as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented. No company used in this analysis is identical to CWCcapital. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading or other values of the companies to which CWCcapital was compared.

KBW's analysis showed the following concerning CWCcapital's theoretical market valuation based on the Transaction Value:

	<b>CWCcapital</b>	<b>Peer Group Minimum</b>	<b>Peer Group Maximum</b>
Market Capitalization (\$ Million)	\$ 220	\$ 247	\$ 5,085
Enterprise Value (\$ Million)	\$ 220	\$ 224	\$ 7,744
Enterprise Value / LTM EBITDA(1)	12.5x	7.0x	11.3x
Share Price / Book Value per Share	1.47x	1.41x	3.63x
Stock Price / 2012 Estimated EPS(2)	7.2x	6.2x	12.5x
Stock Price / 2013 Estimated EPS(2)	6.3x	5.6x	10.3x

(1) CWCcapital EBITDA represents 2011 EBITDA. Peer group EBITDA represents last twelve months as of March 31, 2012

(2) Peer group earnings estimates are consensus of Wall Street analysts' estimates as compiled by First Call; CWCcapital estimates are based on Walker & Dunlop management assumptions

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*Selected Transaction Analysis.* KBW reviewed publicly available information related to selected M&A transactions for commercial mortgage finance companies in the United States since 1996 with disclosed deal metrics. The transactions included in the group were:

Acquirer	Target
CoBank, ACB	U.S. AgBank, FCB
Dynex Capital, Inc.	Copperhead Ventures, LLC
Municipal Mortgage & Equity, LLC	Glaser Financial Group, Inc.
CharterMac	Capri Capital Finance
Wachovia Corporation	Lend Lease Mortgage Capital
General Motors Corporation	Lend Lease Corporation
Prudential Insurance	WMF Group Ltd.
Intervest Bancshares Corporation	Intervest Corp. of New York
Municipal Mortgage & Equity LLC	Midland Financial Holdings Inc.
Bingham Financial Services Corporation	Hartger & Willard Mortgage Associates Inc.
Marquette Bancshares, Inc.	Northland Financial Co.
Franchise Mortgage Acceptance Company	Bankers Mutual
Bingham Financial Services Corporation	Bloomfield Acceptance & Affiliate
Crown NorthCorp, Inc.	Merchants Mortgage Corp.
CB Commercial Real Estate Group, Inc.	L.J. Melody & Co.

Transaction multiples for the Acquisition were derived from a Transaction Value of \$220 million. For each transaction referred to above, KBW derived and compared, among other things, the implied ratio of Transaction Value to:

total assets of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition,

book value of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition,

last twelve months of revenue of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition,

last twelve months of earnings of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition, and

last twelve months of originations of the acquired company based on the latest publicly available financial statements of the company prior to the announcement of the acquisition.

<b>Transaction Value to:</b>	<b>Walker &amp; Dunlop Purchase of CWCcapital</b>	<b>Peer Group Minimum</b>	<b>Peer Group Maximum</b>
Assets	0.46x	0.04x	1.12x
Book Value	1.47x	0.73x	7.06x
Revenue	1.7x	0.6x	6.7x
Earnings	8.5x	3.0x	34.2x
Originations	0.06x	0.01x	0.32x

No company, business or transaction used as a comparison in the above analysis is identical to CWCcapital, Walker & Dunlop or the Acquisition. Accordingly, an evaluation of these results is not mathematical. Rather, the analysis involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved as well as other factors

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that could affect the purchase or other values of the companies, business segments or transactions to which the Acquisition were compared.

*Discounted Cash Flow Analysis.* KBW performed a discounted cash flow analysis to estimate a range of the present values of after-tax cash flows that CWCapital could provide to equity holders through 2016. In performing this analysis, KBW used operating estimates for CWCapital provided by Walker & Dunlop's management for 2012 through 2016 and assumed discount rates ranging from 12.0 percent to 15.0 percent. The range of values was determined by adding (i) the present value of the projected cash flows to CWCapital shareholders from 2012 to 2016, (ii) the present value of the accounting treatment adjustments, acquisition adjustments and cost savings from the transaction from 2012 to 2016 and (iii) the present value of the terminal value of CWCapital's enterprise value at 2016. In determining cash flows available to shareholders, KBW used Walker & Dunlop management's assumption that CWCapital would need to retain cash of \$1,000,000 per quarter to be compliant with Fannie Mae capital requirements. Any cash flow in excess of what would need to be retained represented dividendable cash flows for CWCapital. In calculating the present value of accounting treatment adjustments, acquisition adjustments and cost savings, KBW used Walker & Dunlop management assumptions. Included in this is the tax benefit from purchase accounting adjustments as well as the tax benefit terminal value which represents the discounted future cash tax benefits from the amortization of goodwill. In calculating the terminal value of CWCapital, KBW applied multiples ranging from 7.0 times to 8.5 times 2016 forecasted Adjusted EBITDA. This resulted in a range of values of CWCapital from \$226.3 million to \$290.5 million. The discounted cash flow present value analysis is a widely used valuation methodology that relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of CWCapital.

*Financial Impact Analysis.* KBW performed a financial impact analysis that combined the projected income of Walker & Dunlop and CWCapital. Assumptions regarding the accounting treatment, acquisition adjustments and cost savings were used to calculate the financial impact that the Acquisition would have on certain projected financial results of Walker & Dunlop. In the course of this analysis, KBW used earnings estimates for Walker & Dunlop for 2012 and 2013 from consensus Wall Street earnings estimates, compiled by a nationally recognized earnings estimate consolidator and used earnings estimates for CWCapital for 2012 and 2013 from Walker & Dunlop management. This analysis indicated that the Acquisition is expected to be accretive to Walker & Dunlop's estimated earnings per share in 2012 and 2013. For all of the above analyses, the actual results achieved by Walker & Dunlop following the Acquisition will vary from the projected results, and the variations may be material.

The Board retained KBW as financial adviser to Walker & Dunlop for certain matters related to the Acquisition. As part of its investment banking business, KBW is continually engaged in the valuation of financial services companies in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of financial services companies, KBW has experience in, and knowledge of, the valuation of mortgage finance and commercial real estate finance companies. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, CW Financial, CWCapital and Walker & Dunlop, and as a market maker in securities, KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of Walker & Dunlop for KBW's own account and for the accounts of KBW's customers.

Walker & Dunlop and KBW entered into an agreement relating to the services to be provided by KBW in connection with the Acquisition. Walker & Dunlop paid KBW a cash fee of \$500,000 concurrently with the rendering of the Fairness Opinion (the "Opinion Fee") related to the transaction. In addition, Walker & Dunlop agreed to pay KBW at the time of the closing of the Transaction a cash fee (the "Contingent Fee") equal to \$2,500,000. The Opinion Fee shall be credited against the

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Contingent Fee. Pursuant to the KBW engagement agreement, Walker & Dunlop also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws. During the two years preceding the date of its opinion to Walker & Dunlop, KBW has received compensation for investment banking services from Walker & Dunlop. During the two years preceding the date of its opinion to Walker & Dunlop, KBW has not received compensation for investment banking services provided to CWCapital or CW Financial. KBW has in the past been, and may in the future be, engaged to provide investment banking services to Fortress and its affiliated entities or in other business relationships with such entities, and has in the past received, and may in the future receive, compensation for such services or relationships.

**Interests of Directors and Executive Officers in the Acquisition**

None of the Company's directors or executive officers has any substantial financial interest, direct or indirect, in any matter to be acted upon, other than being a director or executive officer and a stockholder of the Company. Information regarding security ownership and equity compensation of our directors and executive officers is hereby incorporated by reference to the material appearing under the captions "Voting Securities of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in the Company's 2012 annual stockholder meeting proxy statement, which was filed with the SEC on April 26, 2012.

**Impact of the Stock Issuance on our Existing Stockholders; Effect of the Acquisition**

If approved and implemented, the Share Issuance Proposal will dilute the ownership and voting interests of our existing stockholders. Assuming the issuance of approximately 11.6 million shares of Common Stock in connection with the Acquisition and no other issuances of shares of our Common Stock as of the date of approval by our stockholders, CW Financial would thereby receive approximately 34 percent, on a fully-diluted basis, of our Common Stock issued and outstanding immediately after the Closing. Therefore, the ownership and voting interests of our existing stockholders will be proportionately reduced. Following the Acquisition, CWCapital will become a direct wholly owned subsidiary of the Purchaser, and certain of its assets and operations will be transferred to the Purchaser.

**Material United States Federal Income Tax Consequences of the Acquisition to Walker & Dunlop and its Stockholders**

Because our stockholders do not participate in the Acquisition, our stockholders will not recognize gain or loss in connection with the Acquisition with respect to their stock in Walker & Dunlop. There will be no material federal income tax consequences to Walker & Dunlop as a result of the Acquisition.

**Accounting Treatment of the Acquisition**

We prepare our financial statements in accordance with GAAP. The Acquisition will be accounted for as a business combination using the acquisition method of accounting with Walker & Dunlop being treated as the acquirer. The Acquisition will result in the recognition of assets acquired and liabilities assumed at fair value. The preliminary allocation of the purchase price used in the pro forma combined financial information presented elsewhere in this proxy statement is based on preliminary estimates and currently available information. These assumptions and estimates, some of which cannot be finalized until the consummation of the Acquisition, will be revised as additional information becomes available upon consummation of the Acquisition and finalization of the valuation of CWCapital's assets and liabilities. The final determination of the allocation of the purchase price will be based on the fair values of the assets and liabilities of CWCapital as of the closing date of the Acquisition.

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Additionally, the pro forma combined financial information presented herein does not give effect to any potential cost reductions or other operating efficiencies that could result from the Acquisition, including but not limited to, those associated with potential (i) reductions of corporate overhead, (ii) elimination of duplicate functions and (iii) increased operational efficiencies through the adoption of best practices and capabilities from each company. The pro forma combined financial information is not intended to represent what Walker & Dunlop's financial position or results of operation would actually have been if the Acquisition had occurred on the dates presented. The pro forma combined statements of income have not been adjusted for the charges related to the transaction costs as these costs are attributable to the transaction but will not have a continuing impact. See the section entitled "Unaudited Pro Forma Combined Financial Information" beginning on page 94.

KPMG LLP serves as our independent registered public accounting firm for 2012 and served as such for 2011. We have been advised by KPMG LLP that representatives of KPMG LLP will be present at the Special Meeting. These representatives will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

**No Appraisal Rights**

No stockholder of Walker & Dunlop will be entitled to exercise appraisal rights or to demand payment for their shares of our Common Stock in connection with the Acquisition.

**Regulatory Approvals and Clearances**

To complete the Acquisition, we must obtain approvals, consents or clearances from, or make filings with, antitrust and other regulatory authorities and quasi-governmental agencies, including, but not limited to, Fannie Mae, Freddie Mac, Ginnie Mae, HUD and the Federal Housing Administration of HUD. We describe the material consents and filings below. We are not currently aware of any other material governmental and quasi-governmental clearances, consents, approvals or filings that are required prior to the parties' completion of the Acquisition other than those we describe below. If additional approvals, consents or filings are required to complete the Acquisition, Walker & Dunlop and CWC Capital contemplate seeking or making such consents, approvals and filings.

*United States Antitrust Laws*

Under the HSR Act, and the rules and regulations promulgated thereunder, the parties cannot close the Acquisition until each party files a notification form with the FTC and the DOJ and the statutory 30-calendar-day waiting period following the parties' filing of their respective HSR Act notification forms has expired or been terminated. Walker & Dunlop and CW Financial filed their notification and report forms with the DOJ and the FTC under the HSR Act on June 27, 2012 and July 6, 2012, respectively. The parties were granted early termination of the waiting periods under the HSR Act on July 25, 2012. At any time before the Acquisition is completed, notwithstanding the granting of early termination of the waiting periods under the HSR Act, either the DOJ or the FTC could take any action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin completion of the Acquisition, conditioning completion of the Acquisition upon the divestiture of assets of Walker & Dunlop, CW Financial or their respective subsidiaries or imposing restrictions on Walker & Dunlop's post-acquisition operations. In addition, U.S. and state attorneys general and private parties may bring legal action under federal or state antitrust laws under certain circumstances. After the Acquisition is completed, the DOJ or FTC can bring an action against the parties claiming the Acquisition was illegal and forcing all or part of the Acquisition to be unwound.

The Purchase Agreement requires that the parties, to the extent necessary to obtain any waiver or consent from any governmental antitrust authority (*i.e.*, the FTC, the DOJ, or any other applicable antitrust or competition authority) required to consummate the Acquisition, take all actions necessary



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to avoid or eliminate any impediments under any applicable antitrust laws so as to enable the Closing to occur as provided in the Purchase Agreement, including, among other things (i) effecting, by consent decree or otherwise, the divestiture or disposition of businesses, product lines or assets of CWCapital, the Company or the Purchaser, and (ii) otherwise taking actions that after the Closing Date would limit the Company's or the Purchaser's ability to operate or retain one or more of the businesses, product lines or assets of the Company. The Purchase Agreement does not, however, require any party to take any such action with respect to its assets or businesses if that would have a Material Adverse Effect on such party.

In addition, each party has agreed to litigate or oppose any governmental authority in court or administrative proceedings concerning the parties' entitlement to governmental approvals or regulatory clearances for the Acquisition and related transactions and, in the event of any such litigation or opposition, each of the Company and the Purchaser, on the one hand, and CW Financial, on the other hand, will pay 50 percent of all fees and expenses (including attorneys' fees) thereby incurred.

*Securities Laws and Stock Exchange Requirements*

We must also comply with applicable federal and state securities laws and the NYSE rules and regulations in connection with the issuance of shares of our Common Stock in connection with the Acquisition and the filing of this proxy statement with the SEC.

*Commitment to Obtain Approvals*

Walker & Dunlop and CW Financial have agreed to use their commercially reasonable efforts to obtain all authorizations, consents, orders, clearances and approvals of all governmental authorities that are necessary for the consummation of the Acquisition and the other transactions contemplated by the Purchase Agreement (including, but not limited to, consents or other approvals from Ginnie Mae, HUD and the Federal Housing Administration of HUD and the appropriate filing of notification and report form pursuant to the HSR Act). Regulators could object to the Acquisition and/or impose conditions or restrictions on their approval that are materially adverse to Walker & Dunlop or CW Financial. Under the terms of the Purchase Agreement, Walker & Dunlop and CW Financial are obligated to take all commercially reasonable actions as may be reasonably necessary to obtain any governmental approvals, including such actions as are necessary to resolve any objections to the Acquisition raised by such regulators. Walker & Dunlop and CW Financial filed their notification and report forms with the DOJ and the FTC under the HSR Act on June 27, 2012 and July 6, 2012, respectively. The parties were granted early termination of the waiting periods under the HSR Act on July 25, 2012.

*Timing*

Walker & Dunlop and CWCapital expect to complete the Acquisition by the end of the third quarter of 2012. Although we believe that we will receive the required clearances, consents and approvals described below to complete the Acquisition, we cannot assure you that all of the regulatory approvals and clearances described above will be obtained and, if obtained, we cannot assure you as to the timing of any approvals or clearances, the ability to obtain the approvals or clearances on satisfactory terms or the absence of any litigation challenging such approvals or clearances. We also cannot assure you that the DOJ, the FTC or any state attorney general will not attempt to challenge the Acquisition on antitrust grounds, and, if such a challenge is made, we cannot assure you as to its result.

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**Financing of the Acquisition**

Under the Purchase Agreement, CWCapital has agreed to use commercially reasonable efforts to cooperate with the Purchaser in connection with obtaining the Financing. The Purchaser has agreed to use reasonable best efforts to obtain the Financing as promptly as reasonably practicable on the terms and conditions described in the Commitment Letter, including to enforce its rights under the Commitment Letter and, in the Purchaser's judgment, to take enforcement action, including seeking to obtain specific performance, to cause the financing sources to fund the Financing. In the event any portion of the Financing becomes unavailable on the terms and conditions contemplated in the Commitment Letter, the Purchaser has agreed to promptly notify CW Financial and to use best efforts to arrange to obtain alternative financing from alternative sources in an amount sufficient to consummate the Acquisition as promptly as practicable. The Purchaser has agreed that the obtaining of the Financing is not a condition to the Closing. For a description of the Commitment Letter, see "The Financing" beginning on page 67.

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**THE PURCHASE AGREEMENT**

The following is a summary of selected material provisions of the Purchase Agreement, a copy of which is attached as *Annex A* to this proxy statement and incorporated by reference herein. The rights and obligations of the parties are governed by the express terms and conditions of the Purchase Agreement and not by this summary or any other information in this proxy statement. This discussion is not complete and is qualified in its entirety by reference to the complete text of the Purchase Agreement. We urge all stockholders to read the Purchase Agreement, as well as this proxy statement, carefully and in their entirety before making any decision regarding the Acquisition and the Stock Issuance.

**Explanatory Note Regarding the Purchase Agreement**

The Purchase Agreement and the summary set forth below have been included to provide all stockholders with information regarding the terms of the Purchase Agreement and are not intended to modify or supplement any factual disclosures about us in our public reports filed with the SEC. In particular, the Purchase Agreement and the following summary of its terms are not intended to be, and should not be relied upon as, disclosures regarding any facts or circumstances relating to us, CW Financial, our or their subsidiaries and affiliates or any other party. The representations and warranties contained in the Purchase Agreement have been negotiated only for the purpose of the Purchase Agreement and are intended solely for the benefit of the parties thereto. In many cases, these representations, warranties and covenants are subject to limitations agreed upon by the parties and are qualified by certain supplemental disclosures provided by the parties to one another in connection with the execution of the Purchase Agreement. Furthermore, many of the representations and warranties in the Purchase Agreement are the result of a negotiated allocation of contractual risk among the parties and, taken in isolation, do not necessarily reflect facts about us, CW Financial, our or their subsidiaries and affiliates or any other party. Likewise, any references to materiality contained in the representations and warranties may not correspond to concepts of materiality applicable to investors or stockholders. Certain of these representations were accurate as of a specific date and do not purport to be accurate as of the date of this proxy statement. Finally, information concerning the subject matter of the representations and warranties may change after the date of the Purchase Agreement, and these changes may not be fully reflected in our public disclosures.

**Cash and Stock Consideration**

On the terms and subject to the conditions of the Purchase Agreement, the Purchaser will acquire from CW Financial all of the limited liability company membership interests in CWCapital. As consideration for the Acquisition, the Purchaser has agreed to pay CW Financial aggregate consideration of \$220 million, subject to certain adjustments, consisting of (i) a cash payment of \$80 million, to be made through a combination of existing capital and the Financing anticipated to be obtained, and (ii) a non-cash payment equal to the Stock Consideration. The Stock Consideration is expected to equal 11,647,255 shares of Common Stock, subject to adjustment as described below.

**Adjustment to Stock Consideration**

To mitigate the risk to the Company and CW Financial associated with any potentially significant increase or decrease, respectively, in the price of the Common Stock between the date of the Purchase Agreement and the Closing Date, the parties have agreed that the number of shares constituting the Stock Consideration will be fixed at 11,647,255 shares (and the Common Stock price at \$12.02) within a "collar" of a 30 percent upward or downward fluctuation in the volume weighted average price of the Common Stock. However, if (a) the volume weighted average NYSE trading price of the Common Stock during the 20 consecutive trading days immediately preceding the third trading day prior to the Closing Date (the "Closing Share Value") is greater than \$15.62 (*i.e.*, more than 30 percent greater

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than \$12.02), then the Stock Consideration will equal the number of shares of Common Stock equal to \$182 million divided by the Closing Share Value, or (b) the Closing Share Value is less than \$8.41 (*i.e.*, more than 30 percent less than \$12.02), then the Stock Consideration will equal the number of shares of Common Stock equal to \$98 million divided by the Closing Share Value. The Stock Consideration's 30 percent-two-way collar may be illustrated as follows:

<b>Closing Share Value Range</b>	<b>Number of Shares Constituting Stock Consideration</b>
Less than \$8.41	\$98 million ÷ Closing Share Value
\$8.41 - \$15.62	11,647,255 shares
Greater than \$15.62	\$182 million ÷ Closing Share Value

### **Adjustment to Cash Consideration**

The Cash Consideration is subject to a two-stage working capital adjustment, as follows. The Cash Consideration will be reduced or increased at the Closing Date by the amount, if any, by which CWCapital's good faith Closing Date estimate of its working capital (calculated as stipulated in the Purchase Agreement) as of such date is greater or less than \$11 million. Following the Closing Date, the parties are required to engage in a process to determine the actual Closing Date working capital of the Company. If the actual Closing Date working capital exceeds CWCapital's Closing estimate of such working capital, then the excess will be paid by the Purchaser to CW Financial; and, if the actual Closing Date working capital is less than CWCapital's Closing estimate of such working capital, the shortfall will be paid by CW Financial to the Purchaser, both with interest at an annual rate equal to the prime lending rate as reported in the Wall Street Journal on the Closing Date.

### **Representations and Warranties**

The Purchase Agreement contains a number of customary representations and warranties applicable to the Company and the Purchaser, subject in some cases to customary qualifications, relating to, among other things, the following:

Entity organization, good standing and other organizational matters;

Authorization, valid execution and delivery, and enforceability of the Purchase Agreement and related transaction documents;

Absence of any required governmental approvals (other than with respect to the HSR Act, SEC clearance of this proxy statement and other customary federal and state securities laws compliance matters or other disclosed approvals), conflicts or violations under organizational documents, contracts and instruments of law, except as would not reasonably be expected to have a Material Adverse Effect on the Company;

Capital structure and equity securities of the Company;

The Company's compliance with public reporting and other obligations under federal securities laws;

Financial statements of the Company;

Absence of undisclosed liabilities;

Absence of certain changes related to the Company and its business;

The Purchaser's financial ability to pay the aggregate consideration and its receipt of the Financing commitment, and the solvency of the Company;



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The Company's receipt of the opinion of KBW as to the fairness to the Company, from a financial point of view, of the Acquisition consideration to be paid by the Company;

Absence of material legal proceedings or orders;

Accuracy of information supplied by the Company in this proxy statement;

Legal validity of the Company's issuance of the Stock Consideration;

Actions taken by the Company to render inapplicable to the Acquisition all potentially applicable state anti-takeover statutes or regulations;

Compliance with certain laws applicable to the business of the Company;

Material contracts related to the Company and its business;

Intellectual property matters related to the Company and its business;

Employee compensation and benefits matters;

Insurance matters;

Tax matters;

Brokers' or finders' fees, and other fees with respect to the Acquisition;

Purchase of the limited liability company interests of CWCapital is in compliance with securities laws; and

Mortgage loan origination, servicing portfolio and related matters.

In addition, the Purchase Agreement contains a number of customary representations and warranties applicable to CWCapital and CW Financial, subject in some cases to customary qualifications, relating to, among other things, the following:

Entity organization, good standing, and other organizational matters;

Capital structure and equity securities of CWCapital;

Authorization, valid execution and delivery, and enforceability of the Purchase Agreement and related transaction documents;

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Absence of any required governmental approvals (other than with respect to the HSR Act), conflicts or violations under organizational documents, contracts, and instruments of law, except as would not reasonably be expected to have a Material Adverse Effect on CWCapital;

Financial statements of CWCapital;

Absence of undisclosed liabilities;

Absence of certain changes related to CWCapital and its business;

Tax matters pertaining to CWCapital;

Absence of material legal proceedings or orders;

Absence of freehold real estate and validity and soundness of leasehold interests held by CWCapital;

Intellectual property matters related to CWCapital's business;

Mortgage loan origination, servicing portfolio and related matters;

Material contracts related to CWCapital and its business;

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Labor and employee matters;

Employee compensation and benefits matters;

Contracts with affiliates;

Environmental matters;

Bank accounts;

Brokers' or finders' fees, and other fees with respect to the Acquisition;

Title to personal, real estate and leasehold assets of CWCapital;

Insurance matters;

Accuracy of information supplied by CW Financial in this proxy statement;

CW Financial's valid ownership and transferability of all of the limited liability company interests of CWCapital;

Legal matters; and

CW Financial's suitability under securities laws to acquire the Stock Consideration;

Certain representations and warranties in the Purchase Agreement provide exceptions for items that are not reasonably likely to have a Material Adverse Effect. For purposes of the Purchase Agreement, "Material Adverse Effect" means, with respect to the specified party, any material adverse affect on the business, operations, assets, liabilities, financial condition or results of operations of such party taken as a consolidated whole. To the extent applicable to any party, the Purchase Agreement excludes the following from the definition of a Material Adverse Effect:

changes in general economic, regulatory or political conditions or changes affecting the economy or securities or financial markets in general;

any act of terrorism or war (whether declared or not declared) or any material worsening thereof occurring after the date of the Purchase Agreement, or any natural disasters or any national or international calamity affecting the United States occurring after that date;

any general downturn or changes in the industry in which such party operates (*provided, however*, that the exceptions provided in this and the immediately preceding two bullet points above will not apply to the extent that such changes or developments have a disproportionate impact on the business, assets, liabilities, condition or results of operations of such party and its subsidiaries, taken as a whole, relative to other participants in the industry in which such party and its



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subsidiaries conduct business);

any change in the market price or trading volume of such party's securities in and of itself (provided that the underlying circumstances causing such change are to be considered when determining whether a Material Adverse Effect has occurred);

changes in GAAP or any change in applicable laws or the interpretation thereof;

the public announcement of the Purchase Agreement and the transactions contemplated thereby;

employee departures; or

any changes in or with respect to any of the government-sponsored secondary mortgage market enterprise or governmental authority agencies that acquire, own or guarantee mortgage loans (including Fannie Mae, Freddie Mac, Ginnie Mae, HUD and the Federal Housing Administration of HUD).

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**Covenants and Agreements**

*Conduct of Business*

The parties have agreed that, during the period from the date of the Purchase Agreement until the Closing Date, subject to certain exceptions, the respective businesses of the Company and CWCapital will be conducted only in the usual, regular and ordinary course in substantially the same manner as previously conducted, including, as applicable, with respect to using commercially reasonable efforts to preserve relationships with customers, suppliers, investors and insurers, and to maintain assets in good condition and repair.

Without limiting the generality of the foregoing, except as expressly provided in the Purchase Agreement or as required by applicable law, without the prior written consent of the Company, CWCapital may not (and CW Financial may not permit CWCapital to) take any of the following actions (each as more fully described in, and subject to the exceptions set forth in, the Purchase Agreement):

subject to certain exceptions, enter into any contract of a character that would constitute a material agreement to the Company under the Purchase Agreement or terminate or amend or modify in any material respect any such existing contract other than in the ordinary course of business and consistent with past practice;

enter into or amend or renew any individual employment agreements with any current or prospective employee other than at-will non-key employees, except for replacement employee hires;

subject to certain exceptions, grant any salary or wage increase or increase any employee benefit for any current or prospective employee (including incentive or bonus payments) other than as may be required under existing contracts;

sell, encumber or otherwise dispose of any of its assets in excess of \$100,000, except in the ordinary course of business and consistent with past practice;

cancel, waive or compromise any indebtedness owed to CWCapital having a value in excess of \$50,000;

make any capital expenditure or commitment in excess of \$25,000 individually, or \$100,000 in the aggregate, other than expenditures necessary to maintain in good repair existing assets;

incur or assume any indebtedness for borrowed money or guarantee any such indebtedness, other than in the ordinary course of business and consistent with past practice and for certain other exceptions;

issue or agree to issue any equity securities or securities convertible into the right to purchase equity of CWCapital;

declare or pay any dividend or distribution on any of CWCapital's equity or other securities;

purchase any material assets or securities of any person other than in the ordinary course of business and consistent with past practice or enter into any material joint venture, partnership or other similar arrangement;

purchase new mortgage servicing rights;

sell mortgage servicing rights in an aggregate amount in excess of \$333,333 during each one-month period;



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terminate, cancel or amend any material insurance coverage with respect to the assets or activities of CWCapital's business, which is not replaced by an adequate amount of insurance at a reasonable cost;

merge or consolidate with or into any other person or entity or permit any other person or entity to merge or consolidate with or into it; or

make any material tax elections without the prior written consent of the Purchaser.

Similarly, prior to the Closing, except as permitted by the Purchase Agreement, neither the Company nor the Purchaser may, without the prior written consent of CW Financial, do any of the following:

incur or assume any indebtedness for borrowed money or guarantee any such indebtedness, other than in the ordinary course of business and consistent with past practice, and except for \$83 million contemplated by the Commitment Letter for the Acquisition, up to an additional \$50 million for working capital purposes, and certain other exceptions;

subject to certain exceptions, declare or pay any dividend or distribution on, or redeem or repurchase, any of the Company's equity or other securities;

subject to certain exceptions (including the Stock Consideration and certain equity incentive issuances in a manner consistent with past practice), issue or agree to issue any equity securities or securities convertible into the right to purchase equity securities of the Company;

sell or otherwise dispose of any of its assets in excess of \$100,000, except in the ordinary course of business and consistent with past practice;

purchase any material assets or securities of any person or entity other than in the ordinary course of business and consistent with past practice or enter into any material joint venture, partnership or other similar arrangement;

terminate, cancel or amend any material insurance coverage with respect to the assets or activities of the Company which is not replaced by an adequate amount of insurance at a reasonable cost; or

make any material tax elections.

### *Access*

Until the Closing Date, the Purchaser will have the right to conduct, during normal business hours and upon reasonable prior notice, such inspections as it may reasonably require for purposes of obtaining the Financing for the Acquisition, and otherwise completing the Acquisition and related contemplated transactions. In addition, until the Closing Date, the Purchaser will have the right to (i) inspect all operational, legal, regulatory and financial matters relating to CWCapital; (ii) reasonably access the officers and employees of CWCapital; and (iii) request additional information concerning all of the foregoing.

Similarly, until the Closing Date, CWCapital will have the right to conduct, during normal business hours and upon reasonable prior notice, such inspections as it may reasonably require for purposes of completing the Acquisition and related contemplated transactions. CWCapital will also have the right to (i) inspect our operational, legal, regulatory and financial matters; (ii) reasonably access our officers and employees; and (iii) request additional information concerning all of the foregoing.

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Each party's right to access information of the other party is subject to (i) any prohibitions or limitations of applicable law; (ii) the terms of any contract entered into prior to February 28, 2012, to

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the extent that the disclosure of such contract would violate the terms of that contract; and (iii) any restriction reasonably necessary to preserve attorney-client privilege.

*Non-Negotiation*

Pursuant to the Purchase Agreement, each of CW Financial and CWCapital is prohibited from initiating, soliciting, negotiating, discussing and entering into any agreement with respect to a potential sale of CWCapital (other than the Acquisition), or a substantial interest therein or providing any information to a third party in connection with any such potential transaction. Each is also required to (i) immediately terminate any existing activities or discussions with all parties other than the Purchaser and the Company with respect to any such transaction and (ii) disclose to us any offers or inquiries received regarding any such proposal or offer prior to the Closing.

*Affiliate Transactions*

Under the Purchase Agreement, CWCapital must, on or prior to the Closing Date, terminate all affiliate transactions, except for salary or other compensation or benefits paid or payable to employees in the ordinary course of business consistent with past practices and certain other specified affiliated transactions.

*Preparation of Proxy Statement; Special Meeting*

The Purchase Agreement and the transactions contemplated thereunder have been approved by our Board. The Acquisition cannot be consummated until, among other things, our stockholders approve the issuance of the Stock Consideration as required by the NYSE Listed Company Manual. We have agreed to (i) prepare and file this proxy statement with the SEC; (ii) use reasonable best efforts to respond as promptly as practicable to any SEC comments related to this proxy statement; and (iii) disseminate this proxy statement and any amendments or supplements to this proxy statement to our stockholders as promptly as reasonably practicable after we are notified that the SEC has no further comments to this proxy statement. Pursuant to the Purchase Agreement, we have agreed to mail this proxy statement to our stockholders and to hold the Special Meeting at which our stockholders will be asked to consider and vote upon the Share Issuance Proposal. We are required to hold the Special Meeting as promptly as reasonably practicable but in no event later than the 30th day following the mailing of this proxy statement. At any time prior to the approval of the Share Issuance Proposal, our Board may amend or withdraw its recommendation if it determines in good faith that the failure to amend or withdraw such recommendation would result in a breach of its fiduciary duties under certain applicable laws. The Company's obligation to call, give notice of and have the Special Meeting will not be affected by any amendment or withdrawal of the recommendation of our Board.

*Efforts to Close; Regulatory and Other Authorizations; Consents*

The parties to the Purchase Agreement have each agreed to use their respective commercially reasonable efforts to take all necessary actions to consummate the Acquisition and the related transactions as promptly as practicable. The Company and CW Financial have further agreed to use their commercially reasonable efforts, to cooperate with the other's reasonable requests and take all commercially reasonable actions to obtain all authorizations, consents, orders and approvals of all governmental authorities that are necessary for the consummation of the Acquisition and the related transactions. The Company and CWCapital have also each agreed to use commercially reasonable efforts to take such action as is necessary to ensure that any material contract or permit will continue in full force and effect after the consummation of the transactions contemplated by the Purchase Agreement.

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*CW Financial Designees to the Board*

In connection with the Acquisition, CW Financial will be entitled to request an increase in the number of members of our Board from eight to eleven members, up to two of whom may be designated by CW Financial for each election of directors through the Company's annual meeting to be held in 2014. In addition, an independent member will be nominated by the Company. The Purchase Agreement specifies that should CW Financial and its affiliates cease to own at least 20 percent of our Common Stock, CW Financial will forfeit the right to nominate one of the two Board designees; and upon ceasing to own at least 10 percent of our Common Stock, CW Financial will forfeit the right to nominate its remaining Board designee. Our Board has adopted resolutions to automatically increase the number of members of our Board from eight to eleven members, effective as of the Closing.

Any such Board designee will be subject to applicable confidentiality requirements and other policies of the Company generally applicable to members of the Board. The Company will enter into an indemnification agreement with and for the benefit of each such Board designee that is no less favorable than the most director favorable indemnification agreement to which the Company is a party as of the date of the Purchase Agreement.

*CWCapital Warehouse Credit Agreements*

Effective as of the Closing, the Company will either purchase or cause to be purchased the outstanding loans under the warehouse credit agreements of CWCapital or replace all such warehouse credit agreements, and with respect to each guaranty or similar credit support arrangement issued by CW Financial in relation to the CWCapital warehouse credit agreements, the Company or the Purchaser will provide replacement guaranties or obtain substitute credit support arrangements and obtain a full release of CW Financial's support obligations for the CWCapital warehouse credit agreements.

*Names Following Closing*

As of the Closing Date, the Company and CWCapital will (a) change the name of CWCapital, such that it will not include "CW" or any substantially similar name or derivation thereof and (b) cease, and cause CWCapital to cease, using the name "CWCapital" or any substantially similar name or derivation thereof (except that CWCapital may use the name "CWCapital" during the 60-day period immediately following the Closing Date, but solely to the extent that it and its employees have any business cards, letterhead or other correspondence bearing the name "CWCapital").

*Bylaws Amendment*

Pursuant to the Purchase Agreement, conditioned on and prior to the occurrence of the Closing, the Board is required to take all necessary action, to the extent permitted by applicable law, to render inapplicable (i) any control share acquisition, business combination or other similar anti-takeover provision under the laws of Maryland that would otherwise be applicable to the issuance of the Stock Consideration and any other transactions contemplated by the Purchase Agreement, and (ii) the corporate opportunity doctrine with respect to CW Financial, the individuals designated by CW Financial to the Board, and certain of their affiliates.

*Additional Agreements*

The Purchase Agreement contains additional agreements between CWCapital, the Seller and us relating to, among other things:

Consultations regarding public announcements and certain confidentiality obligations;

Notification of certain matters;

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Certain pre-closing separation of assets between CW Financial and CWCapital;

Certain tax matters;

Certain actions of the Company with respect to obtaining the Financing;

Providing certain interim financial information of CWCapital;

NYSE listing of the shares of our Common Stock to be issued at Closing to CW Financial;

Compliance by the Purchaser and CWCapital with provisions under the WARN Act or similar applicable law; and

Continued employment of employees of CWCapital after the Closing and their service and participation in the Company's employee benefit plans.

**Closing**

The Closing under the Purchase Agreement will occur not later than the third business day following the satisfaction or, to the extent permitted, waiver of all conditions to the obligations of the parties to consummate the transactions contemplated under the Purchase Agreement, including our stockholders' approval of the Share Issuance Proposal as described in this proxy statement.

**Conditions to Closing**

The mutual obligations of the parties to consummate the Acquisition and the related transactions are subject to the satisfaction or waiver of the following conditions (the "Mutual Closing Conditions"):

The absence of any suit, action or proceeding by any governmental authority that prohibits or makes illegal the Acquisition or other transactions contemplated under the Purchase Agreement, or imposes limitations on such transactions or the ability of any party to perform its obligations;

The expiration or termination of any waiting period (and any extension of such period) under the HSR Act applicable to the transactions contemplated under the Purchase Agreement;

Receipt of approval by the Company's stockholders of the Share Issuance Proposal; and

CW Financial's receipt of certain required third-party consents to the Acquisition.

In addition, the obligations of the Company and the Purchaser to consummate the Acquisition and other transactions contemplated under the Purchase Agreement are subject to the satisfaction (or waiver by the Purchaser) of the following conditions (the "Purchaser Closing Conditions"):

CW Financial and CWCapital shall have in all material respects complied with and performed their respective applicable obligations, covenants and agreements under the Purchase Agreement and the related transaction documents;



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Subject to certain exceptions, the respective representations and warranties of CW Financial and CWCapital contained in the Purchase Agreement shall be true and correct in all respects as of the date of the Purchase Agreement and as of the Closing Date, except that those representations and warranties which address matters only as of a particular date need only be true and correct as of such date, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on CWCapital or have a material adverse effect on CWCapital's or CW Financial's ability to perform its obligations under the Purchase Agreement;

No Material Adverse Effect on CWCapital, taken as a whole, shall have occurred since the date of the Purchase Agreement and be continuing on the Closing Date;

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The Purchaser shall have received correct and complete copies of all documents and other items as required to be delivered under the Purchase Agreement; and

All approvals, authorizations and actions of, filings with and notices to any governmental authority necessary to permit CW Financial and CWCapital to perform their respective obligations under the Purchase Agreement and the related transaction documents and to consummate the transactions contemplated thereby and thereby shall have been duly obtained, made or given (except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on CWCapital or have a material adverse effect on its ability to perform such obligations under the Purchase Agreement).

In addition, the obligations of CW Financial and CWCapital to consummate the Acquisition and other transactions contemplated under the Purchase Agreement are subject to the satisfaction (or waiver by CW Financial and CWCapital) of the following conditions (the "CW Financial Closing Conditions"):

The Company and the Purchaser shall have in all material respects complied with and performed their respective applicable obligations, covenants and agreements under the Purchase Agreement and the related transaction documents;

Subject to certain exceptions, the respective representations and warranties of the Company and the Purchaser contained in the Purchase Agreement shall be true and correct in all respects as of the date of the Purchase Agreement and as of the Closing Date, except that those representations and warranties which address matters only as of a particular date need only be true and correct as of such date, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company or have a material adverse effect on the Company's or the Purchaser's ability to perform its obligations under the Purchase Agreement;

No Material Adverse Effect on the Company and the Purchaser, taken as a whole, shall have occurred since the date of the Purchase Agreement and be continuing on the Closing Date;

The Seller shall have received correct and complete copies of all documents and other items as required to be delivered under the Purchase Agreement;

All approvals, authorizations and actions of, filings with and notices to any governmental authority necessary to permit each of the Company and the Purchaser to perform their respective obligations under the Purchase Agreement and the related transaction documents and to consummate the transactions contemplated thereby shall have been duly obtained, made or given (except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company or have a material adverse effect on the Company's or the Purchaser's ability to perform its obligations under the Purchase Agreement);

The Stock Consideration will be fully paid and validly issued and the Company's counsel shall have delivered a customary opinion, in form and substance reasonably acceptable to CW Financial, with respect to the issuance of the Stock Consideration; and

The Common Stock shall be publicly listed on the NYSE effective as of the Closing Date and there shall have been no suspension of trading of the Common Stock between the date of the Purchase Agreement and the Closing Date.

### **Termination**

The Purchase Agreement may be terminated prior to the consummation of the Closing:

upon the written consent of both the Purchaser and CW Financial;

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by the Purchaser, if any of the Mutual Closing Conditions or the Purchaser Closing Conditions discussed above are not fully satisfied, or if the Closing shall not have occurred, on or before December 31, 2012 (unless such failure results primarily from the Company or the Purchaser breaching any representation, warranty, covenant or agreement under the Purchase Agreement);

by the Purchaser, if CW Financial or CWCapital shall have breached any representation, warranty, covenant or agreement under the Purchase Agreement, which breach cannot be or has not been cured within 30 days after the Purchaser's giving of written notice thereof, and which breach would give rise to the failure of a Mutual Closing Condition or a Purchaser Closing Condition;

by CW Financial, if any of the Mutual Closing Conditions or CW Financial Closing Conditions are not fully satisfied, or if the Closing shall not have occurred, on or before December 31, 2012 (unless such failure results primarily from CW Financial or CWCapital breaching any representation, warranty, covenant or agreement under the Purchase Agreement);

by CW Financial, if the Company or the Purchaser shall have breached any representation, warranty, covenant or agreement under the Purchase Agreement, which breach cannot be or has not been cured within 30 days after CW Financial's giving of written notice thereof, and which breach would give rise to the failure of a Mutual Closing Condition or a CW Financial Closing Condition;

by either CW Financial or the Purchaser, if any law or governmental authority prohibits the consummation of the Acquisition; or

by either CW Financial or the Purchaser, if approval by the Company's stockholders of the Share Issuance Proposal is not obtained at the Special Meeting.

**Indemnification**

*Indemnification of the Purchaser*

CW Financial has agreed that, after the Closing, it will indemnify each of the Purchaser and its affiliates (including CWCapital), and their respective directors, members, officers, equity holders, partners, employees, agents, subsidiaries, representatives and successors and assigns (collectively, the "Purchaser Indemnified Parties") from and against:

any and all losses that any Purchaser Indemnified Party may suffer due to any breach of any representation or warranty of CW Financial or CWCapital contained in the Purchase Agreement as of the date thereof or as of the Closing Date;

any and all losses that any Purchaser Indemnified Party may suffer due to any breach of a covenant or agreement on the part of CWCapital prior to the Closing or on the part of CW Financial;

any and all losses resulting from or arising out of any (i) taxes of CWCapital for all pre-Closing tax periods, (ii) transfer taxes for which CW Financial is responsible, and (iii) taxes of any member of taxable group of which CWCapital is or was a member on or prior to the Closing Date;

certain items of closing indebtedness and transaction costs to the extent not already deducted from the Cash Consideration; and

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certain legal expenses incurred in connection with any litigation in which CW Capital Asset Management, on the one hand, and CWCapital, on the other hand, are named as co-defendants; provided, however, that CW Financial shall not be liable for such legal expenses in excess of

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\$100,000 from the Closing Date through the first anniversary thereof, or \$100,000 from and after the first anniversary of the Closing Date until the second anniversary of the Closing Date.

CW Financial will not be liable to Purchaser Indemnified Parties for any losses (i) under the first bullet point above and, (ii) solely with respect to covenants to be performed prior to the Closing Date, the second bullet point above, unless and until the losses incurred by all Purchaser Indemnified Parties pursuant thereto exceed, in the aggregate, \$3 million (the "Deductible"), in which case CW Financial will be liable for the full amount of the losses in excess of the Deductible; provided that the aggregate amount so required to be paid by CW Financial in respect of such losses may not exceed \$22 million. The Deductible and the cap described in the preceding sentence will not apply to losses arising from (i) a breach of a Seller Fundamental Representation (as defined below), (ii) any breach of representations and warranties regarding tax matters, (iii) any breach of a covenant required to be performed following the Closing, or (iv) fraud with respect to CW Financial's or CWCapital's representations and warranties set forth in the Purchase Agreement. In addition, in no event will CW Financial be required to pay any amounts in satisfaction of claims for indemnification in excess of an amount equal to the cash consideration and Stock Consideration actually received by CW Financial in the aggregate.

The Purchase Agreement provides that, if CW Financial is obligated to indemnify a Purchaser Indemnified Party for losses, then CW Financial may satisfy that obligation by selling shares of Common Stock:

at a price equal to the volume weighted average NYSE trading price of the Common Stock during the 20 consecutive trading days immediately preceding the third trading day prior to the date on which such losses are finally determined to be due and payable; and

in sufficient number to generate gross sale proceeds equal to such losses (the "Sale Proceeds").

In such an event (i) the actual payment that CW Financial will be required to make to the Purchaser Indemnified Party will be the Sale Proceeds net of any fees and expenses incurred by CW Financial in connection with the sale, and (ii) the time frame during which CW Financial is required to deliver such payment shall be concurrent with the time frame in which CW Financial is able to consummate such sale to a *bona fide* third-party purchaser.

The representations and warranties of CW Financial and CWCapital relating to, among other things, organization, capitalization, contractual power and authority, due authorization and brokers' fees (collectively, "Seller Fundamental Representations") will remain in full force and effect indefinitely. The representations and warranties of CW Financial and CWCapital relating to, among other things, tax matters, employee benefit plans, and environmental matters will remain in full force and effect until 60 days following the applicable statute of limitations with respect to the subject matter of such representations and warranties. All other representations and warranties contained in the Purchase Agreement will remain in full force and effect for 12 months following the Closing Date.

*Indemnification of CW Financial*

The Purchaser has agreed that, after the Closing, it will indemnify each of CW Financial and its affiliates and their respective directors, members, officers, equity holders, partners, employees, agents, subsidiaries, representatives and successors and assigns (collectively, the "Seller Indemnified Parties") from and against:

any and all losses that any Seller Indemnified Party may suffer due to any breach of any representation or warranty of the Company or the Purchaser contained in the Purchase Agreement as of the date thereof or as of the Closing Date;

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any and all losses that any Seller Indemnified Party may suffer due to any breach of a covenant or agreement on the part of CWCapital after the Closing or on the part of the Company or the Purchaser; and

any and all (i) taxes of CWCapital for all post-Closing tax periods, or (ii) transfer taxes for which the Purchaser is responsible.

The Purchaser will not be liable to Seller Indemnified Parties for any losses (i) under the first bullet point immediately above and (ii) solely with respect to covenants to be performed prior to the Closing Date, the second bullet point immediately above, unless and until the losses incurred by all Seller Indemnified Parties pursuant thereto exceed, in the aggregate, the Deductible, in which case the Purchaser will be liable for the full amount of the losses in excess of the Deductible; provided that the aggregate amount so required to be paid by the Purchaser in respect of such losses may not exceed \$22 million. The Deductible and the cap described in the preceding sentence will not apply to losses arising from (i) a breach of a Purchaser Fundamental Representation (as defined below), (ii) any breach of representations and warranties regarding tax matters, (iii) any breach of a covenant required to be performed following the Closing, or (iv) fraud with respect to Purchaser's or Company's representations and warranties set forth in the Purchase Agreement. In addition, in no event will the Purchaser be required to pay any amounts in satisfaction of claims for indemnification in excess of an amount equal to the cash consideration and Stock Consideration actually received by CW Financial in the aggregate.

The representations and warranties of Company and the Purchaser relating to, among other things, organization, capitalization, contractual power and authority, due authorization, and brokers' fees (collectively, "Purchaser Fundamental Representations") will remain in full force and effect indefinitely. The representations and warranties of CW Financial and CWCapital relating to, among other things, tax matters and employee benefit plans will remain in full force and effect until 60 days following the applicable statute of limitations with respect to the subject matter of such representations and warranties. All other representations and warranties contained in the Purchase Agreement will remain in full force and effect for 12 months following the Closing Date.

**Payment of Indemnification**

Any indemnification obligation under the Purchase Agreement for any losses will be net of any insurance proceeds or any indemnity, contribution or other similar payment actually received by the indemnified party from any third party with respect thereto. The Purchaser and CW Financial have agreed that any indemnification received under the Purchase Agreement shall be treated by them and their respective affiliates, to the extent permitted by applicable law, as an adjustment to the Acquisition consideration received by CW Financial.

**Specific Performance**

The parties are entitled to an injunction, specific performance or other equitable relief to specifically enforce and to prevent breaches of the Purchase Agreement in addition to any other remedy to which they are entitled at law or in equity.

**Governing Law; Jurisdiction**

The Purchase Agreement is governed by the laws of the State of Delaware without regard to its conflict of laws principles.

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**Expenses**

The Purchase Agreement provides that each party will pay its own fees and expenses in connection with the Purchase Agreement. Additionally, CW Financial will pay all of any fees and expenses associated with obtaining Fannie Mae's consent in connection with the transactions contemplated by the Purchase Agreement and CW Financial, on the one hand, and the Company and the Purchaser, on the other hand, will pay 50 percent of any fees and expenses associated with obtaining any consents of any governmental authority or any other person in connection with the transactions contemplated by the Purchase Agreement (other than the Fannie Mae fee).



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**VOTING AGREEMENTS**

The following is a summary of selected material provisions of the Voting Agreements (as defined below). We urge you to read each Voting Agreement carefully and in its entirety. This summary is qualified in its entirety by reference to the Voting Agreements, copies of which are attached as *Annex C* and *Annex D* to this proxy statement and incorporated by reference herein.

**Background**

Concurrently with the execution and delivery of the Purchase Agreement, William M. Walker, the Company's Chairman, President and Chief Executive Officer; Richard M. Lucas, Howard W. Smith, III, Richard C. Warner, and Deborah A. Wilson, all executive officers of the Company (collectively, the "WD Executive Stockholders"); Mallory Walker, Mr. Walker's father; and Column (together with the WD Executive Stockholders and Mallory Walker, collectively, the "Specified Stockholders"), have entered into voting agreements (the "Voting Agreements") with CW Financial by which each has agreed to, among other things, vote in favor of the Share Issuance Proposal at the Special Meeting, against any proposal made to the stockholders of the Company that could reasonably be expected to result in any of the closing conditions in the Purchase Agreement not being fulfilled, and, other than Column, to appoint each executive officer of CW Financial as such Specified Stockholder's attorney-in-fact with respect to the voting for matters related to the Purchase Agreement.

The Voting Agreements collectively cover approximately 47 percent of the Common Stock. The WD Executive Stockholders and Mallory Walker are party to a Voting Agreement among themselves, the Company, the Purchaser and CW Financial. Column is party to a separate Voting Agreement among itself, the Company, the Purchaser and CW Financial. Further, the Specified Stockholders have agreed to certain customary restrictions on their ability to sell, encumber or otherwise dispose of their respective shares of Common Stock prior to the Closing, subject to certain exceptions.

**Share Issuance Proposal and Special Meeting**

In addition to the voting covenants described above, each of the WD Executive Stockholders and Mallory Walker has agreed to vote all of such Specified Stockholder's shares of Common Stock or, as appropriate, execute written consents in respect thereof:

in favor of the approval of the Purchase Agreement and the transactions contemplated thereby;

against any action or agreement (including, without limitation, any amendment of any agreement) that would result in a breach of any representation, warranty, covenant, agreement or other obligation of the Company, the Purchaser or such Specified Stockholder in the Voting Agreement or the Purchase Agreement; and

against any agreement, amendment of the organizational documents or the certificate of incorporation or bylaws of the Company or the Purchaser or other action that would hinder the consummation of the transactions contemplated by the Voting Agreement and the Purchase Agreement.

**Voting Proxy**

In order to secure the performance of each WD Executive Stockholder's and Mallory Walker's obligations under the Voting Agreement, such stockholder has under the Voting Agreement irrevocably granted a proxy, coupled with an interest, appointing each executive officer of CW Financial as such stockholder's attorney-in-fact and proxy, with full power of substitution, for and in his name, to vote, as such attorney-in-fact and proxy deems proper with respect to such stockholder's shares of Common Stock for any matters covered by the bulleted items described above. The Voting Agreement provides

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that the proxy will be deemed revoked upon the earlier of (i) termination of the Voting Agreement in accordance with its terms, or (ii) the Closing.

**CW Financial and Column Board Designees**

Under the terms and conditions of the Voting Agreement to which Column is party, to the extent that Column beneficially owns at least 10 percent of our then outstanding Common Stock, at the Company's annual meeting of stockholders to be held during 2013 and 2014 (or at any special meeting of stockholders of the Company held prior to the 2014 annual meeting of stockholders at which Board directors are to be elected), or at any taking of action by written consent of stockholders in lieu of such meetings (each a "Director Election"), the following arrangements will apply (the "Board Designee Arrangements"):

Column shall have the right to designate one nominee for election to the Board (such nominee, the "CS Nominee") at such Director Elections;

at each such Director Election, (i) the Company's nominating committee and corporate governance committee shall recommend to the Board the nomination of Column's nominee for election to the Board, and (ii) the Board shall recommend to stockholders of the Company the election of the Column nominee to the Board; and

(i) CW Financial and its affiliates will vote all of their shares of Common Stock then held in favor of electing the CS Nominee to the Board, and (ii) Column will vote all of its shares of Common Stock then held in favor of electing CW Financial's or its affiliates' nominees to the Board.

**Pre-Closing Standstill**

Each Specified Stockholder has agreed that, from the date of the Voting Agreement through the Closing (or, in the case of Column only, until the date of the Special Meeting for the approval of the Share Issuance Proposal or such earlier date on which such approval is obtained), it will not sell, pledge, encumber, assign or otherwise dispose of any shares of Common Stock, except pursuant to an existing Rule 10b5-1 plan under the Exchange Act of 1934, as amended (the "Exchange Act") or in compliance with certain other exceptions.

**Post-Closing Standstill**

Additionally, each of the WD Executive Stockholders has agreed under the Voting Agreement that, from the date of the Closing until 180 days thereafter, he or she will not sell, pledge, encumber, assign or otherwise dispose of any shares of Common Stock, except pursuant to an existing Rule 10b5-1 plan under the Exchange Act or in compliance with certain other exceptions.

**Termination**

Pursuant to its terms, the Voting Agreement will terminate upon the termination of the Purchase Agreement in accordance with its terms. Also, in the event that the Closing occurs, the provisions of the Voting Agreement relating to the matters described in the preceding paragraphs captioned "Share Issuance Proposal and Special Meeting," " Voting Proxy" and " Pre-Closing Standstill" will terminate and all other provisions of the Voting Agreement will survive the Closing.

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**REGISTRATION RIGHTS AGREEMENT**

On the Closing Date, the Company will enter into a Registration Rights Agreement with CW Financial.

The following is a summary of selected material provisions of the Registration Rights Agreement. The rights and obligations of the Company and CW Financial are governed by the express terms and conditions of the Registration Rights Agreement and not by this summary or any other information contained in this proxy statement. We urge you to read the Registration Rights Agreement carefully and in its entirety. This summary is qualified in its entirety by reference to the Registration Rights Agreement, a form of which is attached as *Annex E* to this proxy statement and incorporated by reference herein.

For purposes of this summary, "Registrable Securities" of any Holder means (1) the shares of our Common Stock issued to CW Financial as the Stock Consideration and (2) any other debt or equity securities issued by the Company, in any case issued with respect to any Common Stock or such other securities by way of share or other dividend, distribution or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization or otherwise, and any shares of Common Stock or other Registrable Securities issuable upon conversion, exercise or exchange thereof. CW Financial and each assignee or transferee of any of the Registrable Securities (provided such assignee or transferee agrees in writing to be bound by the provisions of the Registration Rights Agreement) are referred to in this summary as "Holders."

**Shelf Registration**

The Registration Rights Agreement provides that we will prepare and file with the SEC, as soon as practicable after the Closing Date and in all events within 30 calendar days after the Closing Date, a "shelf" registration statement on Form S-3 (or any comparable or successor form) relating to the offer and sale of the Registrable Securities (the "Initial Shelf Registration"). If we are not eligible to use Form S-3 at the time of filing, we are required to use Form S-1 (or any comparable or successor form) to effect such registration. We are required to use reasonable best efforts to, among other things, cause the applicable registration statement to be declared effective by the SEC at the earliest possible date following the filing thereof.

We are required to use reasonable best efforts to maintain the effectiveness of the registration statement until the earlier of (i) the date on which all of the Registrable Securities covered by such registration statement are eligible for sale without registration pursuant to Rule 144 (or any successor provision) under the Securities Act without volume limitations or other restrictions on transfer thereunder or (ii) the date on which the Holders consummate the sale of all of the Registrable Securities registered under the registration statement (the earlier of (i) or (ii), the "Termination Date").

**Underwritten Offering**

The Registration Rights Agreement provides that, upon the written request of Holders of a number of Registrable Securities equal to at least 5 percent of the outstanding shares of Common Stock as of the Closing (an "Underwritten Offering Notice"), such Holder(s) shall be entitled to effect the sale of Registrable Securities through an underwritten public offering (an "Underwritten Offering"). The Company is not obligated to effect more than three Underwritten Offerings (except that if the number of Registrable Securities included in the Underwritten Offering has been cutback at the request of the managing underwriter(s) by 25 percent or more from the number of Registrable Securities requested in the Underwritten Offering Notice by the applicable Holder(s), then such

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Underwritten Offering shall not count towards the three Underwritten Offerings). In addition, the Company will not be obligated to effect, or take any action to effect, an Underwritten Offering:

within 180 days following the last date on which an Underwritten Offering was effected pursuant to the Registration Rights Agreement or during any lock-up period required by the underwriters in any prior Underwritten Offering conducted by the Company on its own behalf or on behalf of selling stockholders, or

during the period commencing with the date 30 days prior to the Company's good faith estimate of the date of filing of a registration statement with respect to an underwritten offering of Common Stock for its own account or for the account of one more other stockholders of the Company, and ending on a date 90 days after the effective date of such registration statement.

The Company has agreed that, upon receipt of a valid Underwritten Offering Notice for an Underwritten Offering, the Company will give written notice of the proposed Underwritten Offering to all other Holders as soon as practicable. Within 10 business days following such notice from the Company, each Holder who wishes to participate in such Underwritten Offering must so notify the Company in writing and specify the number of Registrable Securities to be included in the Underwritten Offering. The Holders holding a majority of the Registrable Securities to be included in an Underwritten Offering will be entitled to select the managing underwriters for any such Underwritten Offering, subject to the approval of the Company, such approval not to be unreasonably withheld. The Company is required to cooperate with the Holder(s) and such managing underwriters in connection with any such offering.

**Piggyback Registration**

If the Company proposes to file a registration statement under the Securities Act with respect to an underwritten offering of Common Stock for its own account or for the account of one or more other stockholders of the Company (other than a registration statement on Form S-4 or Form S-8 or filed in connection with an exchange offer or offering of securities solely to the Company's existing stockholders), then the Company will give written notice of such proposed filing to the Holders as soon as practicable (but in no event less than 10 business days before the anticipated filing date), and such notice will offer such Holders the opportunity to register such number of shares of Registrable Securities as each such Holder may request in writing within 5 business days of receiving such notice (a "Piggyback Registration").

The Company will use its commercially reasonable efforts to cause the managing underwriter(s) of the proposed underwritten offering to permit the Registrable Securities requested to be included in the Piggyback Registration to be included on the same terms and conditions as any similar securities of the Company included therein. Our obligation to register a Piggyback Registration is subject to certain customary underwriting cutbacks in the event the managing underwriter determines that inclusion of the number of securities requested to be included in such Piggyback Registration would adversely affect the marketability of such offering.

**Suspension of Registration**

The Company may postpone the filing of a registration statement and require any Holder not to sell under a registration statement or suspend the effectiveness thereof, if (i) the Board determines in good faith that such registration and/or offering would materially and adversely affect any offering of securities of the Company, or (ii) the negotiation or consummation of a transaction by the Company or its subsidiaries is pending or an event has occurred, which negotiation, consummation or event would require additional disclosure by the Company in the registration statement of material information which the Company has a bona fide business purpose for keeping confidential and the non-disclosure of which in the registration statement would be expected, in the Company's reasonable determination,

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to cause the registration statement to fail to comply with applicable disclosure requirements (each such circumstance a "Suspension Event"). The Company has agreed that it may not delay, suspend or withdraw such registration statement for more than 60 days at any one time, or more than twice in any 12-month period, or more than three times in any two year period. In addition, the Registration Rights Agreement provides that, if all reports required to be filed by the Company pursuant to the Exchange Act have not been filed by the required date, then upon written notice thereof by the Company to the Holders, the rights of the Holders to offer and sell any Registrable Securities pursuant to any registration statement shall be suspended until the Company has filed such reports.

**Indemnification**

In accordance with the Registration Rights Agreement, the Company will indemnify a Holder and its affiliates for any and all losses relating to any untrue statement of a material fact contained in, or any omission of a material fact from, any registration statement, prospectus or any amendment or supplement thereto (except to the extent (i) any such untrue statements or omissions are based upon written information furnished by such Holder expressly for use in such registration statement or prospectus (the "Holder Information"), or (ii) arising out of such Holder's failure to deliver to any purchaser of the Registrable Securities an amended or supplemental Prospectus furnished to such Holder by the Company, if such loss would not have arisen had such delivery occurred).

Similarly, each Holder will severally, and not jointly with each other, indemnify the Company and its affiliates and each other Holder from and against any and all losses for any untrue statement of a material fact contained in, or any omission of a material fact from, any registration statement, prospectus or any amendment or supplement thereto to the extent (i) that such untrue statements or omissions are based upon Holder Information, or (ii) arising out of such Holder's failure to deliver to any purchaser of the Registrable Securities an amended or supplemental Prospectus furnished to such Holder by the Company, if such loss would not have arisen had such delivery occurred.

**Reports Under the Exchange Act**

To make available the benefits of Rule 144 to the Holders, the Company is obligated to timely file the reports required to be filed by the Company under the Securities Act and the Exchange Act.

**Assignment of Registration Rights**

The rights under the Registration Rights Agreement, subject to certain conditions and exceptions, will be automatically assignable by any Holder of Registrable Securities to any transferee or assignee of all or any portion of the Registrable Securities (provided such transferee agrees in writing to be bound by all of the provisions of the Registration Rights Agreement and such Holder provides written notice to the Company within 10 business days of the effectiveness of such assignment).

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**CLOSING AGREEMENT**

On the Closing Date, the Company will enter into a Closing Agreement with CW Financial and CWCapital. The following is a summary of selected material provisions of the Closing Agreement. The rights and obligations of the Company, CW Financial and CWCapital are governed by the express terms and conditions of the Closing Agreement and not by this summary or any other information contained in this proxy statement. We urge you to read the form of Closing Agreement carefully and in its entirety. This summary is qualified in its entirety by reference to the Closing Agreement, a form of which is attached as *Annex F* to this proxy statement and incorporated by reference herein.

For purposes of this summary, "Qualified Director" means a director who qualifies as an independent director of the Company under (i) the bylaws of the Company and any applicable corporate governance policies or guidelines of the Company then in effect and (ii) (A) applicable rules of the NYSE, as such rules may be amended or supplemented from time to time or (B) if the Common Stock is listed on a securities exchange or quotation system other than the NYSE, any comparable rule or regulation of the primary securities exchange or quotation system on which the Common Stock is listed or quoted, in each case as determined by the Board. Notwithstanding the foregoing, no affiliate of CW Financial or any member of a "group" (as defined in Section 13(d)(3) of the Exchange Act) with CW Financial shall be deemed a "Qualified Director".

**Restrictive Covenants**

*Non-Competition*

CW Financial agreed that, for two years after the Closing Date, it will not, and will cause its subsidiaries not to, directly or indirectly, act as a director, officer, equityholder, partner or owner of any business or business unit that is engaged in providing Competing Services within North America (including being engaged as a principal part of such business or business unit in providing Competing Services within North America). "Competing Services" means lending money through loans secured by commercial real estate as an authorized or licensed Fannie Mae DUS, Freddie Mac Program Plus or MAP- or LEAN-approved FHA lender under the programs established by such agencies. Competing Services excludes correspondent lending, brokering loans and providing any other services to a lender that provides Competing Services.

*Non-Solicitation of Employees*

The Company and CW Financial each agreed that, for two years after the Closing Date, neither it nor any of its subsidiaries will offer to hire or hire any person who has been designated a restricted employee of the other party or any of its subsidiaries. However, either party or its subsidiaries may hire persons whose employment with the other party or its subsidiaries terminated more than six months prior to such hiring.

*Confidentiality*

The Company and CW Financial each agree that, for two years after the effective date of the Closing Agreement, it will, and will cause its subsidiaries and representatives to, maintain the confidentiality of, and refrain from disclosing to any person, all confidential information of the other party and its subsidiaries, except to the extent disclosure is required by law or in response to any summons or subpoena. In the event that such party reasonably believes after consultation with counsel that it or its subsidiaries is required by law or in response to any summons or subpoena to disclose any such confidential information, such party will, to the extent legally permissible, (i) provide the other party with prompt notice before such disclosure so that such other party may attempt to obtain, at such other party's sole cost and expense, a protective order or other assurance that confidential treatment

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will be accorded to such confidential information and (ii) cooperate with the other party, at such other party's sole cost and expense, in attempting to obtain such order or assurance.

*Non-Disparagement*

The Company and CW Financial each agreed that, for two years after the Closing Date, it will cause the members of its senior management not to, directly or indirectly, make any statements or any other expressions (in writing, orally or otherwise) on television, radio, the internet or other media or to any third party, that are in any way disparaging of the other party or any of its subsidiaries, or any of their respective affiliates, or the products and services of the foregoing.

**Releases**

CW Financial, on behalf of itself and its subsidiaries (the "Seller Releasing Parties"), agreed to forever and unconditionally waive and release CWCapital, its subsidiaries and their respective current and former officers, directors and agents (collectively, the "Released Company Parties"), to the fullest extent permitted by law, from all actions, causes of action, suits, debts, costs, penalties, dues, sums of money, accounts, reckonings, bonds, bills, liabilities, controversies, variances, trespasses, damages, judgments, demands, grievances or any other claims of any kind or nature, known or unknown, existing or claimed to exist, fixed or contingent, both at law and in equity ("Causes of Action") that such Seller Releasing Party has, has ever had or may have against the Released Company Parties arising contemporaneously with or prior to the Closing Date but solely to the extent that such Causes of Action arose out of CW Financial's ownership and conduct of the business of CWCapital and its subsidiaries prior to the Closing Date. CWCapital, on behalf of itself and its subsidiaries (the "Company Releasing Parties"), agreed to forever and unconditionally waive and release CW Financial, its subsidiaries and their respective current and former officers, directors and agents (collectively, the "Released Seller Parties"), to the fullest extent permitted by law, from Causes of Action that such Company Releasing Party has, has ever had or may hereafter have against the Released Seller Parties arising contemporaneously with or prior to the Closing Date but solely to the extent that such Causes of Action arose out of CW Financial's ownership and conduct of the business of CWCapital and its subsidiaries prior to the Closing Date. However, the Closing Agreement does not release any Released Company Party or Released Seller Party from (i) any Causes of Action arising under the Closing Agreement, the Purchase Agreement or the transaction documents in connection with the Acquisition or any rights to indemnification thereunder or (ii) any Causes of Action arising under arms length contracts existing between CWCapital and its subsidiaries, on the one hand, and CW Financial and its subsidiaries, on the other hand, which remain in effect after the Closing pursuant to the terms of the Purchase Agreement.

**Restrictions on Transfer of Acquired Shares**

CW Financial has agreed not to transfer any of the shares of Common Stock issued to it pursuant to the Purchase Agreement prior to the 180th day following the effective date of the Closing Agreement, except for transfers to one or more of CW Financial's affiliates. CW Financial will be liable for any subsequent transfers by its affiliates in breach of the preceding sentence.

**Right of First Offer**

If at any time CW Financial desires to transfer to an unaffiliated third party or third parties the shares of Common Stock issued to it pursuant to the Purchase Agreement (i) which would constitute more than 20 percent of our then issued and outstanding Common Stock on a fully-diluted basis, and (ii) such proposed transfer would be consummated pursuant to a private sale (other than through any broker dealer transactions) and not through a public offering of securities pursuant to a firm commitment underwritten public offering pursuant to an effective registration statement under the

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Securities Act, then prior to effecting such transfer, CW Financial has agreed to deliver a written notice (a "ROFO Notice") to the Company specifying the number of shares desired to be transferred (the "ROFO Shares").

Within seven days of receipt of the ROFO Notice (the "Offer Period"), the Company will have the right, but not the obligation, to provide CW Financial an irrevocable written offer to purchase all, but not less than all, of the ROFO Shares, in cash (the "Offer Notice") at such price per ROFO Share (the "ROFO Price") set forth in the Offer Notice and on a Closing Date no later than five days following the date of delivery of the Offer Notice. If the Company does not deliver an Offer Notice within the Offer Period, then the Company forfeits its right to purchase the ROFO Shares and CW Financial will have the right, but not the obligation, to transfer any or all of the ROFO Shares to any person at a price per ROFO Share that is at least 95 percent of the ROFO Price; *provided, however*, that with respect to any ROFO Shares that are not transferred within the ninety day period beginning at the end of the Offer Period, CW Financial may not transfer such shares without first complying with the right of first offer provisions, if applicable.

**Standstill Arrangement**

CW Financial agreed that, from and after the effective date of the Purchase Agreement and for so long as (a) CW Financial has the right under the Purchase Agreement to designate a person to serve as a director on the Company's Board and (b) the Chairman, President and Chief Executive Officer of the Company as of the date of the Closing Agreement (the "Current CPCEO") continues to serve as at least one of the Chairman and/or the Chief Executive Officer of the Company, CW Financial will not, in any manner, directly or indirectly, without the prior written consent of a majority of the Qualified Directors:

publicly initiate any offer to effect, seek or propose (with or without conditions), any merger, acquisition, consolidation, other business combination, restructuring, recapitalization, tender offer or exchange offer with or involving the Company or any of its subsidiaries or all or substantially all their respective securities or assets (each a "Prohibited Transaction"). However, CW Financial may (i) file or amend its Schedule 13D regarding its Common Stock as required by law or to make other securities or tax filings as required by law, (ii) support any Prohibited Transaction initiated by any third party, (iii) vote its Common Stock with respect to any matter that does not relate to a Prohibited Transaction, or (iv) vote, tender or exchange its Common Stock in any Prohibited Transaction initiated, sought or proposed by any third party; or

engage, or in any way participate, directly or indirectly, in any "solicitation" (as such term is defined in Rule 14a-1(l) promulgated by the SEC under the Exchange Act) of proxies or consents (whether or not relating to the election or removal of directors), seek to advise, encourage or influence any person with respect to the voting of any of the Company securities (except in support of proposals approved by the Board of Directors), in each case, against the election of the Company's directors;

However, if the Current CPCEO is terminated by our Board with CW Financial's Board designees voting in favor of such termination, then the standstill obligations of CW Financial under the Closing Agreement will terminate twelve months after the termination of the Current CPCEO.

**Piggyback Letter Agreement**

The Company, CW Financial and the Specified Stockholders (other than Richard M. Lucas) (the "Current Stockholders"), who are parties to the Registration Rights Agreement dated as of December 20, 2010 with the Company (the "2010 Registration Rights Agreement"), entered into a letter agreement dated as of June 7, 2012 (the "Piggyback Side Letter") pursuant to which each of CW Financial and the Current Stockholders agreed to, among other things: (i) pro rata cutbacks with



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respect to their respective piggyback registration rights under the Registration Rights Agreement and the 2010 Registration Rights Agreement, if requested by a managing underwriter in order to reduce the amount of shares of Common Stock to be included in offerings of Common Stock for the Company's own account or underwritten offerings of Common Stock for the account of CW Financial or the Current Stockholders; (ii) the selection of the managing underwriters for any underwritten offering demanded by CW Financial and the Current Stockholders, respectively; (iii) the right of Column to request an underwritten offering subject to certain thresholds; and (iv) the inclusion by the Company of registrable securities of the Current Stockholders in the registration statement to be filed in connection with the Registration Rights Agreement. The foregoing summary is qualified in its entirety by reference to the Piggyback Side Letter, a copy of which was filed as Exhibit 5 to the Schedule 13D filed with the SEC by CW Financial and its affiliates on June 18, 2012.

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**THE FINANCING**

The following is a summary of selected material provisions of the Commitment Letter pertaining to the Financing, dated as of June 8, 2012, between the Company and Bank of America. The rights and obligations of the Company and Bank of America are governed by the express terms and conditions of the Commitment Letter and not by this summary or any other information contained in this proxy statement. We urge you to read the Commitment Letter in its entirety. This summary is qualified in its entirety by reference to the Commitment Letter, a copy of which is attached as *Annex G* to this proxy statement and incorporated by reference herein.

The Company, the Purchaser and Walker & Dunlop Multifamily, Inc. (which is the direct parent of the Purchaser) are parties, as borrowers, to the Term Loan Agreement, with Bank of America, as Administrative Agent and Collateral Agent, and Bank of America and PNC Bank, National Association, successor to National City Bank, as the lenders thereunder. In order to finance the cash consideration payable at the Closing, the Company requested Bank of America (as Administrative Agent and as a lender) and, pursuant to the Commitment Letter, Bank of America has agreed, to commit to (a) amend or replace the Term Loan Agreement in order to provide for an increase in the amount of the borrowings thereunder (the "Term Loan") to the aggregate sum of \$83 million, and (b) in connection therewith, lend the Company such additional principal amount under the increased Term Loan commitment as shall be necessary in order to result in the aggregate principal amount of the Term Loan equaling \$83 million, substantially all of the proceeds of such loan to be used solely for the purposes of the Acquisition (such loan to the Company, upon and subject to the terms and conditions set forth in the Commitment Letter, the "Senior Term Loan Facility"). Repayment must be made within five years of the Closing Date.

The commitment of Bank of America under the Commitment Letter is subject to, among other conditions (i) the negotiation, execution and delivery of definitive documentation for the Senior Term Loan Facility consistent with the Commitment Letter, and (ii) no change, occurrence or development having occurred or becoming known to Bank of America since March 31, 2012 that, after giving effect to the Acquisition on a pro forma basis, has had or could reasonably be expected to have a Material Adverse Effect with respect to the Company.

The terms and conditions of the Commitment Letter contemplate that the Company will agree to observe certain customary financial covenants under the Senior Term Loan Facility, including the following requirements:

Maintenance of certain minimum tangible net worth, liquid asset (*i.e.*, cash, cash equivalents, and self-funded mortgage loans covered by binding purchase commitments from Fannie Mae, Freddie Mac or another investor approved by the Administrative Agent in its sole discretion), and EBITDA values;

Maintenance of a debt service coverage ratio of not less than 3:1;

Subject to certain exceptions, (i) all mortgage loans comprised by the Company's consolidated servicing portfolio may not be less than \$20 billion at any time, and (ii) all Fannie Mae DUS mortgage loans comprised by the Company's consolidated servicing portfolio may not be less than \$10.0 billion at any time;

Maintenance of an LTSV ratio (*i.e.*, the quotient, expressed as a percentage, of (i) the outstanding unpaid principal balance of the Senior Term Facility divided by (ii) the then fair market value of all servicing contracts of the Company) of no greater than 40 percent;

Of the total unpaid principal amount of Fannie Mae DUS mortgage loans within the Company's consolidated servicing portfolio, no more than a to-be-specified percent thereof may be 60 or more days past due or otherwise in default; and

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Maintenance of specified not-to-exceed limits on the ratio of adjusted funded debt to four-quarter EBITDA.

The Commitment Letter provides that all commitments and undertakings of Bank of America thereunder will expire on October 31, 2012, unless definitive documentation for the Senior Term Loan Facility is executed and delivered prior to such date. Additionally, the Commitment Letter provides that if, as of October 31, 2012, the Closing has not occurred but the Acquisition has not been terminated, then, upon request of the Company, Bank of America will, acting in good faith, consider extending the expiration date of its commitments under the Commitment Letter to no later than December 31, 2012.

The Company has agreed that, until such expiration or earlier termination of this Commitment Letter, it will not solicit or otherwise enter into any discussions in respect of, any competing senior credit facility or facilities for the Company and its subsidiaries.

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**RISK FACTORS**

*In addition to the other information included or incorporated by reference in this proxy statement, including the matters addressed in the section of the proxy statement entitled "Special Note Concerning Forward-Looking Statements," you should carefully consider the following risks before deciding how to vote on the proposals presented at the Special Meeting. The risk factors related to the Acquisition present risks directly related to the Acquisition and the integration of the two companies. We have also included risks associated with each of the businesses of Walker & Dunlop and CWCapital because these risks will also affect the combined company. The risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. The risks below also include forward-looking statements, and our actual results may differ substantially from those discussed in these forward-looking statements. See "Special Note Concerning Forward-Looking Statements" beginning on page 20.*

***The market price of our Common Stock may decline as a result of the Acquisition or the issuance of shares of our Common Stock.***

We could encounter transaction and integration-related costs, may fail to realize all of the benefits anticipated in the Acquisition or be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease in our adjusted earnings per share or decrease or delay the expected accretive effect of the Acquisition and contribute to a decrease in the price of our Common Stock.

In addition, we are unable to predict the potential effects of the issuance of shares of our Common Stock in connection with the Acquisition on the trading activity and market price of our Common Stock. We have granted registration rights to CW Financial for the resale of the shares of our Common Stock issued in connection with the Acquisition. These registration rights would facilitate the resale of such securities into the public market, and any such resale would increase the number of shares of our Common Stock available for public trading. Sales of a substantial number of shares of our Common Stock in the public market, or the perception that such sales might occur, could have a material adverse effect on the price of our Common Stock.

***The Acquisition will result in changes to our Board and management that may affect the strategy and operations of the Company.***

If we complete the Acquisition, the composition of our Board and management team will change. Following the completion of the Acquisition, our Board will increase from eight to eleven directors and two of the three new directors will be designated for appointment by CW Financial. This new composition of our Board may affect our business strategy and operating decisions following completion of the Acquisition. In addition, there can be no assurances that the new Board will function effectively as a team and that there will not be any adverse effects on our business as a result.

***The Acquisition is subject to a number of conditions, including the receipt of consents and clearances from domestic regulatory and quasi-governmental authorities that may not be obtained, may not be completed on a timely basis or may impose conditions that could have an adverse effect on us.***

Completion of the Acquisition is conditioned upon, among other matters, the receipt of certain governmental and quasi-governmental authorizations, consents, orders, clearances or other approvals, including consents from Fannie Mae, Freddie Mac, Ginnie Mae, HUD and the Federal Housing Administration of HUD and such other consents, approvals and clearances necessary to permit all parties to perform their obligations under the Purchase Agreement and complete the Acquisition. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions and that such conditions, terms, obligations or restrictions will not have the effect of delaying

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completion of the Acquisition or imposing additional material costs on, or materially reducing the revenues of, our operations following the Acquisition. In addition, such conditions, terms, obligations or restrictions may result in the delay or abandonment of the Acquisition.

***Failure to complete the Acquisition could negatively impact our business, financial condition, results of operations or stock prices.***

Completion of the Acquisition is conditioned upon the satisfaction of certain closing conditions, including the approval of the stock issuance by our stockholders, as set forth in the Purchase Agreement. The required conditions to closing may not be satisfied in a timely manner, if at all, or, if permissible, waived. If the Acquisition is not consummated for these or any other reasons, our ongoing business may be adversely affected and the market price of our Common Stock may decline to the extent that the current market price reflects a market assumption that the Acquisition will be completed.

***Current stockholders will have reduced ownership and voting interests after the Acquisition.***

We will issue 11,647,255 shares of Common Stock (which represents approximately 34 percent of the Company on a fully diluted basis), subject to adjustment as described below under "The Purchase Agreement" on page 44. As a result, the percentage ownership of Walker & Dunlop held by each of our current stockholders will be smaller than such stockholder's percentage ownership of Walker & Dunlop prior to the Acquisition. Our current stockholders will, therefore, have proportionately less ownership and voting interests in Walker & Dunlop following the Acquisition than they have now.

***Our future results following the Acquisition may differ materially from the unaudited pro forma financial information included in this document.***

The unaudited pro forma combined financial information contained in this document is presented for purposes of presenting our historical consolidated financial statements with CWCcapital's historical financial statements as adjusted to give effect to the contemplated Acquisition and is not necessarily indicative of the financial condition or results of operations of the combined company following the Acquisition. The unaudited pro forma financial information reflects adjustments, which are based upon preliminary estimates, to allocate the purchase price to CWCcapital's acquired assets and liabilities. The purchase price allocation reflected in this document is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of CWCcapital as of the date of the completion of the Acquisition. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our financial condition and results of operations following the Acquisition. Any change in our financial condition or results of operations may cause significant variations in the price of our Common Stock. See the section entitled "Unaudited Pro Forma Combined Financial Information" beginning on page 94 for more information.

***The Acquisition may result in a loss of customers, clients and strategic alliances.***

Prior to the Acquisition, some of the loan originators, customers, clients and strategic partners of CWCcapital may terminate their business relationships with CWCcapital because of uncertainty regarding the pending Acquisition. As a result of the Acquisition, some of the loan originators, customers, clients, potential customers or clients or strategic partners of Walker & Dunlop and CWCcapital may terminate their business relationships with Walker & Dunlop following the Acquisition. Furthermore, potential clients or strategic partners may delay entering into, or decide not to enter into, a business relationship with us because of the Acquisition. If customer or client relationships or strategic alliances are adversely affected by the Acquisition, our business and financial performance following the Acquisition would suffer.

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***We depend on the recruitment and retention of qualified personnel, and failure to retain and attract such personnel could seriously harm our business.***

Our continued successful performance following the Acquisition will require our business and the business of CWCcapital to retain, attract and motivate skilled mortgage loan origination personnel. In light of the specialized skills of these professionals and the competitive market for their services, we cannot assure you that we will be successful at retaining, attracting and motivating qualified and high-performing, experienced mortgage loan origination professionals for those businesses. The success of our efforts in those respects may impact our ability to execute our business strategy and our future results of operations and financial condition following the Acquisition.

***We may be unable to integrate CWCcapital's business with our own successfully.***

Following the Acquisition, we and the Purchaser will be required to devote significant management attention and resources to integrating CWCcapital's business practices and operations with our own. Potential difficulties we may encounter as part of the integration process include the following:

challenges of effectively implementing and integrating our credit standards, which we believe are material contributors to our success, with respect to the business and operations of CWCcapital;

the potential inability to successfully transition, maintain and develop CWCcapital's mortgage loan origination and servicing portfolio;

complexities associated with managing the acquired business of CWCcapital with our existing business, including difficulty addressing possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other assets of each of the companies in a manner that minimizes any adverse impact on customers, employees and other constituencies; and

potential unknown liabilities and unforeseen increased expenses or delays associated with the Acquisition.

In addition, it is possible that the integration process could result in diversion of the attention of our management which could adversely affect our ability to achieve the anticipated benefits of the Acquisition.

***We may fail to uncover all liabilities of CWCcapital through the due diligence process prior to the Acquisition, exposing us to potentially large, unanticipated costs.***

Prior to completing the Acquisition, we expect to perform certain due diligence reviews of the business of CWCcapital. In view of timing and other considerations relevant to our successfully achieving the Closing, our due diligence reviews will necessarily be limited in nature and may not adequately uncover all of the contingent or undisclosed liabilities we may incur as a consequence of the Acquisition. Any such liabilities could cause us to experience potentially significant losses, which could materially adversely affect our business, results of operations and financial condition.

***In the event of the occurrence of certain material adverse events prior to Closing with respect to CWCcapital, we may nevertheless be required to close the Acquisition, which could have a material adverse effect on us.***

The occurrence of the Closing is subject to a number of closing conditions, including that there shall not have occurred any "material adverse effect" (as specifically defined in the Purchase Agreement) on CWCcapital, taken as a whole, after the date of the Purchase Agreement and continuing on the Closing Date. Prior to the Closing, events might occur that materially and adversely affect CWCcapital, but that do not constitute a "material adverse effect" within the meaning of such Purchase Agreement closing conditions. If any such events were to occur, we would (without more) nevertheless

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be required under the Purchase Agreement to proceed with the Closing. Our completing the Acquisition under such circumstances could have a material adverse affect on our business, results of operations and financial condition.

***We will incur substantial additional indebtedness in connection with the Acquisition.***

In connection with the Acquisition, pursuant to the Commitment Letter, we expect to enter into the Financing providing for up to \$83 million in additional indebtedness under our Term Loan Agreement. See "The Financing" beginning on page 67. As a result, following the Acquisition, we will have indebtedness that is substantially greater than our indebtedness prior to the Acquisition. This higher level of indebtedness may:

require us to dedicate a greater percentage of our cash flow from operations to payments on our debt, thereby reducing the availability of cash flow to fund capital expenditures, pursue other acquisitions or investments in new technologies, make stock repurchases, pay dividends and use for general corporate purposes;

increase our vulnerability to general adverse economic conditions, including increases in interest rates if the borrowings bear interest at variable rates or if such indebtedness is refinanced at a time when interest rates are higher; and

limit our flexibility in planning for, or reacting to, changes in or challenges relating to our business and industry, creating competitive disadvantages compared to other competitors with lower debt levels and borrowing costs.

We cannot assure you that cash flow from operations, combined with any additional borrowings available to us, will be obtainable in an amount sufficient to enable us to repay our indebtedness, or to fund other liquidity needs. We may incur substantial additional indebtedness in the future, which could cause the related risks to intensify. We may need to refinance all or a portion of our indebtedness on or before their respective maturities. We cannot assure you that we will be able to refinance any of our indebtedness, including under our Term Loan Agreement, on commercially reasonable terms or at all. If we are unable to refinance our debt, we may default under the terms of our indebtedness, which could lead to an acceleration of the debt. We do not expect that we could repay all of our outstanding indebtedness if the repayment of such indebtedness were to be accelerated.

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**SELECTED HISTORICAL FINANCIAL DATA OF CWCAPITAL LLC**

CWCapital is a wholly owned operating subsidiary of CW Financial. On September 1, 2010, Galaxy acquired all of the membership interests in CW Financial from the former members, which resulted in CWCapital becoming an indirect wholly owned subsidiary of Galaxy. Galaxy is indirectly owned by funds managed by affiliates of Fortress. Pursuant to a Transfer Agreement dated as of October 17, 2011, Galaxy transferred its interests in CW Financial to its wholly owned subsidiary, CWFS Holdings LLC. For purposes of the discussion herein, CWFS Holdings LLC is disregarded.

The selected historical financial information of CWCapital has been derived from the unaudited and audited financial statements of CWCapital, which financial statements (other than the financial statements for the year ended November 30, 2007) are included in this proxy statement beginning on page F-2. The selected historical financial information and supplemental data as of December 31, 2011 and 2010, and for the year ended December 31, 2011, and the four-month period ended December 31, 2010, have been derived from the audited financial statements of CWCapital for the period as of and following the acquisition of CW Financial by Galaxy on September 1, 2010 (the "Successor"). The selected historical financial information and supplemental data as of August 31, 2010 and November 30, 2009, 2008 and 2007, and for the nine-month period ended August 31, 2010, and the years ended November 30, 2009, 2008, and 2007, have been derived from the audited historical financial statements of CWCapital for the period prior to the acquisition of CW Financial by Galaxy on September 1, 2010 (the "Predecessor"). For further information on the acquisition, see "CWCapital Management's Discussion and Analysis of Financial Condition and Results of Operations Basis of Presentation."

Certain financial statement items and selected historical financial information of CWCapital have been presented in "CWCapital Management's Discussion and Analysis of Financial Condition and Results of Operations" to conform with the presentation contained in Walker & Dunlop's Annual Report on Form 10-K, incorporated by reference in this proxy statement, including:

Sale of servicing revenue is included in "Other revenue" below and in "Servicing fees" in CWCapital's audited financial statements;

Escrow earnings are included in "Escrow earnings and other interest income" below and in "Servicing fees" in CWCapital's audited financial statements;

Warehouse interest income and expense are included in "Net warehouse interest income" below and in "Interest income" and "Interest expense" in CWCapital's audited financial statements;

Non-warehouse interest income and expense are included in "Escrow earnings and other interest income" below and in "Interest income" and "Interest expense" in CWCapital's audited financial statements; and

Provision for risk-sharing obligations is included as a separate account below and in "General and administrative" in CWCapital's audited financial statements.



Table of Contents**Selected Historical Financial Data of CWCcapital**

	<b>Three Months Ended March 31, (in thousands)</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenues</b>		
Gains from mortgage banking	\$ 24,852	\$ 17,748
Servicing fees	7,742	5,028
Net warehouse interest income	830	616
Escrow earnings and other interest income	351	490
Other revenue	1,207	842
<b>Total Revenue</b>	<b>\$ 34,982</b>	<b>\$ 24,724</b>
<b>Expenses</b>		
Compensation expense	12,366	9,010
FV adjustments MSR, amortization and depreciation	13,165	3,681
Provision for risk-sharing obligations	(1,257)	228
Other operating expenses	3,744	3,960
<b>Total Expenses</b>	<b>\$ 28,018</b>	<b>\$ 16,879</b>
<b>Net income(1)</b>	<b>\$ 6,964</b>	<b>\$ 7,845</b>

	<b>As of March 31, (in thousands)</b>	
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Balance Sheet Data</b>		
Cash and cash equivalents	\$ 24,165	\$ 25,206
Restricted cash	24,179	5,066
Mortgage servicing rights	115,052	110,137
Loans held for sale	267,585	104,357
Other assets	44,885	35,322
<b>Total Assets</b>	<b>\$ 475,866</b>	<b>\$ 280,088</b>
Warehouse notes payable	260,732	100,622
Risk share liability	29,421	7,061
Other liabilities	34,980	32,286
<b>Total Liabilities</b>	<b>\$ 325,133</b>	<b>\$ 139,969</b>
<b>Total equity</b>	<b>\$ 150,733</b>	<b>\$ 140,119</b>

- (1) No provision has been made in CWCcapital's financial statements for federal income taxes because CWCcapital is a disregarded entity for federal tax purposes and its results are included in Galaxy's tax filings with the Internal Revenue Service.

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	Successor(1)			Predecessor(2)		
	2011	2010	2010	2009	2008	2007
	(in thousands)			(in thousands)		
<b>Revenues</b>						
Gains from mortgage banking(3)	\$ 102,454	\$ 47,724	\$ 37,021	\$ 29,403	\$ 10,461	\$ 24,840
Servicing fees	22,869	6,200	11,713	13,901	10,924	12,097
Net warehouse interest income	2,886	921	713	2,451	6,214	4,826
Escrow earnings and other interest income	1,730	666	1,350	1,085	6,027	9,382
Other revenue	3,701	636	1,633	1,195	596	1,271
<b>Total Revenue</b>	<b>\$ 133,640</b>	<b>\$ 56,147</b>	<b>\$ 52,430</b>	<b>\$ 48,035</b>	<b>\$ 34,222</b>	<b>\$ 52,416</b>
<b>Expenses</b>						
Compensation expense	48,429	15,128	20,647	17,337	18,757	23,322
FV adjustments MSRs, amortization and depreciation(4)	40,279	957	11,066	12,112	10,808	13,270
Provision for risk-sharing obligations	1,689	25	2,992	1,605	372	(60)
Other operating expenses	17,376	5,550	22,095	37,092	19,856	36,081
<b>Total Expenses</b>	<b>\$ 107,773</b>	<b>\$ 21,660</b>	<b>\$ 56,800</b>	<b>\$ 68,146</b>	<b>\$ 49,793</b>	<b>\$ 72,613</b>
<b>Net income (loss)(5)</b>	<b>\$ 25,867</b>	<b>\$ 34,487</b>	<b>\$ (4,370)</b>	<b>\$ (20,111)</b>	<b>\$ (15,571)</b>	<b>\$ (20,197)</b>
<b>Balance Sheet Data</b>						
Cash and cash equivalents	21,773	32,812	25,542	12,240	27,920	38,802
Restricted cash	23,678	2,661	2,161	2,161	2,161	2,390
Mortgage servicing rights(4)	113,516	101,944	67,312	61,622	54,676	51,430
Loans held for sale	717,030	230,150	84,719	285,322	296,530	172,847
Other assets	61,685	43,798	44,599	9,093	7,342	11,181
<b>Total Assets</b>	<b>\$ 937,682</b>	<b>\$ 411,365</b>	<b>\$ 224,333</b>	<b>\$ 370,438</b>	<b>\$ 388,629</b>	<b>\$ 276,650</b>
Warehouse notes payable	695,216	232,552	82,452	285,303	296,027	173,959
Notes payable				2,138		10,000
Risk share liability	31,252	6,833	5,891	2,899	1,293	922
Other liabilities	67,637	39,706	46,453	13,557	26,158	44,802
<b>Total Liabilities</b>	<b>\$ 794,105</b>	<b>\$ 279,091</b>	<b>\$ 134,796</b>	<b>\$ 303,897</b>	<b>\$ 323,478</b>	<b>\$ 229,683</b>
<b>Total equity</b>	<b>\$ 143,577</b>	<b>\$ 132,274</b>	<b>\$ 89,537</b>	<b>\$ 66,541</b>	<b>\$ 65,151</b>	<b>\$ 46,967</b>

- (1) Selected financial data for the Successor includes balance sheet data as of December 31, 2011 and 2010, and income statement data for the year ended December 31, 2011 and for the four-month period September 1, 2010 through December 31, 2010.
- (2) The selected financial data for the Predecessor includes balance sheet data as of August 31, 2010, November 30, 2009, 2008 and 2007. The income statement data is for the nine-month period from December 1, 2009 through August 31, 2010, and years ended November 30, 2009, 2008, and 2007.
- (3) Effective December 1, 2009, CWC Capital changed its accounting policy to recognize the fair value of rate lock agreements ("rate locks"), commitments to sell securities and commitments to sell loans at inception, which includes the fair value of all future cash flows. Please refer to "CWC Capital Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies" for further information.

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- (4) The Predecessor elected the amortization method to account for mortgage servicing rights ("MSRs") subsequent to initial recognition. The Successor elected to measure and carry its MSRs using the fair value option.
- (5) No provision has been made in CWCcapital's financial statements for federal income taxes because CWCcapital is a disregarded entity for federal tax purposes and its results are included in Galaxy's tax filings with the Internal Revenue Service.

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**CWCAPITAL MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with "Selected Historical Financial Data of CWCapital LLC", and the historical financial statements and the related notes thereto for the year ended December 31, 2011, the four-month period ended December 31, 2010, the nine-month period ended August 31, 2010, and the year ended November 30, 2009, and the unaudited financial statements of CWCapital for such periods and as of such date, as included in this proxy statement beginning on page F-2. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. CWCapital's actual results may differ materially from those expressed or contemplated in those forward-looking statements as a result of certain factors.*

**Business**

CWCapital is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. CWCapital's clients are owners and developers of commercial real estate across the country. CWCapital has approximately 180 employees located in 14 offices across the United States. CWCapital originates and sells multifamily mortgage loans pursuant to the programs of Fannie Mae, Freddie Mac and the Federal Housing Administration, a division of HUD, with which CWCapital has long-established relationships. CWCapital is approved as a Fannie Mae DUS lender nationally, a Freddie Mac Program Plus lender in Massachusetts, Georgia, Alaska, California, Idaho, Oregon, Washington, New Jersey, New York City metro area, Fairfield and New Haven counties in Connecticut, and Bucks, Chester, Delaware, Montgomery and Philadelphia counties in Pennsylvania and an approved Freddie Mac Targeted Affordable Housing lender. CWCapital is also a HUD MAP lender nationally, and a Ginnie Mae issuer. CWCapital is also a rated servicer and master servicer and services commercial loans for a number of CMBS trusts. CWCapital retains servicing rights and asset management responsibilities on substantially all loans that it sells to investors.

On August 31, 2009, CWCapital entered into the ARA Finance LLC joint venture ("ARA") with ARA Finco LLC, a third party, for the purpose of seeking opportunities to provide mortgage loans for market rate and affordable multifamily, senior, and student housing and manufactured housing. CWCapital and ARA Finco LLC each hold a 50% interest in ARA.

As previously discussed, CWCapital was indirectly acquired by Galaxy as part of the acquisition of CW Financial by Galaxy in 2010. Please see "Critical Accounting Policies" for accounting changes related to this acquisition.

One of CWCapital's primary sources of revenue is the gains it recognizes from mortgage banking activities when it commits to both make a loan to a borrower (the "Borrower Rate Locks") and sell that loan to an investor (the "Investor Sale Commitment"). The gains from mortgage banking activities reflect the fair value attributable to loan origination fees, premiums or discounts on the sale of loans, net of any related originator commissions, and the fair value of the expected net future cash flows associated with the servicing of loans. CWCapital also generates revenue from net warehouse interest income it earns while the loan is held for sale in one of its warehouse facilities.

CWCapital funds loans that it originates related to GSE and HUD programs through warehouse facility financings and subsequently pays off the warehouse facility financings upon the sale to the investor. The sale of the loan is typically completed within 45 days after the loan is closed.

CWCapital retains servicing rights on substantially all of the loans it originates, and generates revenues from the fees it receives for servicing the loans, placement fees 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. Most of CWCapital's Fannie Mae and Freddie Mac servicing engagements provide for make-whole payments in

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the event of a voluntary prepayment. In the context of CWCcapital's CMBS servicing portfolio, certain of those loans allow for a defeasance starting two years following the securitization of the loan, and if so defeased, CWCcapital is entitled to a continued stream of servicing fees through the maturity date. CWCcapital's servicing portfolio had an unpaid principal balance ("UPB") of \$17.1 billion as of March 31, 2012.

CWCcapital is 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. In the event a loan fails to close after a negotiated sale or placement to an investor, CWCcapital's exposure is generally capped at an amount equal to or less than the good faith deposit collected from the borrower. CWCcapital has not had a failed loan delivery.

CWCcapital has risk-sharing obligations on most loans it originates under the Fannie Mae DUS program. When a Fannie Mae DUS loan is subject to full risk-sharing, CWCcapital absorbs the first 5% of any losses on the UPB of a loan at default, and above 5% it shares a percentage of the loss with Fannie Mae, with its maximum loss capped at 20% of the original principal balance ("OPB") of a loan (the first loss percentage is subject to doubling or tripling and the maximum loss cap can increase to 30% or 40% if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). CWCcapital may, however, request modified risk-sharing at the time of origination, which reduces its potential risk-sharing losses from the levels described above. CWCcapital regularly requests modified risk-sharing based on such factors as the size of the loan, market conditions and loan pricing. Accordingly, certain loans are originated with less retained loss exposure. Other modified loss sharing levels are negotiated on a case by case basis. For example, certain Affordable Fannie Mae loans are originated at a loss level equal to 50% of the standard loss share formula. CWCcapital has risk on 343 Fannie Mae DUS transactions with a UPB of approximately \$4 billion and a maximum loss exposure of \$707 million as of March 31, 2012. CWCcapital has restricted cash of \$7 million related to this risk. In addition to the restricted cash, CWCcapital has a risk-share liability on its balance sheet as further described below.

CWCcapital has risk on seven Freddie Mac Targeted Affordable Housing transactions with a combined UPB of \$69.4 million as of March 31, 2012. The loss exposure is equal to the first 8% of each loan's UPB at default, and CWCcapital has restricted cash of \$1.2 million related to this risk. Subsequent to the origination of the above described loans, Freddie Mac has changed the program such that new Targeted Affordable Housing loans are originated without loss exposure to the seller/servicers. CWCcapital does not have additional loans in its Freddie Mac Targeted Affordable Housing pipeline with risk exposure. In addition to the restricted cash, CWCcapital has a risk-share liability on its balance sheet as further described below.

In addition, there is one HUD co-insured loan with risk-sharing remaining in the portfolio. The current UPB on the loan is \$5.1 million, and CWCcapital's loss exposure is equal to the first 5% of the UPB at default, with the balance split 15% to CWCcapital and 85% to HUD on a pari passu basis.

In connection with CWCcapital's business strategy to enter the small loan multifamily and servicing business, in late 2011 CWCcapital acquired a small loan servicing portfolio from an affiliate of Citigroup (the "Citigroup Loan Portfolio"). As part of the purchase, CWCcapital assumed risk on certain pools of loans, as follows:

1% Top Loss Pool, with a total UPB of approximately \$1.6 billion as of March 31, 2012. CWCcapital's loss exposure is approximately \$16 million and is fully collateralized with a cash reserve, reflected in its restricted cash balance.

Non-Recourse Pool, with a total UPB of approximately \$511 million as of March 31, 2012. CWCcapital has no loss exposure.

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Pari Passu Pool, with a total UPB of approximately \$83 million as of March 31, 2012. CWCcapital has a one-third loss exposure shared on a pari passu basis with Fannie Mae. CWCcapital is responsible for its one-third exposure up to a cap of \$5.6 million, and Citigroup is responsible for the excess.

Full Recourse Pool, with a total UPB of approximately \$56 million as of March 31, 2012. CWCcapital is responsible for all losses up to a cap of \$3.0 million provided by Fannie Mae.

Bond Transactions, with a total UPB of approximately \$23 million as of March 31, 2012. CWCcapital has no loss exposure through indemnification from Citigroup.

As of March 31, 2012 CWCcapital's risk-share liability consisted of the following components (in thousands):

General risk share portfolio(1)	\$ 6,676
Citigroup risk share portfolio:	
1% top loss(2)	\$ 16,023
Pari passu and full recourse	\$ 1,105
Citigroup purchase accounting(3)	\$ 5,617
Total	\$ 29,421

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(1) See General Loan Portfolio under "Critical Accounting Policies" below.

(2) Fully collateralized with restricted cash of \$16.0 million.

(3) CWCcapital recorded an offsetting liability due to the values ascribed to the MSR and other assets acquired in the Citigroup Loan Portfolio as part of the purchase accounting for the Citigroup portfolio. This liability is amortized into income over seven years and should offset the fair value adjustment recorded to the Citigroup MSR as the related servicing rights expire.

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Please refer to "Selected Historical Financial Data of CWCcapital LLC" and the table below, which provides supplemental data regarding CWCcapital's financial performance (dollars in thousands):

	Successor		Predecessor	
	For the twelve months ended December 31, 2011	For the four months ended December 31, 2010	For the nine months ended August 31, 2010	For the twelve months ended November 30, 2009
<b>Origination Data:</b>				
Origination Volumes by Investor				
Fannie Mae	\$ 1,765,669	\$ 922,848	\$ 207,782	\$ 422,768
Freddie Mac	1,314,952	333,940	420,871	603,826
Ginnie Mae HUD	553,005	451,802	559,429	280,991
Life insurance company	33,690			
<b>Total</b>	<b>\$ 3,667,316</b>	<b>\$ 1,708,590</b>	<b>\$ 1,188,082</b>	<b>\$ 1,307,585</b>
<b>Key Expense Metrics (as a percentage of total revenues)</b>				
Compensation expense	36%	27%	39%	36%
Other operating expenses	13%	10%	42%	77%
Total expenses	81%	39%	108%	142%
Operating margin	19%	61%	-8%	-42%
<b>Key Origination Metrics</b>				
Origination related fees(1)	152	151	167	106
Fair value of MSR's created, net(2)	146	154	130	123
<b>Key Servicing Metrics (end of period)</b>				
Servicing portfolio UPB	\$ 16,561,926	\$ 12,664,765	\$ 11,625,552	\$ 11,431,945
Weighted-average servicing fee rate (bps)	17	14	12	11
Allowance for Losses	\$ 31,252	\$ 6,833	\$ 5,891	\$ 2,899

(1) As bps of rate locked origination volume.

(2) As bps of origination volume sold to investors.

**Basis of Presentation**

CWCcapital's parent company was acquired on September 1, 2010 by Galaxy. Galaxy elected to push-down the accounting for the acquisition of the membership interests of CW Financial to the individual assets and liabilities of CW Financial and its subsidiaries, including CWCcapital. This push-down election presents the assets and liabilities of CWCcapital at their respective fair values on the date of acquisition to reflect the purchase price paid in the acquisition.

The balance sheet of CWCcapital as of August 31, 2010, and the related statements of net loss, statement of member's equity and statement of cash flows for the period December 1, 2009 through August 31, 2010, are those of the Predecessor and are referred to as "the period ended August 31, 2010."

The balance sheet of CWCcapital as of December 31, 2010, and the related statements of net income, statement of member's equity and statement of cash flows for the period September 1, 2010 through December 31, 2010, are those of the Successor and are referred to as "the period ended December 31, 2010."

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The Predecessor statements of financial position and results of operations for the period ended August 31, 2010 are recorded on a historical cost basis; therefore the push-down accounting applied to the financial statements of CWCcapital significantly affects the comparability of the Predecessor and Successor financial statements for periods immediately prior to, and immediately following the acquisition.

Following the acquisition, the Successor elected to measure and carry its MSR's using the fair value option.

The Predecessor elected the amortization method to account for MSR's subsequent to initial recognition. Additionally, effective December 1, 2009, CWCcapital changed its accounting policy to recognize the fair value of rate locks, commitments to sell securities and commitments to sell loans at inception, which includes the fair value of all future cash flows. These accounting policies, and the effects on CWCcapital's financial statements, are discussed more fully below under "Critical Accounting Policies."

**Critical Accounting Policies**

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant use of estimates relates to the valuation of certain financial instruments and other assets and liabilities, such as mortgage loans held for sale ("MLHFS"), MSR's, intangible assets, derivative assets and liabilities, risk-share liability and certain compensation plans. Actual results could differ from those estimates.

**MLHFS** MLHFS is composed of loans that have been originated by CWCcapital and are held on its balance sheet while awaiting sale.

On September 1, 2010, the Successor elected the fair value option for MLHFS entered into at and after the election date. Fees and costs related to fair valued MLHFS are recognized in earnings as incurred and not deferred. Changes in fair value are recorded in "mortgage banking activities" for the Successor's statements of income (loss) and in "allocation of expense from affiliates net" for the Predecessor's statements of income (loss).

MLHFS where CWCcapital has not elected the fair value option were initially recorded at fair value and subsequently have been accounted for at the lower of cost or fair value ("LOCOFV").

**MSR's** CWCcapital records a separate asset or liability initially measured at fair value for servicing rights relating to mortgages originated and sold where the servicing rights have been retained ("Originated Mortgage Servicing Rights" or "OMSR's"). CWCcapital also records a separate asset at fair value when it purchases servicing rights ("Purchased Mortgage Servicing Rights" or "PMSR's"). Management determines its classes of servicing assets and servicing liabilities based on program type.

The Predecessor elected the amortization method to account for MSR's subsequent to initial recognition. Servicing rights created or purchased between December 1, 2008 and August 31, 2010, were amortized in proportion to and over the period of estimated net servicing income. For that period amortization is reported as a component of "amortization of servicing rights" on the Predecessor's statement of net loss. If a loan had future funding features, then the MSR related to future draws was recognized as the future draws were funded and sold, whether funded by CWCcapital or directly by the investor.

MSR's were evaluated for impairment by stratifying the portfolio according to predominant risk characteristics, primarily investor or program type. To the extent that the carrying value of an individual



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stratum exceeded its estimated fair value, that MSR was considered to be impaired. Such impairment would have been recognized through the income statement. In connection with its impairment analysis, the Predecessor monitored the rate of prepayment in the servicing loan portfolio, since the prepayment rate is a primary factor affecting impairment. Additionally, the Predecessor engaged an independent third party to assist in determining appropriate assumptions in determining fair value.

The Successor elected to measure and carry its MSRs using the fair value option. Under the fair value option, MSRs are carried on the Successor's balance sheet at fair value and the changes in fair value are reported in 'fair value adjustments MSRs net' in the Successor's statement of income.

**Risk Share Liability** CWCcapital assumes risk-sharing obligations with respect to its General Loan Portfolio and Citigroup Loan Portfolio risk, as follows:

**General Loan Portfolio** CWCcapital assumes risk-sharing with respect to certain Fannie Mae loans, generally not exceeding 20% of the original principal balance. CWCcapital assumes risk on the first 8% of losses on certain Freddie Mac Targeted Affordable loans. With respect to a certain Ginnie Mae securitized loan, CWCcapital assumes the first 5% then 15% of any remainder (collectively, "General Loan Portfolio"). CWCcapital records an estimated loss in the financial statements if it has been determined that it is probable that a liability will be incurred. Such estimate is recorded in risk-share liability on CWCcapital's balance sheet.

**Citigroup Loan Portfolio** CWCcapital has risk on certain Fannie Mae loans where the risk is limited to the first 1% of loss on a pool of loans (this risk is fully funded under a cash collateral agreement and the related cash is held in restricted cash). In addition, there are certain Fannie Mae loans where CWCcapital's risk is 100% of the loss with the risk-sharing obligations capped at \$3.0 million, and certain Fannie Mae loans where CWCcapital's risk is pari passu with Fannie Mae on a one-third and two-thirds basis, respectively and the risk-sharing obligations are capped at \$5.6 million.

**Mortgage Banking Activities** Mortgage banking activity income is recognized when CWCcapital originates a loan with a borrower (the rate lock). Also included in mortgage banking activities are changes to the fair value of MLHFS and derivatives 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.

Effective December 1, 2009, CWCcapital changed its accounting policy to recognize the fair value of rate locks, commitments to sell securities and commitments to sell loans at inception, which includes the fair value of all future cash flows. The effect of this change in policy has been recognized as an opening retained earnings adjustment of \$6.2 million.

**Overview of Current Business Environment**

During 2011, U.S. multifamily market fundamentals 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 commercial real estate sector began 2011 with strong funding levels from insurance companies and CMBS issuers, which surpassed 2010 origination totals before the end of the second quarter; however in the second half of the year, CMBS originations declined significantly as Treasury yields and consumer confidence decreased.

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

**Factors That May Impact CWCapital's Operating Results**

CWCapital believes that its results may be affected by a number of factors, including the items discussed below.

*Performance of Multifamily and Other Commercial Real Estate Related Markets.* CWCapital's business is dependent on the general demand for, and value of, commercial real estate particularly multifamily and related services, which are sensitive to economic conditions. Demand for multifamily and other commercial real estate generally increases during stronger economic environments, resulting in increased property values, transaction volumes and loan origination volumes. During weaker economic environments, multifamily and other commercial real estate may experience higher property vacancies, lower demand and reduced values. These conditions can result in lower property transaction volumes and loan originations, as well as an increased level of servicer advances and losses from CWCapital's risk-sharing obligations.

*The Level of Losses from Risk-Sharing Obligations.* Under the Fannie Mae DUS program, CWCapital shares risk of loss on most loans it sells. In the majority of cases, CWCapital absorbs the first 5% of any losses on the UPB of a loan at the time of default, and above 5% it shares a percentage of the loss with Fannie Mae, with its maximum loss capped at 20% of the OPB of a loan the first loss percentage is subject to doubling or tripling and the maximum loss cap can increase to 30% or 40% if the loan does not meet specific underwriting criteria or if the loan defaults within 12 months of its sale to Fannie Mae). On certain Freddie Mac Targeted Affordable loans, CWCapital is at risk for the first 8% of any losses which is determined based on the UPB at default. On the one HUD co-insured loan for which CWCapital has retained risk, CWCapital is responsible for the first 5% of any losses which is determined based on the UPB at default and 15% of any remaining loss. As a result, a continuing rise in delinquencies could have an adverse effect on CWCapital.

*The Price of Loans in the Secondary Market.* CWCapital's profitability is determined in part by the price it paid for the loans it originates, which is generally par. A component of its origination related revenues is the premium it recognizes on the sale of a loan. Stronger investor demand typically results in larger premiums while weaker demand results in little to no premium.

*Market for Servicing Commercial Real Estate Loans.* Servicing fee rates for new loans are set at the time of loan sale commitment and is based on origination volumes, competition, prepayment rates and any risk-sharing obligations undertaken. Changes in future servicing fee rates impact the value of future MSR's and future servicing revenues, which could impact CWCapital's profit margins and operating results over time.

*Human Resources.* CWCapital's profitability can be affected based on CWCapital's ability to hire and retain quality staff. In particular the hiring or loss of an established loan originator can have an impact on operating results.

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*Interest Rates.* Rising interest rates can reduce loan origination volume but increase the value of MSR's due to the expected benefit of higher earnings on custodial funds. A drop in interest rates has the opposite effect.

**Results of Operations**

Following is a discussion of CWCapital's results of operation for the quarters ended March 31, 2012 and March 31, 2011, the year ended December 31, 2011, the periods ended December 31, 2010 and August 31, 2010, and the year ended November 30, 2009. CWCapital's historical financial results are not necessarily indicative of future results. CWCapital's business is not typically subject to seasonal trends. However, CWCapital's 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.

***Quarter Ended March 31, 2012 Compared to Quarter Ended March 31, 2011***

***Revenues***

*Gains from Mortgage Banking.* Gains from mortgage banking totaled \$24.9 million for the three-month period ended March 31, 2012 as compared to \$17.7 million for the three-month period ended March 31, 2011, an increase of \$7.2 million or 41%. Gains from mortgage banking activities reflect the fair value of loan origination fees, premiums or discounts on the sale of loans ("Loan Origination Revenue"), and the fair value of the expected net future cash flows associated with the servicing of the loans.

Loan Origination Revenue increased to \$10.4 million for the three-month period ended March 31, 2012, as compared to \$5.5 million for the three-month period ended March 31, 2011, an increase of \$4.9 million or 89% and were primarily attributable to an increase in origination volume and higher fees as a percentage of loan volume. Origination volumes increased to \$741 million in 2012, as compared to \$510 million in 2011, an increase of \$231 million, or 45%. CWCapital's origination fees as a percentage of loan origination volumes increased to 141 basis points in 2012 from 109 basis points in 2011, a 29% increase.

The fair value of the expected net future cash flows associated with the servicing of CWCapital's loans originated totaled \$14.4 million for the three-month period ended March 31, 2012, as compared to \$12.2 million for the three-month period ended March 31, 2011, an increase of \$2.2 million or 18%. The increase was primarily attributable to the aforementioned increase in origination volumes.

*Servicing Fees.* Servicing fees totaled \$7.7 million for the three-month period ended March 31, 2012 as compared to \$5.0 million for the three-month period ended March 31, 2011, an increase of \$2.7 million or 54%. The increase in servicing fees was primarily attributable to a 34% increase in the servicing portfolio to \$17.1 billion at March 31, 2012 from \$12.8 billion at March 31, 2011, coupled with an increase in the weighted-average servicing fee rate to 17.5 basis points at March 31, 2012 from 14.4 basis points at March 31, 2011, a 22% increase. The higher weighted-average servicing fee reflects an increase in the servicing fee rates received for new GSE and HUD loans.

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*Net Warehouse Interest Income.* Net warehouse interest income totaled \$0.8 million for the three-month period ended March 31, 2012, as compared to \$0.6 million for the three-month period ended March 31, 2011, an increase of \$0.2 million or 33%.

	<b>For the quarter ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(in thousands)</b>	
Interest income	\$ 2,739	\$ 1,896
Interest expense	1,909	1,280
<b>Net interest income</b>	<b>\$ 830</b>	<b>\$ 616</b>

The increase in interest income was primarily attributable to the increase in loan originations.

*Escrow Earnings and Other Interest Income.* Escrow earnings and other interest income totaled \$0.4 million for the three-month period ended March 31, 2012, as compared to \$0.5 million for the three-month period ended March 31, 2011, a decrease of \$0.1 million or 20%. The decrease was primarily attributable to the decrease in the rate earned on certain escrow balances.

*Other Revenue.* Other revenue totaled \$1.2 million for the three-month period ended March 31, 2012, as compared to \$0.8 million for the three-month period ended March 31, 2011, an increase of \$0.4 million or 50%. The increase was primarily attributable to higher revenue recognized related to the sale of servicing rights.

**Expenses**

*Compensation Expense.* Compensation expense totaled \$12.4 million for the three-month period ended March 31, 2012, as compared to \$9.0 million for the three-month period ended March 31, 2011, an increase of \$3.4 million or 38%. The increase in compensation expense was primarily attributable to the additional headcount associated with the growth in CWCcapital's loan origination and servicing portfolio. In addition, the increased compensation expense reflects increased compensation to CWCcapital's loan production team resulting from the increase in loan origination volumes, and related fee income, period over period. Compensation expense, as a percentage of total revenue, decreased to 35% in 2012, as compared to 36% in 2011.

*Fair Value Adjustments MSRs, amortization and depreciation.* Fair value adjustments MSRs, amortization, and depreciation totaled \$13.2 million for the three-month period ended March 31, 2012, as compared to \$3.7 million for the three-month period ended March 31, 2011, an increase of \$9.5 million. The increase in fair value adjustments MSRs from the comparable period in the prior year was primarily attributable to the impact of the interest rate environment. With long-term commercial mortgage interest rates at historical lows, CWCcapital experienced a significant increase in prepayments on its HUD loans. This directly affects the duration of CWCcapital's mortgage servicing portfolio. As a result, at March 31, 2012, it increased the prepayment speed assumptions used to value its HUD MSR portfolio, reducing the estimated fair value of its MSR portfolio by approximately \$7.0 million. The quarter ended March 31, 2012 additionally had a \$2.9 million decrease related to future cash flows based on the LIBOR curve. The remaining change is generally reflective of normal amortization and run-off of the portfolio.

*Provision for Risk-Sharing Obligations.* Provision for risk-sharing obligations recorded a benefit of \$1.3 million for the three-month period ended March 31, 2012, as compared to an expense of \$0.2 million for the three-month period ended March 31, 2011 a decrease of \$1.5 million. The decrease was primarily attributable to the improved performance of specific assets in the risk-sharing portfolio causing a reversal of prior provisions.

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*Other Operating Expenses.* Other operating expenses totaled \$3.7 million for the three-month period ended March 31, 2012, as compared to \$4.0 million for the three-month period ended March 31, 2011, a decrease of \$0.3 million, or 8%. The decrease was primarily attributable to lower general and administrative costs.

***Twelve Months Ended December 31, 2011 Compared to the Four Months Ended December 31, 2010 (Successor)***

Comparability of the Successor's December 31, 2011 and December 31, 2010 results of operations is significantly affected by the length of the periods presented (i.e. the Successor's December 31, 2010 results of operations are for a four-month period, compared to a twelve-month period ended December 31, 2011).

***Revenues***

*Gains from Mortgage Banking.* Gains from mortgage banking totaled \$102.5 million for the twelve-month period ended December 31, 2011, as compared to \$47.7 million for the four-month period ended December 31, 2010, an increase of \$54.8 million or 115%. This increase was primarily attributable to the eight month difference between periods. Gains reflect the fair value of Loan Origination Revenue, and the fair value of the expected net future cash flows associated with the servicing of the loan.

Loan Origination Revenue increased to \$55.8 million for the twelve-month period ended December 31, 2011, as compared to \$23.7 million for the four-month period ended December 31, 2010, an increase of \$32.1 million. The increase is primarily attributed to an increase in origination volume. Origination volumes increased to \$3.7 billion in 2011 as compared to \$1.6 billion in 2010, an increase of \$2.1 billion or 131%. This increase was primarily attributable to the eight month difference between periods. CWC Capital's origination fees as a percentage of origination volumes increased to 152 basis points in 2011 from 151 basis points in 2010, a 1% increase.

The fair value of the expected net future cash flows associated with the servicing of the loan totaled \$46.6 million for the twelve-month period ended December 31, 2011 as compared to \$24.0 million for the four-month period ended December 31, 2010, a 94% increase. The increase was primarily attributable to the increase in origination volumes described above.

*Servicing Fees.* Servicing fees totaled \$22.9 million for the twelve-month period ended December 31, 2011, as compared to \$6.2 million for the four-month period ended December 31, 2010, an increase of \$16.7 million. This increase was primarily attributable to the eight month difference between periods. The servicing portfolio increased 31% to \$16.6 billion at December 31, 2011 from \$12.7 billion at December 31, 2010 and the weighted-average servicing fee rate increased to 17.1 basis points at December 31, 2011 as compared to 13.8 basis points at December 31, 2010, an increase of 24% increase. The higher weighted-average servicing fee reflects an increase in the servicing fee rates received for new GSE and HUD loans.

*Net Warehouse Interest Income.* Net warehouse interest income totaled \$2.9 million for the twelve-month period ended December 31, 2011, as compared to \$0.9 million for the four-month period ended

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December 31, 2010, an increase of \$2.0 million. This increase was primarily attributable to the increase in loan originations due to the additional eight months.

	<b>Twelve Months Ended December 31, 2011</b>	<b>Four Months Ended December 31, 2010</b>
	(in thousands)	
Interest income	\$ 8,936	\$ 4,926
Interest expense	6,050	4,005
Net interest income	\$ 2,886	\$ 921

*Escrow Earnings and Other Interest Income.* Escrow earnings and other interest income totaled \$1.7 million for the twelve-month period ended December 31, 2011, as compared to \$0.7 million for the four-month period ended December 31, 2010, an increase of \$1.0 million or 143%. This increase was primarily attributable to the eight month difference between periods, as well as a decrease in the short-term interest rate environment impacting the interest earned on escrow balances.

*Other Revenue.* Other revenue totaled \$3.7 million for the twelve-month period ended December 31, 2011, as compared to \$0.6 million for the four-month period ended December 31, 2010, an increase of \$3.1 million. The increase was primarily attributable to higher sale of certain Freddie Mac servicing rights revenue.

**Expenses**

*Compensation Expense.* Compensation expense totaled \$48.4 million for the twelve-month period ended December 31, 2011, as compared to \$15.1 million for the four-month period ended December 31, 2010, an increase of \$33.3 million. This increase was primarily attributable to the eight month difference between periods. Compensation expense, as a percentage of total revenue, increased to 36% in 2011 as compared to 27% in 2010, primarily due to a decrease in deferred costs.

*Fair Value Adjustments MSRs, amortization and depreciation.* Fair value adjustments MSRs, amortization and depreciation totaled \$40.3 million for the twelve-month period ended December 31, 2011, as compared to \$1.0 million for the four-month period ended December 31, 2010, an increase of \$39.3 million. This increase was primarily due to changes of \$24.8 million related to future escrow earnings driven by the change in the LIBOR curve between the periods, \$2.5 million due to prepayment assumption changes and the remainder primarily due to run-off from the portfolio over twelve-months versus four-months.

*Provision for Risk-Sharing Obligations.* Provision for risk-sharing obligations was \$1.7 million for the twelve-month period ended December 31, 2011, as compared to zero for the four-month period ended December 31, 2010. This increase was primarily attributable to the performance of specific assets in the risk-sharing portfolio.

*Other Operating Expenses.* Other operating expenses totaled \$17.4 million for the twelve-month period ended December 31, 2011, as compared to \$5.6 million for the four-month period ended December 31, 2010, an increase of \$11.8 million. This increase was primarily attributable to the eight month difference between periods.

***Nine Months Ended August 31, 2010 Compared to Twelve Months Ended November 30, 2009 (Predecessor)***

Comparability of the Predecessor's August 31, 2010 and November 30, 2009 results of operations is significantly affected by 1) the change in accounting policy and 2) the length of the periods presented

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(i.e. the Predecessor's November 30, 2009 results of operations are for a twelve-month period, compared to a nine-month period ended August 31, 2010).

#### **Revenues**

**Gains from Mortgage Banking.** Gains from mortgage banking totaled \$37.0 million for the nine-month period ended August 31, 2010, as compared to \$29.4 million for the twelve-month period ended November 30, 2009, an increase of \$7.6 million, or 26%. Gains from mortgage banking reflect the fair value of Loan Origination Revenue, and the fair value of the expected net future cash flows associated with the servicing of the loan. Effective December 1, 2009, CWCapital changed its accounting policy to recognize the fair value of rate locks, commitments to sell securities and commitments to sell loans at inception, which includes the fair value of all future cash flows.

Loan Origination Revenue increased to \$21.9 million for the nine-month period ended August 31, 2010, as compared to \$13.8 million for the twelve-month period ended November 30, 2009, an increase of \$8.1 million, which is primarily attributable to higher origination related fees, 167 basis points in the nine-month period ended August 31, 2010 as compared to 106 basis points in the twelve-month period ended November 30, 2009, a 58% increase. Origination volumes totaled \$1.2 billion for the nine-month period ended August 31, 2010, as compared to \$1.3 billion for the twelve-month period ending November 30, 2009.

The fair value of the expected net future cash flows associated with the servicing of the loans totaled \$15.1 million for the nine-month period ended August 31, 2010, as compared to \$15.6 million for the twelve-month period ended November 30, 2009, a 3% decrease. The decrease was primarily attributable to an 8% reduction in origination volumes period over period.

**Servicing Fees.** Servicing fees totaled \$11.7 million for the nine-month period ended August 31, 2010, as compared to \$13.9 million for the twelve-month period ended November 30, 2009, a decrease of \$2.2 million, or 16%. The decrease in servicing fees was primarily attributable to the three month difference between the periods. The servicing portfolio increased 2% to \$11.6 billion at August 31, 2010 from \$11.4 billion at November 30, 2009, and the weighted-average servicing fee rate increased to 11.8 basis points at August 31, 2010 from 11.1 basis points at November 30, 2009, an increase of 6%. The higher weighted-average servicing fee reflected an increase in the servicing fee rates received for new GSE and HUD loans.

**Net Warehouse Interest Income.** Net warehouse interest income totaled \$0.7 million for the nine-month period ended August 31, 2010, as compared to \$2.5 million for the twelve-month period ended November 30, 2009, a decrease of \$1.8 million, or 72%. Interest income was higher for the nine-month period ended November 30, 2009 due to the certain special purpose entity ("SPE") assets which were sold in April 2010 and therefore were not recorded for the full nine-month period ended August 31, 2010. The SPEs were related to the prior business of CWCapital of originating loans into conduits. CWCapital has not warehoused any new conduit loans since 2007.

	<b>Nine Months ended August 31, 2010</b>		<b>Twelve Months ended November 30, 2009</b>	
	(in thousands)			
Interest income	\$ 4,360		\$ 6,676	
Interest expense	3,647		4,225	
<b>Net interest income</b>	<b>\$ 713</b>		<b>\$ 2,451</b>	

**Escrow Earnings and Other Interest Income.** Escrow earnings and other interest income totaled \$1.4 million for the nine-month period ended August 31, 2010, as compared to \$1.1 million for the

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twelve-month period ended November 30, 2009, an increase of \$0.3 million or 27%. This increase was primarily attributable to an increase in the rate earned on certain escrow balances.

*Other Revenue.* Other revenue was \$1.6 million for the nine-month period ended August 31, 2010, as compared to \$1.2 million for the twelve-month period ended November 30, 2009, an increase of \$0.4 million, or 33%. This increase was primarily attributable to an increase in revenue related to ARA.

***Expenses***

*Compensation Expense.* Compensation expense totaled \$20.6 million for the nine-month period ended August 31, 2010, as compared to \$17.3 million for the twelve-month period ended November 30, 2009, an increase of \$3.3 million, or 19%. The increase in compensation expense was primarily attributable to the increased fees and premiums and therefore increased commission and bonus payments to CWCcapital employees. Compensation expense, as a percentage of total revenues, increased to 39% for the nine-month period ended August 31, 2010, from 36% for the twelve-month period ended November 30, 2009.

*Fair Value Adjustments MSRs, amortization and depreciation.* MSRs amortization and depreciation totaled \$11.1 million for the nine-month period ended August 31, 2010, as compared to \$12.1 million for the twelve-month period ended November 30, 2009, a decrease of \$1.0 million or 8%. For the periods compared, MSRs were accounted for using the amortized cost basis of accounting. The decrease was primarily attributable to a decrease in loan payoffs and the effects of a nine-month period compared to a twelve-month period. In subsequent periods, CWCcapital used the fair value method to record its MSRs.

*Provision for Risk-Sharing Obligations.* Provision for risk-sharing obligations totaled \$3.0 million for the nine-month period ended August 31, 2010, as compared to \$1.6 million for the twelve-month period ended November 30, 2009, an increase of \$1.4 million, or 88%. This increase was primarily attributable to the performance of specific assets in the risk-sharing portfolio.

*Other Operating Expenses.* Other operating expenses totaled \$22.1 million for the nine-month period ended August 31, 2010, as compared to \$37.1 million for the twelve-month period ended November 30, 2009, a decrease of \$15 million, or 40%. The decrease was primarily attributable to losses on the SPE assets and the three month difference in periods.

**Liquidity and Capital Resources**

**Financial Condition**

***Cash Flows from Operating Activities***

CWCcapital's cash flows from operations are generated from fees received from loan originations and sales, primary servicing fees, placement fees, interest income and other income, net of operating costs. Cash flows from operations are impacted by the timing of loan closings and the period of time loans are held for sale in the warehouse.

***Cash Flow from Investing Activities***

CWCcapital's investing activities include the investment in ARA, investments obtained in the Citigroup Portfolio transaction and purchases of MSRs.



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***Cash Flow from Financing Activities***

CWCapital uses its warehouse facilities to fund loan closings. CWCapital believes that its current warehouse facilities are adequate to meet its increasing loan origination needs. CWCapital also distributes excess cash flow to CW Financial in the form of cash distributions.

***Quarter Ended March 31, 2012 compared to Quarter Ended March 31, 2011***

CWCapital's unrestricted cash balance totaled \$24.2 million and \$25.2 million as of March 31, 2012, and 2011, respectively, a \$1.0 million increase, or 4% 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 45 days, and impact cash flows presented as of a point in time. Cash provided by operating activities was \$436.3 million for the quarter ended March 31, 2012, as compared to cash provided by operations of \$124.3 million for the quarter ended March 31, 2011. The increase in cash flows provided by operations in 2012 was primarily attributable to the receipt of \$438.5 million from funding loan originations, net of sales of loans to third parties, compared to \$132.4 million to fund loan originations, net of sales of loans to third parties in 2011. Remaining cash used by operations totaled \$2.2 million and \$8.1 million for the quarters ended March 31, 2012 and 2011, respectively.

CWCapital received \$0.4 million and \$0.1 million for the quarters ended March 31, 2012, and 2011, respectively, from investments in subordinate notes obtained in the Citigroup Portfolio transaction and ARA.

Cash flows used in financing activities was \$434.3 million for the quarter ended March 31, 2012 compared to \$131.9 million for the quarter ended March 31, 2011. The change was due to net repayments of CWCapital's warehouse facilities exceeding the prior period.

***Twelve Months Ended December 31, 2011 compared to Four Months Ended December 31, 2010 (Successor)***

CWCapital's unrestricted cash balance totaled \$21.8 million and \$32.8 million as of December 31, 2011, and 2010, respectively, an \$11.0 million decrease, or 34%.

Cash used by operating activities was \$459.2 million for the twelve month period ended December 31, 2011, compared to cash used in operations of \$135.2 million for the four month period ended December 31, 2010. The increase in cash flows used by operations in 2011 was primarily attributable to \$466.7 million to fund loan originations, net of sales of loans to third parties, compared to \$150.1 million to fund loan originations, net of sales of loans to third parties in the four-month period ended December 31, 2010. Remaining cash flows from operations were \$7.5 million and \$14.9 million for the twelve-month period ended December 31, 2011 and the four-month period ended December 31, 2010, respectively.

CWCapital received \$0.1 million of cash during the twelve-month period ended December 31, 2011 primarily due to distributions from ARA exceeding its cost to acquire the Citigroup loan portfolio. During the four-month period ended December 31, 2010, CWCapital used \$0.3 million of cash in connection with an increase in its restricted cash partially offset by distributions from ARA.

Cash provided by financing activities was \$448.1 million for the twelve-month period ended December 31, 2011 compared to \$142.8 million for the four-month period ended December 31, 2010. The change was due to net borrowings of CWCapital's warehouse facilities exceeding the prior period.

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*Uses of Liquidity, Cash and Cash Equivalents*

CWCapital's cash flow requirements consist of (i) short-term liquidity necessary to fund mortgage loans, and (ii) working capital to support its day-to-day operations, including servicer advances consisting of principal and interest advances for Fannie Mae, HUD and master serviced loans that become delinquent and advances on insurance and tax payments if the escrow funds are insufficient.

CWCapital also requires working capital to satisfy collateral requirements for its Fannie Mae DUS risk-sharing obligations and to meet the operational liquidity requirements of Fannie Mae, Freddie Mac, HUD, Ginnie Mae and its warehouse facility lenders.

Fannie Mae has indicated that it will be increasing its collateral requirements for certain loans. 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 such regulation has yet been implemented. In either scenario, CWCapital would require additional liquidity to support the increased collateral requirements.

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate CWCapital's servicing authority for all or some of the portfolio, if at any time it determines that CWCapital's financial condition is not adequate to support its obligations under the Fannie Mae DUS agreement. CWCapital is required to maintain acceptable net worth as defined in the standards, and CWCapital satisfied the requirements as of December 31, 2011 and 2010. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At December 31, 2011, the net worth requirement was \$28.3 million and CWCapital's net worth was \$149.5 million. As of December 31, 2011, CWCapital was required to maintain at least \$3.9 million of liquid assets to meet its operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, Ginnie Mae and CWCapital's warehouse facility lenders. As of December 31, 2011, CWCapital had operational liquidity of \$21.8 million.

Historically, CWCapital's cash flows from operations have been sufficient to enable it to meet its short-term liquidity needs and other funding requirements. Similarly, CWCapital believes that cash flows from operations should be sufficient for it to meet its current obligations for the next 12 months.

*Restricted Cash*

CWCapital is generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program (the DUS risk-sharing obligation). CWCapital is required to secure this obligation by assigning restricted cash balances and securities to Fannie Mae. Restricted cash consists primarily of this collateral required by Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan and the level of risk-sharing. As of December 31, 2011 and December 31, 2010, CWCapital had pledged cash and cash and a letter of credit, respectively, to collateralize its Fannie Mae DUS risk-sharing obligations of \$22.5 million and \$6.5 million, respectively, all of which were in excess of current requirements. At December 31, 2011, CWCapital had cash of \$22.5 million posted with the custodial agent for the Fannie Mae Lender Reserve pursuant to its loss sharing obligations with Fannie Mae, of which \$16 million and \$6.5 million relate to the Citigroup Loan Portfolio and General Loan Portfolio (as defined below under "Risk-Share Liability"), respectively. At December 31, 2011, CWCapital had cash of \$1.2 million posted with the custodial agent for the Freddie Mac Targeted Affordable Reserve pursuant to its loss sharing obligations with Freddie Mac. As of March 31, 2012, CWCapital had pledged cash and securities in excess of these requirements. Also, under the provisions of its Fannie Mae DUS agreement, CWCapital must 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 CWCapital as of March 31, 2012.

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In 2010, Fannie Mae increased its collateral requirements for Tier II loans by approximately 25 basis points effective April 1, 2011. Based on CWCcapital's aggregate Fannie Mae portfolio as of March 31, 2012, the total incremental collateral required for all existing loans over the life of the portfolio, in accordance with Fannie Mae requirements, is expected to be approximately \$6.9 million. 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. CWCcapital currently has no loans in its portfolio which will be affected by the announced collateral changes and does not expect such changes will have a material impact on its future operations; however, future changes to collateral requirements may adversely impact CWCcapital.

***Sources of Liquidity: Warehouse Facilities***

To provide financing to borrowers under GSE and HUD programs, CWCcapital has arranged for committed warehouse lines of credit, and has pledged substantially all of its loans held for sale. Notes payable at March 31, 2012, consist of the following (in thousands):

First mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.24%	\$ 89,504
Second mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.49%	47,645
Third mortgage warehousing demand line of credit, bearing interest at a variable rate of 1.45%	89,643
Fourth mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.49%	33,940
HUD servicing advance line of credit	
 Total notes payable	 \$ 260,732

The first mortgage warehousing demand line of credit is \$125 million and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line matures on October 1, 2012 and routinely is extended annually. On May 23, 2012, CWCcapital increased its line of credit to \$150 million, and on June 25, 2012, CWCcapital entered into a temporary increase of \$400 million for the period from June 25, 2012 to August 8, 2012. At March 31, 2012, the unused portion of the line of credit was \$35.5 million.

The second mortgage warehousing demand line of credit is \$175 million and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line matures on November 14, 2012 and routinely is extended annually. At March 31, 2012, the unused portion of the line of credit was \$127.4 million.

The third mortgage warehousing demand line of credit is \$225 million and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under a certain mortgage program. Security for the mortgage warehousing line of credit is the related MLHFS. There is no stated maturity date under the lending agreement. At March 31, 2012, the unused portion of the line of credit was \$135.4 million.

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The fourth mortgage warehousing demand line of credit is \$50 million and carries variable interest rate options, as defined in the line of credit agreement. On May 23, 2012, CWCcapital increased its line of credit to \$100 million. The mortgage warehousing line is available to fund advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line matures November 17, 2012 under the lending agreement and routinely is extended annually. At March 31, 2012, the unused portion of the line of credit was \$16.1 million.

The HUD servicing advance line of credit is \$7.5 million, which is available for principal, interest, tax and insurance advances and other property protection advances on defaulted HUD loans. There is a sub-limit of \$5 million for advances over 30 days. The line is secured by a pledge of the right to reimbursement from HUD and Ginnie Mae that is held by CWCcapital and carries variable interest rate options, as defined in the line of credit agreement. The HUD servicing advance line of credit matures on October 1, 2012 and routinely is extended annually. At March 31, 2012, the unused portion of the line of credit was \$7.5 million.

***Risk-Share Liability***

**Risk-Share Liability** CWCcapital assumes risk-sharing obligations with respect to its General Loan Portfolio and Citigroup Loan Portfolio risk, as follows:

**General Loan Portfolio** CWCcapital assumes risk-sharing with respect to certain Fannie Mae loans, generally not exceeding 20% of the original principal balance. CWCcapital assumes risk on the first 8% of losses on certain Freddie Mac Targeted Affordable loans. With respect to a certain Ginnie Mae securitized loan, CWCcapital assumes the first 5% then 15% of any remainder. CWCcapital records an estimated loss in the financial statements if it has been determined that it is probable that a liability will be incurred. Such estimate is recorded in risk-share liability on CWCcapital's balance sheet.

**Citigroup Loan Portfolio** CWCcapital has risk on certain Fannie Mae loans where the risk is limited to the first 1% of loss on a pool of loans (this risk is fully funded under a cash collateral agreement and the related cash is held in restricted cash). In addition, there are certain Fannie Mae loans where CWCcapital's risk is 100% of the loss, and certain Fannie Mae loans where CWCcapital's risk is *pari passu* with Fannie Mae on a one-third and two-thirds basis, respectively.

**Off-Balance Sheet Risk**

CWCcapital does not have any off-balance sheet arrangements.

**Contractual Obligations**

CWCcapital has contractual obligations to make future payments on notes payable and lease agreements. CWCcapital also has deferred compensation agreements with certain employees.

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The following table summarizes CWCcapital's contractual obligations as of December 31, 2011 (in thousands):

	Total	Due in 1 year or less	Over 1 year and less than 3 years	Over 3 years and less than 5 years	Due after 5 years
Notes payable(1)	\$ 696,215	\$ 696,215	\$	\$	\$
Operating leases	5,033	1,499	1,786	1,389	359
Accrued compensation	15,005	11,322	311	3,097	275
Total	\$ 716,253	\$ 709,036	\$ 2,097	\$ 4,486	\$ 634

(1)

To be repaid from proceeds of loan sales and includes accrued interest.

**New/Recent Accounting Pronouncements**

There were no accounting standards that were issued and required to be implemented that were not implemented that would have or are expected to have a material impact on the financial position or results of CWCcapital.

**Quantitative and Qualitative Disclosures About Market Risk**

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

Some of our assets and liabilities are subject to changes in interest rates. Escrow earnings 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 \$4.2 million based on CWCcapital's escrow balance as of March 31, 2012, compared to \$4.0 million as of December 31, 2011. The borrowing cost of CWCcapital's warehouse facilities are based on LIBOR. A 100 basis point increase or decrease in the average 30-day LIBOR would decrease or increase, respectively, CWCcapital's annual net warehouse interest income by approximately \$2.6 million based on CWCcapital's outstanding warehouse balance as of March 31, 2012, compared to \$7.0 million as of December 31, 2011.

The fair value of CWCcapital's MSR's 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 CWCcapital's MSR's by approximately \$4.0 million as of March 31, 2012 compared to \$4.0 million as of December 31, 2011. A 200 basis point increase or decrease in the weighted average discount rate would decrease or increase, respectively, the fair value of CWCcapital's MSR's by approximately \$7.8 million as of March 31, 2012 compared to \$8.0 million as of December 31, 2011.

As of March 31, 2011, there has been no significant change to CWCcapital's exposure to interest rate risk.

**Financial Statements and Supplementary Data**

The financial statements of CWCcapital and notes related to the foregoing financial statements, together with the independent registered public accounting firm's or independent auditor's reports thereon, as applicable, for the year ended December 31, 2011, the four-month period ended December 31, 2010, the nine-month period ended August 31, 2010, and the year ended November 30, 2009, as included in this proxy statement beginning on page F-2, are incorporated herein by reference.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following pro forma condensed combined financial information is based on the respective historical statements of Walker & Dunlop and CWCapital after giving effect to the Acquisition described below and elsewhere in this proxy statement and the assumptions and adjustments described in the accompanying notes to the pro forma combined financial information.

Walker & Dunlop's and CWCapital's respective fiscal years end on December 31. The pro forma condensed combined balance sheet as of March 31, 2012 is based on the historical balance sheet of Walker & Dunlop and CWCapital as of March 31, 2012, and has been prepared to reflect the Acquisition as if it had occurred on March 31, 2012. The pro forma condensed combined statements of income for the fiscal year ended December 31, 2011, and for the interim period ended March 31, 2012, combine the historical results of operations of Walker & Dunlop and CWCapital for the year ended December 31, 2011, and the interim period ended March 31, 2012, as if the Acquisition had occurred on January 1, 2011, the first day of each company's 2011 fiscal year.

In preparing the pro forma financial information, certain pro forma adjustments were made to CWCapital's financial information to conform to Walker & Dunlop's financial statement presentation.

On June 7, 2012, Walker & Dunlop, the Purchaser, CW Financial and CWCapital, entered into the Purchase Agreement, providing for the acquisition of CWCapital by the Purchaser. See "The Purchase Agreement" beginning on page 44.

Pursuant to the Purchase Agreement, and subject to the terms and conditions thereof, CW Financial, as the sole owner of the limited liability company interest of CWCapital, will be entitled to receive aggregate consideration of \$220 million, subject to certain adjustments, consisting of (i) a cash payment of \$80 million, to be made through a combination of existing capital and debt financing anticipated to be obtained, and (ii) a non-cash payment equal to the Stock Consideration (as defined below). The "Stock Consideration" is expected to equal 11,647,255 shares of the Common Stock. To mitigate the risk to the Company and CW Financial associated with any potentially significant increase or decrease, respectively, in the price of the Common Stock between the date of the Purchase Agreement and the Closing Date, the parties have agreed that the number of shares constituting the Stock Consideration will be fixed at 11,647,255 shares (and the Common Stock price at \$12.02) within a "collar" of a 30 percent upward or downward fluctuation in the volume weighted average price of the Common Stock. However, if (a) the volume weighted average NYSE trading price of the Common Stock during the 20 consecutive trading days immediately preceding the third trading day prior to the Closing Date (the "Closing Share Value") is greater than \$15.62 (*i.e.*, more than 30 percent greater than \$12.02), then the Stock Consideration will equal the number of shares of Common Stock equal to \$182 million divided by the Closing Share Value, or (b) the Closing Share Value is less than \$8.41 (*i.e.*, more than 30 percent less than \$12.02), then the Stock Consideration will equal the number of shares of Common Stock equal to \$98 million divided by the Closing Share Value. The Stock Consideration's 30 percent-two-way collar may be illustrated as follows:

<b>Closing Share Value Range</b>	<b>Number of Shares Constituting Stock Consideration</b>
Less than \$8.41	\$98 million ÷ Closing Share Value
\$8.41 - \$15.62	11,647,255 shares
Greater than \$15.62	\$182 million ÷ Closing Share Value

Bank of America, N.A. has provided a commitment letter dated June 8, 2012, to amend or replace Walker & Dunlop's existing Term Loan Agreement, to provide for an increase in aggregate term loan borrowings to \$83 million, the proceeds from which may be used for the repayment of all amounts outstanding under the existing Term Loan Agreement, to repay certain promissory notes outstanding to

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predecessor shareholders and to be used for the purposes of the Acquisition. For a description of the Commitment Letter, refer to "The Financing" on page 67.

The Acquisition will be accounted for as a business combination using the acquisition method of accounting and, accordingly, will result in the recognition of assets acquired and liabilities assumed at fair value. Walker & Dunlop has made significant estimates and assumptions in determining the preliminary allocation of the purchase price in the unaudited pro forma condensed combined financial statements, with the excess of the purchase price over the sum of these fair values recorded as goodwill. The fair value of certain assets, particularly the mortgage pipeline intangible asset, representing the expected value of all mortgage opportunities being evaluated and applications being processed by CWCapital at any given time, is expected to change significantly based upon the nature of the business and passage of time. These assumptions and estimates, some of which cannot be finalized until the consummation of the Acquisition, will be revised as additional information becomes available upon consummation of the Acquisition and finalization of the valuation of CWCapital's assets and liabilities. The final determination of the allocation of the purchase price will be based on the fair values of the assets and liabilities of CWCapital as of the closing date of the Acquisition. Accordingly, the final allocations of and the effects on the results of operations may differ materially from the preliminary allocations and unaudited pro forma combined amounts included herein.

The pro forma condensed combined financial information herein does not give effect to any potential cost reductions or other operating efficiencies that could result from the Acquisition, including but not limited to, those associated with potential (i) reductions of corporate overhead, (ii) elimination of duplicate functions and (iii) increased operational efficiencies through the adoption of best practices and capabilities from each company. The pro forma combined financial information is not intended to represent what Walker & Dunlop's financial position or results of operation would actually have been if the Acquisition had occurred on the dates presented. The pro forma combined statements of income have not been adjusted for the charges related to the transaction costs because these costs are attributable to the transaction but will not have a continuing impact.

The pro forma combined financial information should be read in conjunction with (i) Walker & Dunlop's historical consolidated financial statements and related notes contained in Walker & Dunlop's Annual Report on Form 10-K for the year ended December 31, 2011 and Quarterly Report on Form 10-Q for the three months ended March 31, 2012, which are incorporated by reference into this proxy statement, and (ii) CWCapital's historical audited consolidated financial statements and related notes for the year ended December 31, 2011, and unaudited interim financial information for the three months ended March 31, 2012, both of which are included elsewhere in this proxy statement.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**

(In thousands, except share and per share data)

	March 31, 2012					March 31, 2012
	Walker & Dunlop	CWC Capital	Pro Forma Adjustments			Pro Forma Combined
<b>Assets</b>						
Cash and cash equivalents	\$ 40,811	\$ 24,165	\$ (27,440)	A	\$	37,536
Restricted cash	5,083	24,179				29,262
Pledged securities, at fair value	19,599					19,599
Loans held for sale, at fair value	268,207	267,585				535,792
Loans held for investment	6,947					6,947
Servicing fees and other receivables, net	15,140	6,622				21,762
Derivative assets	10,264	32,136				42,400
Mortgage servicing rights	142,621	115,052	5,598	B		263,271
Goodwill			75,211	F		75,211
Intangible assets purchase related			3,402	D		3,402
Other assets	8,784	6,127	(1,800)	E		13,111
<b>Total assets</b>	<b>\$ 517,456</b>	<b>\$ 475,866</b>	<b>\$ 54,971</b>		<b>\$</b>	<b>1,048,293</b>
<b>Liabilities and Stockholders' Equity</b>						
<b>Liabilities</b>						
Accounts payable and other accrued expenses	\$ 56,216	\$ 10,907	\$ 75	D	\$	67,198
Performance deposits from borrowers	5,806	3,195				9,001
Derivative liabilities	762	20,878				21,640
Guaranty obligation, net of accumulated amortization	10,447		5,598	B		16,045
Allowance for risk-sharing obligations	14,522	29,421				43,943
Warehouse notes payable	236,685	260,732				497,417
Notes payable	22,969		60,031	A		83,000
<b>Total liabilities</b>	<b>\$ 347,407</b>	<b>\$ 325,133</b>	<b>\$ 65,704</b>		<b>\$</b>	<b>738,244</b>
<b>Equity</b>						
Stockholders' equity:						
Preferred share.	\$	\$	\$		\$	
Common stock, \$0.01 par value.	218		116	C		334
Additional paid-in capital	81,747	105,280	34,604	C		221,631
Retained earnings	88,084	45,453	(45,453)	C		88,084
<b>Total stockholders' equity</b>	<b>\$ 170,049</b>	<b>\$ 150,733</b>	<b>\$ (10,733)</b>		<b>\$</b>	<b>310,049</b>
<b>Commitments and contingencies</b>						
<b>Total liabilities and stockholders' equity</b>	<b>\$ 517,456</b>	<b>\$ 475,866</b>	<b>\$ 54,971</b>		<b>\$</b>	<b>1,048,293</b>

*Combined Pro Forma Adjustments*

The following pro forma adjustments have been reflected in the pro forma condensed combined financial information. These adjustments give effect to pro forma events that are (i) directly attributable to the Acquisition, (ii) factually supportable and (iii) with respect to the pro forma condensed combined statements of income, expected to have a continuing impact on the combined company. All adjustments are based on current assumptions and are subject to change upon completion of the final purchase price allocation following the Acquisition closing date. Walker & Dunlop's and





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CWCapital's consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP") based on Walker & Dunlop's preliminary analysis. The accounting policies of Walker & Dunlop and CWCapital are substantially comparable, but an accounting policy conformance adjustment has been made to the pro forma condensed combined financial information for differing but acceptable applications of GAAP related to the presentation of the guaranty obligation (gross asset and liability versus net presentation).

#### *Notes to Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2012*

- A) To reflect the planned financing and cash consideration payment of \$80 million upon consummation of the Acquisition, as well as a \$7.5 million increase to the cash consideration pursuant to the terms of the excess working capital adjustment outlined in the Purchase Agreement, as of March 31, 2012. The level of working capital held by CWCapital is expected to fluctuate significantly and is expected to more closely approximate the target working capital, as defined in the Purchase Agreement, at the time of the Acquisition closing. Additionally, in conjunction with the closing of the Acquisition, we plan to repay our existing term debt with proceeds obtained through the Commitment Letter, increasing the total term debt outstanding at the close of the Acquisition to \$83 million.
- B) To reflect the gross presentation of the guaranty obligation associated with Fannie Mae DUS loans with risk-sharing obligations. CWCapital historically recorded the guaranty obligation as a component of the fair value of the associated mortgage servicing right ("MSR") resulting in a net MSR presentation; however, Walker & Dunlop records and presents the MSR and the guaranty obligation as an asset and a liability, respectively. The adjustment reflects the manner in which the MSRs and guaranty obligation will be presented following the consummation of the Acquisition.
- C) To reflect the value of the Common Stock to be issued to CW Financial as partial consideration (\$140 million, based upon the preliminary purchase price consideration) and the elimination of CWCapital's member's net equity balances.
- D) To reflect the preliminary purchase price allocation recognition of certain intangible assets and liabilities above market lease liability, below market lease asset and a mortgage pipeline asset. The above and below market lease asset and liability reflect our estimation of the fair value of certain leases that will be assumed upon closing of the Acquisition and, upon closing, are expected to be amortized over the remaining lives of the respective leases. The mortgage pipeline asset recognized reflects the estimated fair value of the origination related fees and MSRs related to the loan applications and leads currently being processed by CWCapital. Due to the short lifecycle from application through rate lock, loan funding and subsequent sale, significant fluctuation is expected in the underlying application pipeline, and as a result, the value attributed to this asset at consummation of the Acquisition and final purchase price allocation may differ materially from the estimate provided herein.
- E) To reflect the adjustment to values of certain intangible, prepaid and other assets based upon estimated fair value in the business combination.
- F) To reflect the establishment of goodwill of \$75.2 million estimated as a result of the preliminary purchase price allocation detailed below.

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**

For the three months ended March 31, 2012  
(In thousands, except share and per share data)

	Walker & Dunlop	CWCapital	Pro Forma Adjustments	Pro Forma Combined
<b>Revenues</b>				
Gains from mortgage banking activities	\$ 19,802	\$ 24,852	\$	\$ 44,654
Servicing fees	9,379	7,742		17,121
Net warehouse interest income	937	830		1,767
Escrow earnings and other interest income	539	351		890
Other	3,745	1,207		4,952
<b>Total revenues</b>	<b>\$ 34,402</b>	<b>\$ 34,982</b>	<b>\$</b>	<b>\$ 69,384</b>
<b>Expenses</b>				
Personnel	\$ 11,641	\$ 12,366	\$	\$ 24,007
Amortization and depreciation	7,259	290		7,549
Provision for risk-sharing obligations	1,224	(1,257)		(33)
Fair value losses MSRs, net		12,875		12,875
Interest expense on corporate debt	168		579	747
Other operating expenses	4,616	3,744		8,360
<b>Total expenses</b>	<b>\$ 24,908</b>	<b>\$ 28,018</b>	<b>\$ 579</b>	<b>\$ 53,505</b>
<b>Income from operations</b>	<b>\$ 9,494</b>	<b>\$ 6,964</b>	<b>\$ (579)</b>	<b>\$ 15,879</b>
Income tax expense	3,655		2,458	6,113
<b>Net income</b>	<b>\$ 5,839</b>	<b>\$ 6,964</b>	<b>\$ (3,037)</b>	<b>\$ 9,766</b>
Basic and diluted earnings per share	\$ 0.27			\$ 0.29
Diluted earnings per share	\$ 0.27			\$ 0.29
Basic weighted average shares outstanding	21,750,573		11,647,255	33,397,828
Diluted weighted average shares outstanding	21,848,280		11,647,255	33,495,535

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME**

For the year ended December 31, 2011  
(In thousands, except share and per share data)

	Walker & Dunlop	CWCapital	Pro Forma Adjustments	Pro Forma Combined
<b>Revenues</b>				
Gains from mortgage banking activities	\$ 102,712	\$ 102,454	\$	\$ 205,166
Servicing fees	33,581	22,869		56,450
Net warehouse interest income	4,198	2,886		7,084
Escrow earnings and other interest income	1,474	1,730		3,204
Other	10,385	3,701		14,086
<b>Total revenues</b>	<b>\$ 152,350</b>	<b>\$ 133,640</b>	<b>\$</b>	<b>\$ 285,990</b>
<b>Expenses</b>				
Personnel	\$ 51,162	\$ 48,429	\$	\$ 99,591
Amortization and depreciation	22,514	96		22,610
Provision for risk-sharing obligations	4,724	1,689		6,413
Fair value losses MSRs, net		40,183		40,183
Interest expense on corporate debt	823		2,372	3,195
Other operating expenses	16,466	17,376		33,842
<b>Total expenses</b>	<b>\$ 95,689</b>	<b>\$ 107,773</b>	<b>\$ 2,372</b>	<b>\$ 205,834</b>
<b>Income from operations</b>	<b>\$ 56,661</b>	<b>\$ 25,867</b>	<b>\$ (2,372)</b>	<b>\$ 80,156</b>
Income tax expense	21,797		9,063	30,860
<b>Net income</b>	<b>\$ 34,864</b>	<b>\$ 25,867</b>	<b>\$ (11,435)</b>	<b>\$ 49,296</b>
Basic and diluted earnings per share	\$ 1.61			\$ 1.48
Diluted earnings per share	\$ 1.60			\$ 1.48
Basic weighted average shares outstanding	21,621,534		11,647,255	33,268,789
Diluted weighted average shares outstanding	21,747,672		11,647,255	33,394,927

Notes to Unaudited Pro Forma Condensed Combined Statements of Income For the Three Months Ended March 31, 2012, and For the Year Ended December 31, 2011

- 1) To reflect the additional interest expense associated with the financing expected to be obtained pursuant to the Commitment Letter, as if the \$83 million aggregate borrowings had been outstanding as of January 1, 2011 under the terms of the Commitment Letter. The pro forma adjustment depicts the increased interest expense costs in excess of Walker & Dunlop's interest expense related to the term debt, which we plan to repay at the close of the Acquisition.
- 2) To reflect the provision for income taxes related to pro forma adjustments included in the pro forma combined statements of income at Walker & Dunlop's effective combined income tax rate. No provision has been made in CWCapital's financial statements for federal income taxes as CWCapital is a disregarded entity for federal tax purposes and its results are included in Galaxy's tax filings with the Internal Revenue Service. Therefore, the tax obligation has been reflected on Galaxy's

financial statements. Following the closing of the Acquisition, all

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earnings will be included in Walker & Dunlop's tax filings and will be the obligation of Walker & Dunlop.

#### *Preliminary Purchase Price Consideration*

The pro forma condensed combined financial information reflects the effects of the Acquisition for an aggregate preliminary purchase price consideration of \$220 million, as calculated below (in thousands):

Cash payment to be transferred to Seller upon closing	\$ 80,000
Value of Common Stock to be issued by Walker & Dunlop(1)	140,000
<b>Total preliminary purchase price consideration</b>	<b>\$ 220,000</b>

- (1) 11,647,255 shares of Common Stock based upon valuation as of execution of the Purchase Agreement, subject to change upon the conditions outlined above.

#### *Basis of Preliminary Purchase Price Allocation*

The following allocation of the Acquisition purchase price is based on Walker & Dunlop's preliminary estimates of the fair value of the tangible and intangible assets and liabilities of CWCapital as of March 31, 2012. The final determination of the allocation of the purchase price will be based on the fair value of assets acquired and liabilities assumed as of the closing date of the Acquisition and will be completed after the Acquisition is consummated. Such final determination of the purchase price allocation is expected to be different that the preliminary allocation used in the pro forma combined financial information.

The preliminary estimated purchase price of CWCapital (as calculated in the manner described above) is allocated to the assets to be acquired and liabilities to be assumed on the following preliminary basis (in thousands):

Total preliminary estimated consideration	\$ 220,000
Cash	\$ 24,165
Estimated working capital adjustment	(7,471)
Restricted cash	24,179
Loans held for sale	267,585
Servicing fees and other receivables	6,622
Derivative assets	32,135
Mortgage servicing rights	120,650
Other assets	4,327
Favorable lease contracts asset	338
Mortgage pipeline intangible asset	3,064
Unfavorable lease contracts liability	(75)
Accounts payable and other accrued expenses	(10,906)
Performance deposits from borrowers	(3,195)
Derivative liabilities	(20,878)
Guaranty obligation	(5,598)
Allowance for risk-sharing obligation	(29,421)
Warehouse notes payable	(260,732)
Goodwill	75,211
<b>Total estimated purchase price</b>	<b>\$ 220,000</b>

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**PROPOSAL 2:  
PLAN AMENDMENT PROPOSAL: AMENDMENT OF THE COMPANY'S 2010 EQUITY  
INCENTIVE PLAN AND RE-APPROVAL OF MATERIAL TERMS AND CONDITIONS  
RELATING TO PERFORMANCE-BASED COMPENSATION**

We are asking our stockholders to approve amendments (the "Amendments") to Sections 2.18, 4.1, 5.2, 6.2 and 14.6.4 of the Equity Incentive Plan (as amended, the "Amended Equity Incentive Plan") and to re-approve certain material terms and conditions relating to performance-based compensation under the Amended Equity Incentive Plan. If approved by our stockholders, the Amendments would:

- (i) increase the number of shares reserved for issuance by 3,370,000 shares;
- (ii) change the individual limits to (A) 600,000 shares for grants of stock options and SARs in any single calendar year, (B) 600,000 shares for awards other than stock options and SARs in any single calendar year, (C) three million dollars (\$3,000,000) for the maximum amount that may be earned as an annual incentive award or other cash award in any calendar year in respect of performance, and (D) seven million dollars (\$7,000,000) for the maximum amount that may be earned as a performance award or other cash award in any calendar year in respect of performance;
- (iii) add additional performance measures that may be used as performance goals; and
- (iv) extend the termination date of the Amended Equity Incentive Plan until the tenth anniversary of the Special Meeting.

In addition, we are asking that our stockholders approve the material terms and conditions for performance-based compensation intended to qualify under Section 162(m) of the Internal Revenue Code, as amended (the "Internal Revenue Code") included in the Equity Incentive Plan, as supplemented by the additional performance measures to be adopted pursuant to the Amendments. The material terms and conditions of performance-based compensation are (i) eligibility for awards, (ii) individual grant limits on awards and (iii) the performance measures that can be used as performance goals for awards, each as described further below under "Re-approval of 162(m) Material Terms and Conditions" (together, the "Performance Terms").

Furthermore, the Board has made certain other amendments and clarifying changes to the Equity Incentive Plan, which do not require approval by our stockholders, including clarifying that for any purpose under the Amended Equity Incentive Plan, other than for the determination of grant date fair market value, which is the closing price on the stock exchange for the grant date, any reasonable method for determining fair market value can be applied.

The Board approved the Amendments on June 29, 2012, subject to approval from our stockholders at the Special Meeting. The purpose of the Amended Equity Incentive Plan is to (i) provide incentives to eligible persons to stimulate their efforts towards the success of the Company and to operate and manage its business in a manner that will provide for the long-term growth and profitability of the Company; and (ii) provide a means of obtaining, rewarding and retaining key personnel. To this end, the Amended Equity Incentive Plan provides for the grant of stock options, stock appreciation rights, restricted stock, stock units (including deferred stock units), dividend equivalent rights, other equity-based awards and cash bonus awards.

If the stockholders approve the Amendments, they will become effective on the date of the Special Meeting, which is scheduled to be August 30, 2012. If the stockholders fail to approve the Amendments, the Equity Incentive Plan will remain as is without any changes thereto. If the stockholders re-approve the Performance Terms, compensation paid to the Company's covered employees upon achievement of goals under one or more of the performance measures set forth in the Amended Equity Incentive Plan will continue to be fully deductible by the Company under

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Section 162(m) of the Internal Revenue Code until such time as the Company is required to obtain stockholder re-approval of such terms and conditions at the Company's annual stockholders' meeting in 2017. If the stockholders fail to re-approve the Performance Terms, the Compensation Committee will be permitted to continue granting performance awards using the performance goals set forth in the Equity Incentive Plan, but stockholder re-approval would be required at the Company's annual stockholders' meeting in 2014 for any such compensation to remain fully deductible.

On July 3, 2012, the closing price of our Common Stock was \$12.86 per share, and there were five named executive officers, six non-employee directors and 226 employees of the Company and its subsidiaries who were eligible to participate in the Amended Equity Incentive Plan.

**Amendment of Equity Incentive Plan**

*Increase in Number of Shares; Increase in Individual Limits*

The Amendments will increase the number of shares reserved for issuance under the Equity Incentive Plan by 3,370,000 shares from 2,140,000 shares. As of July 3, 2012, there were 1,589,981 shares of our Common Stock subject to outstanding grants and 517,411 shares available for future grants under the Equity Incentive Plan. Included in the number of shares subject to outstanding grants are 512,968 shares subject to options with a weighted average exercise price of \$12.83 and a weighted average remaining term of 9.4 years, and 1,077,513 shares of restricted stock.

The Amendments will increase the maximum number of shares of Common Stock subject to options or stock appreciation rights that can be issued under the Equity Incentive Plan to any person to 600,000 shares reserved under the Equity Incentive Plan in any single calendar year. The Amendments will also increase the maximum number of shares that can be issued under the Equity Incentive Plan to any person other than pursuant to an option or stock appreciation right to 600,000 shares reserved under the Equity Incentive Plan. The maximum amount that may be earned as an annual incentive award or other cash award in any calendar year by any one person is three million dollars (\$3,000,000) and the maximum amount that may be earned as a performance award or other cash award in respect of a performance period by any one person is seven million dollars (\$7,000,000).

In the judgment of the Board and the Compensation Committee, grants under the Amended Equity Incentive Plan are valuable incentives and serve the ultimate benefit of stockholders by aligning more closely the interests of Amended Equity Incentive Plan participants with those of our stockholders. In particular, with the acquisition of CWC Capital and the resulting increase in the number of employees, including high-performing origination talent, the Board and the Compensation Committee believe that it is necessary to increase the number of shares authorized under the Equity Incentive Plan to enable the Company to continue appropriately incentivizing new and existing employees.

*Addition of Performance Measures*

As part of our executive compensation philosophy, we strive to create and emphasize a pay-for-performance culture to drive the creation of stockholder value, not only for our named executive officers but for all employees more broadly. Accordingly, we pay performance-based compensation, utilizing various performance measures designed to support the achievement of certain key goals of the Company. These performance measures are reflected, in part, in the Company's Equity Incentive Plan. Performance-based compensation is excluded from certain limitations on deductions for federal income tax purposes under Section 162(m) of the Internal Revenue Code. Section 162(m) limits publicly-held companies such as the Company to an annual deduction for federal income tax purposes of \$1 million for compensation paid to their covered employees. However, performance-based compensation is excluded from this limitation if such compensation is based on performance measures approved by the Company's stockholders. The "covered employees" are the chief executive officer and



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three next most highly compensated executive officers, other than the chief executive officer and the chief financial officer.

In the judgment of the Board and Compensation Committee, the availability of additional performance measures would help the Company better align employee incentives with Company goals. Accordingly, the Amendments add or amend subsections (h), (i), (o), (p), (u), (y), (z) and (aa) to the list of performance measures, as set forth below. Accordingly, under the Amended Equity Incentive Plan, the performance goals upon which the payment or vesting of a performance or incentive award to a covered employee that is intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code will be limited to the following performance measures, with or without adjustment (the "Performance Measures"):

- (a) net earnings or net income;
- (b) operating earnings;
- (c) pretax earnings;
- (d) earnings per share of stock;
- (e) stock price, including growth measures and total stockholder return;
- (f) earnings before interest and taxes;
- (g) earnings before interest, taxes, depreciation and/or amortization;
- (h) sales, originations or revenue growth, whether in general, by type of product or service, or by type of customer;
- (i) diversification of sales or revenues by type of product or service, or by type of customer;
- (j) gross or operating margins;
- (k) return measures, including return on assets, capital, investment, equity, sales or revenue;
- (l) cash flow, including operating cash flow, free cash flow, cash flow return on equity and cash flow return on investment;
- (m) productivity ratios;
- (n) expense targets;
- (o) underwriting cost per loan;
- (p) credit losses;
- (q)

market share;

- (r) financial ratios as provided in credit agreements of the Company and its subsidiaries;
- (s) working capital targets;
- (t) completion of acquisitions of businesses or companies;
- (u) development of new lines of business or substantially expanding existing lines of business;
- (v) completion of divestitures and asset sales;
- (w) revenues under management;
- (x) funds from operations;
- (y) employee hiring, retention, growth in population and diversity;

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- (z) employee satisfaction;
- (aa) opening new offices expanding geographic coverage; and
- (bb) any combination of any of the foregoing business criteria.

*Extension of Termination Date*

The Amendments will extend the termination date of the Equity Incentive Plan from December 13, 2020 to the tenth anniversary of the Special Meeting. Upon termination, the Amended Equity Incentive Plan will continue to govern unexpired awards.

**Re-approval of 162(m) Material Terms and Conditions**

One of the requirements of Section 162(m) of the Internal Revenue Code is that the material terms and conditions of performance-based compensation pursuant to Section 162(m) must be approved by stockholders, and re-approved at five-year intervals. Accordingly, our stockholders previously approved the Equity Incentive Plan, which includes the material terms and conditions for granting performance awards, including awards intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code. The material terms and conditions of the Company's performance-based compensation under the Amended Equity Incentive Plan, which we refer to as the Performance Terms, are: (i) eligibility for awards, (ii) individual grant limits on awards and (iii) the Performance Measures. See "Amendment to Equity Incentive Plan Addition of Performance Measures" for a description of Performance Measures under the Amended Equity Incentive Plan. We are asking stockholders to re-approve the Performance Terms at the Special Meeting so that the Company will not be required to seek re-approval until 2017.

Any Performance Measure may be used to measure the performance of the Company, subsidiary, and/or affiliate as a whole or any business unit of the Company, subsidiary, and/or affiliate or any combination thereof. Any of the Performance Measures may also be compared to the performance of a group of comparator companies, published or special index or stock market indices.

The maximum number of shares of Common Stock, other equity or cash that may be awarded under the Amended Equity Incentive Plan is described under "Description of the Plan Share Authorization."

**Our Recommendation**

**THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE PROPOSAL TO AMEND THE 2010 EQUITY INCENTIVE PLAN AND TO RE-APPROVE MATERIAL TERMS AND CONDITIONS RELATING TO PERFORMANCE-BASED COMPENSATION.**

**Vote Required**

The affirmative vote of a majority of the votes present and entitled to vote at the meeting is necessary for approval of the Amendments and the Performance Terms. For purposes of the vote on this proposal, abstentions and broker non-votes will not count as votes cast with respect to a proposal, and will have no effect on the result of the vote.

**Description of the Amended Equity Incentive Plan**

A description of the provisions of the Amended Equity Incentive Plan is set forth below. This summary is qualified in its entirety by the detailed provisions of the Amended Equity Incentive Plan, a copy of which is attached as *Annex H* to this proxy statement and incorporated by reference herein.

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Section 162(m) of the Internal Revenue Code limits publicly held companies to an annual deduction for U.S. federal income tax purposes of \$1,000,000 for compensation paid to each of their chief executive officer and their three next most highly compensated executive officers (other than the chief executive officer or the chief financial officer) determined at the end of each year, referred to as covered employees. However, performance-based compensation is excluded from this limitation. The Amended Equity Incentive Plan is designed to permit the Compensation Committee to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), but it is not required under the Amended Equity Incentive Plan that awards qualify for this exception.

*Administration of the Amended Equity Incentive Plan.* The Amended Equity Incentive Plan will be administered by our Compensation Committee, and the Compensation Committee will determine all terms of awards granted to our executive officers under the Amended Equity Incentive Plan. Our Compensation Committee will also determine the type of award and its terms and conditions and the number of shares of Common Stock subject to the award, if the award is equity-based. The Board has established a special one-member committee of the Board (the "Non-Executive Equity Award Committee"), which currently consists of Mr. Walker, our Chairman, President and Chief Executive Officer, and delegated to that committee limited authority to grant equity awards to non-executive officers and non-director employees pursuant to the Amended Equity Incentive Plan. As of July 3, 2012, those grants may not exceed the 517,411 shares currently available under the Equity Incentive Plan and 300,000 shares to be added to the Equity Incentive Plan pursuant to the Amendments, for a total of 817,411 shares. The special one-member Non-Executive Equity Award Committee's authority does not in any way limit the Compensation Committee's authority to administer the Amended Equity Incentive Plan. The Compensation Committee will also interpret the provisions of the Amended Equity Incentive Plan. To the extent permissible under law, the Board may delegate to the Non-Executive Equity Award Committee or other committee authority to make additional grants to non-executive employees. During any period of time in which we do not have a Compensation Committee, the Amended Equity Incentive Plan will be administered by our Board or another committee appointed by the Board. References below to the Compensation Committee include a reference to the Board or another committee appointed by the Board for those periods in which the Board or such other committee appointed by the Board is acting.

*Eligibility.* All of our employees and the employees of our subsidiaries and affiliates are eligible to receive awards under the Amended Equity Incentive Plan. In addition, our non-employee directors and consultants and advisors who perform services for us and our subsidiaries and affiliates may receive awards under the Amended Equity Incentive Plan, other than incentive stock options. Each member of our Compensation Committee that administers the Amended Equity Incentive Plan will be both a "non-employee director" within the meaning of Rule 16b-3 of the Exchange Act, and an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code.

*Share Authorization.* Under the Amended Equity Incentive Plan, we will have reserved 5,510,000 shares of Common Stock, of which 3,887,411 shares will be available for future issuance, based on the number of shares issued and outstanding under the Equity Incentive Plan as of July 3, 2012. In connection with stock splits, dividends, recapitalizations and certain other events, our board will make proportionate adjustments that it deems appropriate in the aggregate number of shares of Common Stock that may be issued under the Amended Equity Incentive Plan and the terms of outstanding awards. If any options or stock appreciation rights terminate, expire or are canceled, forfeited, exchanged or surrendered without having been exercised or paid or if any stock awards, performance shares, performance units or other equity-based awards are forfeited or expire or otherwise terminate without the delivery of any shares of Common Stock or are settled in cash, the shares of Common Stock subject to such awards will again be available for purposes of the Amended Equity Incentive Plan.

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The maximum number of shares of Common Stock subject to options or stock appreciation rights that can be issued under the Amended Equity Incentive Plan to any person is 600,000 shares reserved under the Amended Equity Incentive Plan. The maximum number of shares that can be issued under the Amended Equity Incentive Plan to any person other than pursuant to an option or stock appreciation right is 600,000 shares reserved under the Amended Equity Incentive Plan. The maximum amount that may be earned as an annual incentive award or other cash award in any calendar year by any one person is three million dollars (\$3,000,000) and the maximum amount that may be earned as a performance award or other cash award in respect of a performance period by any one person is seven million dollars (\$7,000,000).

*Options.* The Amended Equity Incentive Plan authorizes our Compensation Committee to grant incentive stock options (under Section 421 of the Internal Revenue Code) and options that do not qualify as incentive stock options. The exercise price of each option will be determined by the Compensation Committee, provided that the price will be equal to at least the fair market value of the shares of Common Stock on the date on which the option is granted. If we were to grant incentive stock options to any 10 percent stockholder, the exercise price may not be less than 110 percent of the fair market value of our Common Stock on the date of grant.

The term of an option cannot exceed ten years from the date of grant. If we were to grant incentive stock options to any 10 percent stockholder, the term cannot exceed five years from the date of grant. The Compensation Committee determines at what time or times each option may be exercised and the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments. The exercisability of options may be accelerated by the Compensation Committee. The exercise price of an option may not be amended or modified after the grant of the option, and an option may not be surrendered in consideration of or exchanged for a grant of a new option having an exercise price below that of the option which was surrendered or exchanged without stockholder approval.

The exercise price for any option or the purchase price for restricted stock is generally payable (i) in cash, (ii) by certified check, (iii) to the extent the award agreement provides, by the surrender of shares of Common Stock (or attestation of ownership of shares of Common Stock) with an aggregate fair market value on the date on which the option is exercised, of the exercise price, or (iv) to the extent the award agreement provides, by payment through a broker in accordance with procedures established by the Federal Reserve.

*Stock Awards.* The Amended Equity Incentive Plan also provides for the grant of stock awards (which includes restricted stock and stock units). A stock award is an award of shares of Common Stock that may be subject to restrictions on transferability and other restrictions as our Compensation Committee determines in its sole discretion on the date of grant. The restrictions, if any, may lapse over a specified period of time or through the satisfaction of conditions, in installments or otherwise, as our Compensation Committee may determine. A participant who receives a stock award will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote and the right to receive dividends or distributions on the shares, except that the Board may require any dividends to be reinvested in shares. During the period, if any, when stock awards are non-transferable or forfeitable, a participant is prohibited from selling, transferring, assigning, pledging or otherwise encumbering or disposing of his or her award shares. We will retain custody of the certificates and a participant must deliver a stock power to us for each stock award.

*Stock Appreciation Rights.* The Amended Equity Incentive Plan authorizes our Compensation Committee to grant stock appreciation rights that provide the recipient with the right to receive, upon exercise of the stock appreciation right, cash, shares of Common Stock or a combination of the two. The amount that the recipient will receive upon exercise of the stock appreciation right generally will equal the excess of the fair market value of our Common Stock on the date of exercise over the shares'

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fair market value on the date of grant. Stock appreciation rights will become exercisable in accordance with terms determined by our Compensation Committee. Stock appreciation rights may be granted in tandem with an option grant or independently from an option grant. The term of a stock appreciation right cannot exceed ten years from the date of grant.

*Performance Units.* The Amended Equity Incentive Plan also authorizes our Compensation Committee to grant performance units. Performance units represent the participant's right to receive a compensation amount, based on the value of the shares of Common Stock, if performance goals established by the Compensation Committee are met. Our Compensation Committee will determine the applicable performance period, the performance goals and such other conditions that apply to the performance unit. Performance goals may relate to our financial performance or the financial performance of our operating units, the participant's performance or such other criteria determined by the Compensation Committee. If the performance goals are met, performance units will be paid in cash, shares of Common Stock or a combination of the two.

*Bonuses.* Cash performance bonuses payable under the Amended Equity Incentive Plan may be based on the attainment of performance goals that are established by the Compensation Committee and relate to one or more performance criteria described in the plan. Cash performance bonuses, for which there is no minimum, must be based upon objectively determinable bonus formulas established in accordance with the plan, as determined by the Board.

*Dividend Equivalents.* Our Compensation Committee may grant dividend equivalents in connection with the grant of any equity-based award. Dividend equivalents may be paid currently or may be deemed to be reinvested in additional shares of stock, which may thereafter accrue additional equivalents, and may be payable in cash, shares of Common Stock or a combination of the two. Our Compensation Committee will determine the terms of any dividend equivalents.

*Other Equity-Based Awards.* Our Compensation Committee may grant other types of equity-based awards under the Amended Equity Incentive Plan. Other equity-based awards are payable in cash, shares of Common Stock or other equity, or a combination of the two, and may be restricted or unrestricted, as determined by our Compensation Committee. The terms and conditions that apply to other equity-based awards are determined by the Compensation Committee.

*Change in Control.* If we experience a change in control in which equity-based awards that are not exercised prior to the change in control will not be assumed or continued by the surviving entity, unless otherwise provided in an award: (i) all restricted stock will vest, and all stock units will vest and the underlying shares will be delivered immediately before the change in control, and (ii) at the Board's discretion either all options and stock appreciation rights will become exercisable 15 days before the change in control and terminate upon the consummation of the change in control, or all options, stock appreciation rights, restricted stock and stock units will be cashed out before the change in control. In the case of performance units, if more than half of the performance period has lapsed, the performance shares will be converted into restricted stock based on actual performance to date. If less than half of the performance period has lapsed, or if actual performance is not determinable, the performance shares will be converted into restricted stock assuming target performance has been achieved.

*Amendment; Termination.* Our Board may amend or terminate the Amended Equity Incentive Plan at any time; provided that no amendment may adversely impair the benefits of participants with outstanding awards. Our stockholders must approve any amendment if such approval is required under applicable law or NYSE regulations. Our stockholders also must approve any amendment that changes the no re-pricing provisions of the plan. Unless terminated sooner by our Board or extended with stockholder approval, the Amended Equity Incentive Plan will terminate on the tenth anniversary of the Special Meeting.

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**Federal Income Tax Consequences**

*Incentive Stock Options.* The grant of an option will not be a taxable event for the grantee or for the Company. A grantee will not recognize taxable income upon exercise of an incentive stock option (except that the alternative minimum tax may apply), and any gain realized upon a disposition of our common stock received pursuant to the exercise of an incentive stock option will be taxed as long-term capital gain if the grantee holds the shares of common stock for at least two years after the date of grant and for one year after the date of exercise (the "holding period requirement"). We will not be entitled to any business expense deduction with respect to the exercise of an incentive stock option, except as discussed below.

For the exercise of an option to qualify for the foregoing tax treatment, the grantee generally must be our employee or an employee of our subsidiary from the date the option is granted through a date within three months before the date of exercise of the option.

If all of the foregoing requirements are met except the holding period requirement mentioned above, the grantee will recognize ordinary income upon the disposition of the common stock in an amount generally equal to the excess of the fair market value of the common stock at the time the option was exercised over the option exercise price (but not in excess of the gain realized on the sale). The balance of the realized gain, if any, will be capital gain. We will be allowed a business expense deduction to the extent the grantee recognizes ordinary income, subject to our compliance with Section 162(m) of the Internal Revenue Code and to certain reporting requirements.

*Non-Qualified Options.* The grant of an option will not be a taxable event for the grantee or the Company. Upon exercising a non-qualified option, a grantee will recognize ordinary income in an amount equal to the difference between the exercise price and the fair market value of the common stock on the date of exercise. Upon a subsequent sale or exchange of shares acquired pursuant to the exercise of a non-qualified option, the grantee will have taxable capital gain or loss, measured by the difference between the amount realized on the disposition and the tax basis of the shares of common stock (generally, the amount paid for the shares plus the amount treated as ordinary income at the time the option was exercised).

If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Internal Revenue Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

A grantee who has transferred a non-qualified stock option to a family member by gift will realize taxable income at the time the non-qualified stock option is exercised by the family member. The grantee will be subject to withholding of income and employment taxes at that time. The family member's tax basis in the shares of common stock will be the fair market value of the shares of common stock on the date the option is exercised. The transfer of vested non-qualified stock options will be treated as a completed gift for gift and estate tax purposes. Once the gift is completed, neither the transferred options nor the shares acquired on exercise of the transferred options will be includable in the grantee's estate for estate tax purposes.

In the event a grantee transfers a non-qualified stock option to his or her ex-spouse incident to the grantee's divorce, neither the grantee nor the ex-spouse will recognize any taxable income at the time of the transfer. In general, a transfer is made "incident to divorce" if the transfer occurs within one year after the marriage ends or if it is related to the end of the marriage (for example, if the transfer is made pursuant to a divorce order or settlement agreement). Upon the subsequent exercise of such option by the ex-spouse, the ex-spouse will recognize taxable income in an amount equal to the difference between the exercise price and the fair market value of the shares of common stock at the time of exercise. Any distribution to the ex-spouse as a result of the exercise of the option will be subject to employment and income tax withholding at this time.

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*Restricted Stock.* A grantee who is awarded restricted stock will not recognize any taxable income for federal income tax purposes in the year of the award, provided that the shares of common stock are subject to restrictions (that is, the restricted stock are nontransferable and subject to a substantial risk of forfeiture). However, the grantee may elect under Section 83(b) of the Internal Revenue Code to recognize compensation income in the year of the award in an amount equal to the fair market value of the common stock on the date of the award (less the purchase price, if any), determined without regard to the restrictions. If the grantee does not make such a Section 83(b) election, the fair market value of the common stock on the date the restrictions lapse (less the purchase price, if any) will be treated as compensation income to the grantee and will be taxable in the year the restrictions lapse and dividends paid while the common stock is subject to restrictions will be subject to withholding taxes. If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Internal Revenue Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Stock Units.* There are no immediate tax consequences of receiving an award of stock units under the Amended Equity Incentive Plan. A grantee who is awarded stock units will be required to recognize ordinary income in an amount equal to the fair market value of shares issued to such grantee at the end of the restriction period or, if later, the payment date. If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Internal Revenue Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Dividend Equivalent Rights.* Participants who receive dividend equivalent rights will be required to recognize ordinary income in an amount distributed to the grantee pursuant to the award. If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Internal Revenue Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Stock Appreciation Rights.* There are no immediate tax consequences of receiving an award of stock appreciation rights under the Amended Equity Incentive Plan. Upon exercising a stock appreciation right, a grantee will recognize ordinary income in an amount equal to the difference between the exercise price and the fair market value of the common stock on the date of exercise. If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Internal Revenue Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*Performance Units.* The award of performance units will have no federal income tax consequences for us or for the grantee. The payment of the award is taxable to a grantee as ordinary income. If we comply with applicable reporting requirements and with the restrictions of Section 162(m) of the Internal Revenue Code, we will be entitled to a business expense deduction in the same amount and generally at the same time as the grantee recognizes ordinary income.

*To the extent payments which are contingent on a change in control are determined to exceed certain Internal Revenue Code limitations, they may be subject to a 20% nondeductible excise tax and the Company's deduction with respect to the associated compensation expense may be disallowed in whole or in part.*

**New Awards**

The awards, if any, that will be made to eligible participants under the Amended Equity Incentive Plan are subject to the discretion of the Compensation Committee of the Board of Directors, and thus we cannot currently determine the benefits or number of shares subject to awards that may be granted in the future to eligible participants under the Amended Equity Incentive Plan, as proposed to be amended, and therefore no new plan benefits table can be provided at this time.



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**WHERE YOU CAN FIND MORE INFORMATION**

Walker & Dunlop files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any of this information at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC also maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers, including Walker & Dunlop, who file electronically with the SEC. The address of that site is [www.sec.gov](http://www.sec.gov).

The SEC allows us to "incorporate by reference" into this proxy statement documents we file with the SEC, meaning that we are disclosing important information to you by referring you to another document filed separately with the SEC. The information that we incorporate by reference is considered to be a part of this proxy statement, and later information that we file with the SEC will update and supersede that information. This proxy statement incorporates by reference the documents set forth below that have been previously filed by us with the SEC:

Proxy Statement on Schedule 14A, as filed with the SEC on April 26, 2012;

Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on March 9, 2012;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, filed on with the SEC on May 10, 2012;

Current Reports on Form 8-K and Form 8-K/A, filed on April 4, 2012, June 8, 2012 and June 15, 2012, June 28, 2012 and July 9, 2012; and

Registration Statement on Form S-3, filed on January 18, 2012.

We also incorporate by reference into this proxy statement additional documents that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act from the date of this proxy statement to the date of the Special Meeting (excluding any information "furnished" but not "filed"). These include reports such as quarterly reports on Form 10-Q and current reports on Form 8-K.

**Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Stockholders To Be Held on Thursday, August 30, 2012:**

The proxy statement and related materials are available at: <http://shareowner.mobular.net/shareowner/wd>

In addition, a copy of all documents incorporated into this proxy statement by reference will be mailed, without charge, upon written or oral request, by first class mail and within one business day of our receipt of such request. Requests for such documents should be directed to:

Walker & Dunlop, Inc.  
Attn: Investor Relations  
7501 Wisconsin Avenue, Suite 1200E  
Bethesda, Maryland 20814

You may also consult Walker & Dunlop's website for more information concerning the Acquisition described in this document. Walker & Dunlop's website is [www.walkerdunlop.com](http://www.walkerdunlop.com). We do not incorporate by reference into this document information included on the website.

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## CWCAPITAL LLC

## CONDENSED BALANCE SHEETS

AS OF MARCH 31, 2012 AND DECEMBER 31, 2011

	March 31, 2012 (unaudited)	December 31, 2011 (unaudited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 24,164,812	21,773,306
Restricted cash	24,178,648	23,678,476
Accounts receivable - trade	6,546,745	12,769,594
Accounts receivable - related party	75,555	253,794
Mortgage loans held for sale - \$267,274,765 and \$716,720,122 at fair value	267,585,133	717,030,490
Mortgage servicing rights - at fair value	115,052,045	113,516,260
Intangible assets - net	1,800,000	1,800,000
Derivative assets - at fair value	32,135,384	42,012,160
Other assets - \$965,847 at fair value	4,326,865	4,849,859
<b>TOTAL ASSETS</b>	<b>\$ 475,865,187</b>	<b>\$ 937,683,939</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Notes payable	\$ 260,732,001	695,215,604
Accounts payable	0	53,741
Borrower deposits	3,195,376	4,525,385
Derivative liabilities - at fair value	20,878,287	40,667,215
Risk share liability	29,420,633	31,252,437
Accrued compensation	10,104,717	20,284,588
Accrued expenses and other liabilities	801,660	2,105,969
<b>Total liabilities</b>	<b>325,132,674</b>	<b>794,104,939</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 9)</b>		
<b>MEMBER'S EQUITY:</b>		
Paid-in capital	105,279,908	105,090,290
Retained earnings	45,452,605	38,488,710
<b>Total member's equity</b>	<b>150,732,513</b>	<b>143,579,000</b>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$ 475,865,187</b>	<b>\$ 937,683,939</b>

See accompanying notes to condensed financial statements.

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## CWCAPITAL LLC

## CONDENSED STATEMENTS OF INCOME

## FOR THE QUARTERS ENDED MARCH 31, 2012 AND 2011

	For the quarter ended March 31,	
	2012	2011
	(unaudited)	(unaudited)
<b>REVENUE:</b>		
Servicing fees	\$ 9,124,212	\$ 6,382,500
Mortgage banking activities	24,852,426	17,747,668
Interest income:		
Interest income	2,768,675	1,921,279
Interest expense	(1,918,915)	(1,294,041)
Net interest income	849,760	627,238
Other income	155,688	(33,140)
Total revenue	34,982,086	24,724,266
<b>OPERATING EXPENSES:</b>		
Compensation expense	12,366,121	9,009,747
Fair value adjustments MSR	12,874,953	3,652,414
General and administrative	940,476	2,777,341
Consulting and professional fees	742,022	653,981
Rent expense	434,148	393,986
Travel and entertainment	370,619	362,101
Depreciation	289,852	29,075
Total operating expenses	28,018,191	16,878,645
NET INCOME	\$ 6,963,895	\$ 7,845,621

See accompanying notes to condensed financial statements.

Table of Contents**CWCAPITAL LLC****CONDENSED STATEMENTS OF MEMBER'S EQUITY****FOR THE QUARTERS ENDED MARCH 31, 2012 AND 2011**

	<b>Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
BALANCE January 1, 2011	\$ 105,090,290	\$ 27,182,770	\$ 132,273,060
Net income		7,845,621	7,845,621
<b>BALANCE March 31, 2011</b>	<b>\$ 105,090,290</b>	<b>\$ 35,028,391</b>	<b>\$ 140,118,681</b>
BALANCE January 1, 2012	\$ 105,090,290	\$ 38,488,710	\$ 143,579,000
Net income		6,963,895	6,963,895
Contributions	189,618		189,618
<b>BALANCE March 31, 2012</b>	<b>\$ 105,279,908</b>	<b>\$ 45,452,605</b>	<b>\$ 150,732,513</b>

See accompanying notes to condensed financial statements.

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## CWCAPITAL LLC

## CONDENSED STATEMENTS OF CASH FLOWS

## FOR THE QUARTER ENDED MARCH 31, 2012 AND 2011

	For the quarter ended March 31,	
	2012	2011
	(unaudited)	(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,963,895	\$ 7,845,621
Adjustments to reconcile net income to net cash used in operating activities:		
Equity investment in investee	(51,242)	52,752
Mortgage banking activities	(13,422,177)	(8,731,061)
Fair value adjustments of MSRs	12,874,953	3,652,414
Depreciation	10,027	29,075
Reserve for risk share liability	(1,256,706)	227,606
Changes in operating assets and liabilities:		
Restricted cash	(500,172)	(2,404,638)
Accounts receivable trade	6,222,849	(278,395)
Accounts receivable related party	178,239	(463,533)
Mortgage loans held for sale	438,544,644	132,364,193
Other assets	139,860	102,542
Accounts payable	(53,741)	(43,595)
Borrower deposits	(1,330,009)	1,793,750
Accrued compensation	(10,179,871)	(8,973,629)
Accrued expenses and other liabilities	(1,879,407)	(868,207)
Net cash provided by operating activities	436,261,142	124,304,895
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash received on investments	405,599	
Distributions from ARA	18,750	18,750
Net cash provided by investing activities	424,349	18,750
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on notes payable	965,520,814	530,870,953
Repayments on notes payable	(1,400,004,417)	(662,801,015)
Contribution from Parent	189,618	
Net cash used in financing activities	(434,293,985)	(131,930,062)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,391,506	(7,606,417)
CASH AND CASH EQUIVALENTS beginning of quarter	21,773,306	32,812,000
CASH AND CASH EQUIVALENTS end of quarter	\$ 24,164,812	\$ 25,205,583
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION Cash paid for interest	\$ 2,271,364	\$ 1,353,380

See accompanying notes to condensed financial statements.





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**CWCapital LLC**

**Notes to Condensed Financial Statements**

**NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION**

These financial statements represent the condensed financial position, results of operations, changes in member's equity and cash flows of CWCapital LLC, a Massachusetts limited liability company, and a wholly owned operating subsidiary of CW Financial Services LLC ("Parent"), a Delaware limited liability company. Unless the context otherwise requires, references to "we," "us," "our," "CWCapital" and the "Company" mean CWCapital LLC. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the 2011 audited financial statements and notes thereto. In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three months ended March 31, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012, or thereafter.

The Company commenced operations on September 9, 2002, and is in the business of originating, selling, and servicing commercial real estate mortgages.

The Company is licensed as a U.S. Department of Housing and Urban Development ("HUD") approved Title II Nonsupervised Mortgagee. The Company is also licensed by Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae"), and Federal Home Loan Mortgage Corporation ("Freddie Mac").

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** The financial statements include the accounts of the Company. Entities where the Company holds 20% to 50% of the voting rights are accounted for under the equity method, and the pro rata share of the income is included in other income on the Company's statement of income.

**Use of Estimates** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant use of estimates relates to valuation of certain financial instruments and other assets and liabilities, such as mortgage loans held for sale ("MLHFS"), mortgage servicing rights ("MSRs"), intangible assets, derivative assets and liabilities, risk share liability and certain compensation plans. Actual results could differ from those estimates.

**Cash and Cash Equivalents** The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Company places its cash and cash equivalents with financial institutions which management considers to be of high quality; however, at times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit.

**Restricted Cash** Restricted cash represents cash that is restricted as to withdrawal or usage and includes amounts required to meet certain regulatory requirements.

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**CWCapital LLC**

**Notes to Condensed Financial Statements (Continued)**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounts Receivable** Accounts receivable is composed primarily of security delivery deposits, primary servicing advances and primary servicing fees. Security delivery deposits are collected upon settlement of the security with the investor. Such deposits are made to insure delivery of the security to the investor by the Company. Primary servicing advances are either applied against loss settlement (Fannie Mae), recovered through claims settlement (Ginnie Mae), or from reimbursement from the CMBS trust. Primary servicing fees are collected as monthly remittances are received from the borrower on the loan being serviced. For all of these receivables, collectability is not deemed to be a significant risk and no reserve has been established.

**MLHFS** MLHFS is composed of loans that have been originated by the Company and are held on balance sheet while awaiting sale. The Company elects the fair value option for MLHFS entered into at and after September 1, 2010. Fees and costs related to fair valued MLHFS are recognized in earnings as incurred and not deferred.

MLHFS where the Company has not elected the fair value option were initially recorded at fair value and subsequently have been accounted for at the lower of cost or fair value ("LOCOFV").

**MSRs** The Company is required to record a separate asset or liability initially measured at fair value for servicing rights relating to mortgages originated and sold where the servicing rights have been retained ("Originated Mortgage Servicing Rights" or "OMSRs"). MSRs are recognized as assets upon the sale of the loans. The Company also records a separate asset at fair value when it purchases servicing rights ("Purchased Mortgage Servicing Rights" or "PMSRs"). Management determines its classes of servicing assets and servicing liabilities based on program type.

The Company elected to measure and carry its MSRs using the fair value option. Under the fair value option, MSRs are carried on the Company's balance sheet at fair value and the changes in fair value are recorded in fair value adjustments MSRs in the Company's statement of income.

**Intangible Assets** Indefinite life intangible assets are not amortized until it is determined that the useful life is no longer indefinite. The Company reviews indefinite life intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value. Indefinite life intangible assets are tested for impairment annually or more frequently if events and circumstances indicate that it may be impaired.

**Derivatives** From time to time, the Company enters into certain transactions related to its mortgage banking activities that are considered to be derivatives, as follows:

Rate lock agreements ("rate locks") are contracts entered into that allow commercial mortgage customers to lock in the interest rate on a mortgage while the loan is being underwritten and awaiting closure. Rate locks are considered derivatives if the loans that will result from the exercise of the contract will be held for sale. The fair value of rate locks at inception includes the expected net future cash flows related to fees on the related loan including future MSRs. Changes subsequent to inception are based on changes in interest rates and the passage of time.

Commitments to sell loans are considered derivatives and are entered into simultaneously with the rate lock of the related loan to offset adverse changes in the market between the time an investor enters into the purchase agreement and the time the loan or a security which wraps

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**CWCapital LLC**

**Notes to Condensed Financial Statements (Continued)**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

around a loan is purchased (collectively, the "loan sale"). The fair value of these commitments at inception is zero. Changes subsequent to inception are based on changes in interest rates and the passage of time.

**Borrower Deposits** In the normal course of business, the Company receives cash from potential borrowers to pay expenses incurred during the loan origination process (i.e., legal, appraisal, engineering, environmental, etc.). Unused deposits generally are returned to the borrower at the time a loan is closed or at the time that an application for a loan is terminated. These amounts are included in the Company's cash balance, as the deposit can be used to fund costs paid by the Company during the course of underwriting and closing a loan. A corresponding liability is recognized in borrower deposits on the Company's balance sheet.

**Risk Share Liability** The Company has Citigroup Loan Portfolio and General Loan Portfolio risk, as follows:

**Citigroup Loan Portfolio** The Company has risk on certain Fannie Mae loans where the risk is limited to the first 1% of loss on a pool of loans (this risk is fully funded under a cash collateral agreement and the related cash is held in restricted cash). In addition, there are certain Fannie Mae loans where the Company's risk is 100% of the loss, and certain Fannie Mae loans where the Company's risk is pari passu with Fannie Mae on a one-third and two-thirds basis, respectively (collectively, "Citigroup Loan Portfolio").

**General Loan Portfolio** The Company assumes risk sharing with respect to certain Fannie Mae loans, generally not exceeding 20% of the original principal balance. The Company assumes risk on the first 8% of losses on certain Freddie Mac target affordable loans and with respect to a certain GNMA securitized loan, the Company assumes the first 5% then 15% of any remainder (collectively, "General Loan Portfolio"). The Company records an estimated loss in the financial statements if it has been determined that it is probable that a liability will be incurred. Such estimate is recorded in risk share liability on the Company's balance sheet.

**Servicing Fees** Servicing fees primarily consist of primary servicing fees and placement fees for the deposit of escrows. The Company earns primary servicing fees in connection with the collection of monthly debt service payments. These fees are earned and collected monthly in accordance with each respective loan agreement. The Company earns placement fees for depositing escrow balances with third party financial institutions. These fees are earned and collected monthly through arrangements with third parties. All of these fees are recorded on a monthly basis when earned.

**Mortgage Banking Activities** Mortgage banking activity income is recognized when the Company originates a loan with a borrower (the rate lock). Also included in mortgage banking activities are changes to the fair value of MLHFS and derivatives 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.

**Interest Income** Interest income primarily is derived from interest earned from mortgages held for sale and interest earned from a loan and bonds held for investment. Interest income is accrued as earned and recorded in accounts receivable trade on the Company's balance sheet and in interest income in the Company's statement of income.

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**CWCapital LLC**

**Notes to Condensed Financial Statements (Continued)**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Interest Expense** Interest expense primarily is derived from interest paid on credit facilities that the Company maintains to finance MLHFS and other credit facilities. Interest expense is accrued each period and any interest due is recorded in accrued expenses and other liabilities on the Company's balance sheet and in interest expense in the Company's statement of income.

**Leases** The Company receives an allocation of rental expense from its Parent. The Company recognizes rental expense on a straight-line basis over the lease term.

**Income Taxes** No provision was made in the Company's financial statements for federal income taxes because the Company is a disregarded entity for federal income tax purposes and its results are included in its ultimate parent's filing with the Internal Revenue Service. In addition, the Company is generally disregarded for state and local income tax purposes. For those jurisdictions that tax at the Company level, the amounts are inconsequential.

**Concentration of Credit Risk** A significant amount of the Company's business activities in 2012 involved multifamily and health care lending activities through programs sponsored by HUD, Ginnie Mae, Fannie Mae, and Freddie Mac.

The Company is subject to credit risk with respect to certain Fannie Mae and Freddie Mac loans and one securitized HUD loan. The Company's exposure is limited as described in Note 9. In addition, the Company does not believe that it has any significant concentration related to borrower or location. The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. At March 31, 2012, \$7,000,700 of cash held in the restricted cash accounts was not covered by FDIC insurance.

**Escrow Balances and Custodial Accounts** In the normal course of conducting its mortgage servicing business, the Company collects escrow deposits to fund customer property taxes, hazard and general liability insurance premiums, as well as other escrow requirements. The Company also temporarily holds principal and interest payments that are received from borrowers until such funds are remitted to the investors. The Company held \$493,676,427, which is not included on its balance sheet at March 31, 2012. The Company places these escrow balances with financial institutions, which, from time to time, may exceed federally insured limits. At March 31, 2012, \$243,131,266 of cash held in escrow was not covered by FDIC insurance.

**Recently Issued Accounting Standards** There were no accounting standards that were issued and required to be implemented that were not implemented that would have or are expected to have a material impact on the financial position or results of operations of the Company.

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## CWCapital LLC

## Notes to Condensed Financial Statements (Continued)

**NOTE 3 GAINS FROM MORTGAGE BANKING ACTIVITIES**

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

	For the three months ended March 31,	
	2012	2011
Contractual loan origination related fees, net	\$ 9,731	\$ 5,285
Fair value of expected net future cash flows from servicing recognized at commitment	14,411	12,205
Securitization profits	710	258
Total gains from mortgage banking activities	\$ 24,852	\$ 17,748

**NOTE 4 MSRs**

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 8% to 10% for each of the three month periods presented.

*Estimated Life* The estimated life of the MSRs approximates the stated maturity date of the underlying loan as reduced by an expected prepayment and default factor.

*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 \$115.1 million at March 31, 2012. The Company uses a discounted static cash flow valuation approach and the key economic assumption is the discount rate. For example see the following sensitivities:

The impact of a 100 basis point increase in the discount rate at March 31, 2012, is a decrease in the fair value of \$4.0 million. The impact of a 200 basis point increase in the discount rate at March 31, 2012, is a decrease in the fair value of \$7.8 million.

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

	For the three months ended March 31,	
	2012	2011
Beginning balance	\$ 113,516	\$ 101,944
Additions, following sale of loan	14,411	12,205
Fair value adjustments	(12,875)	(4,012)
Ending balance	\$ 115,052	\$ 110,137

Table of Contents**CWCapital LLC****Notes to Condensed Financial Statements (Continued)****NOTE 5 ALLOWANCE FOR RISK-SHARING OBLIGATIONS**

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 risk sharing is probable and estimable on a specific loan, we record a liability for the estimated allowance for risk-sharing through a charge to the provision for risk-sharing obligations in the income statement. The amount of the provision reflects our assessment of the likelihood of payment by the borrower, the estimated disposition value of the underlying collateral and the level of risk-sharing. Historically, the loss recognition occurs at or before the loan becoming 60 days delinquent. A summary of our allowance for risk-sharing for the three months ended March 31, 2012 and 2011 is as follows (in thousands):

	<b>For the three months ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Balance at January 1	\$ 31,252	\$ 6,833
Decrease in Citigroup loan loss	(575)	
Provision for risk-sharing obligations, net	(1,256)	228
Balance at March 31	\$ 29,421	\$ 7,061

As of March 31, 2012, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement, the Freddie Mac Target Affordable and HUD Co-Insurance program was \$729 million. 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, Freddie Mac and HUD, for which we retain some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

**NOTE 6 SERVICING**

The total amount of loans the Company was servicing for various institutional investors was \$17.1 billion as of March 31, 2012.

**NOTE 7 NOTES PAYABLE**

Warehouse notes payable To provide financing to borrowers under GSE and HUD programs, the Company has arranged for committed warehouse lines of credit in the amount of \$350 million with certain national banks and a \$225 million uncommitted facility with Fannie Mae. In support of each of these credit facilities, the Company has pledged substantially all of its loans held for sale under the Company's approved programs. At March 31, 2012, borrowings aggregated \$260.7 million under the warehouse facilities. The borrowing rates under these warehouse facilities continue to be computed based on the average 30-day LIBOR plus 1.10% to 2.25% with the lower end of the range being subject to a 35 basis point floor for the average 30-day LIBOR.

**NOTE 8 FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION**

**Fair Value Hierarchy** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market,

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**CWCapital LLC**

**Notes to Condensed Financial Statements (Continued)**

**NOTE 8 FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

or if none exists, the most advantageous market, for the specific asset or liability at the measurement date ("exit price"). The fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

**Fair Value Option** The Company may make an irrevocable election to carry certain financial instruments at fair value with corresponding changes in fair value recorded in the results of operations. The election to carry an instrument at fair value is made at the individual contract level and can be made only at origination or inception of the instrument, or upon the occurrence of an event that results in a new basis of accounting.

The Company elected the fair value option on a loan and bonds held for investment upon acquisition of the investments. This election was made to reflect current estimated value of the loan and bonds held for investment.

The Company elected the fair value option on MLHFS entered into after the election date. This election was made to decrease earnings volatility and match corresponding changes in the related commitment to sell loans.

The above amounts do not include interest and dividends earned during the period. Such interest and dividends are recorded in interest income or interest expense on an accrual basis. Additionally, amounts do not reflect associated derivatives.



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## CWCapital LLC

## Notes to Condensed Financial Statements (Continued)

**NOTE 8 FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

**Items Measured at Fair Value on a Recurring Basis** The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at March 31, 2012, for each of the fair value hierarchy levels:

	Quoted Prices Active Markets for Identical Assets Level 1	Fair Value at Reporting Date Using		Total
		Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<b>Assets:</b>				
MLHFS	\$	\$ 267,274,765	\$	\$ 267,274,765
MSRs			115,052,045	115,052,045
Derivative assets			32,135,384	32,135,384
Loan held for investment			920,574	920,574
Bonds held for investment			45,273	45,273
<b>Total assets at fair value</b>	<b>\$</b>	<b>\$ 267,274,765</b>	<b>\$ 148,153,276</b>	<b>\$ 415,428,041</b>
<b>Liabilities:</b>				
Derivative liabilities	\$	\$	(20,878,287)	(20,878,287)
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$</b>	<b>\$ (20,878,287)</b>	<b>\$ (20,878,287)</b>

The following table represents the changes in the Level 3 assets and liabilities for the quarter ended March 31, 2012 and 2011:

	MSRs	Derivative Asset	Loan Held for Investment	Bonds Held for Investment	Derivative Liability
Beginning balance January 1, 2012	\$ 113,516,260	\$ 42,012,160	\$ 943,738	\$ 427,708	\$ (40,667,215)
Issuances	14,410,738	26,718,714			
Settlements	(1,746,625)	(26,493,437)	(23,164)	(382,435)	
Unrealized gains (losses)	(11,128,328)	(10,102,053)			19,788,928
<b>Ending balance March 31, 2012</b>	<b>\$ 115,052,045</b>	<b>\$ 32,135,384</b>	<b>\$ 920,574</b>	<b>\$ 45,273</b>	<b>\$ (20,878,287)</b>

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date

	\$ (11,128,328)	\$ 32,135,384	\$	\$	\$ (20,878,287)
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## CWCapital LLC

## Notes to Condensed Financial Statements (Continued)

## NOTE 8 FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)

	MSRs	Derivative Asset	Derivative Liability
Beginning balance January 1, 2011	\$ 101,943,550	\$ 37,329,641	\$ (18,022,927)
Issuances	12,205,376	31,153,111	
Settlements	(1,561,166)	(32,263,789)	
Unrealized gains (losses)	(2,450,879)	(7,903,630)	(677,025)
Ending balance March 31, 2011	\$ 110,136,881	\$ 28,315,333	\$ (18,699,952)

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date

\$ (2,450,879) \$ 28,315,333 \$ (18,699,952)

Gains and losses (realized and unrealized) included in the Company's statement of income for the quarters ended March 31, 2012 and 2011, for Level 3 assets and liabilities recorded in its balance sheet at fair value are presented in the table as follows:

	Mortgage Banking	Fair Value Adjustments	MSRs
<b>For the quarter ended March 31, 2012</b>			
Total gains or losses included in earnings for the quarter	\$ 24,097,613	\$	(12,874,953)
Unrealized gains or losses related to assets still held at quarter end	\$ 11,257,097	\$	(11,128,328)

	Mortgage Banking	Fair Value Adjustments	MSRs
<b>For the quarter ended March 31, 2011</b>			
Total gains or losses included in earnings for the quarter	\$ 3,624,721	\$	(4,012,045)
Unrealized gains or losses related to assets still held at quarter end	\$ 9,615,381	\$	(2,450,879)

Table of Contents**CWCapital LLC****Notes to Condensed Financial Statements (Continued)****NOTE 8 FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

The estimated fair values of the Company's financial instruments are as follows:

	<b>Book Value</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 24,164,812	\$ 24,164,812
Restricted cash	24,178,648	24,178,648
Accounts receivable trade	6,546,745	6,546,745
Accounts receivable related party	75,555	75,555
MSRs	115,052,045	115,052,045
MLHFS	267,585,133	267,693,103
Derivative assets	32,135,384	32,135,384
Loan held for investment	920,574	920,574
Bonds held for investment	45,273	45,273
Notes payable	(260,732,001)	(260,732,001)
Derivative liabilities	(20,878,287)	(20,878,287)

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable Carrying amount approximates fair value due to the short term nature of the instruments.

MSRs Fair value of MSRs was determined by using a discounted cash flow model that incorporates current market assumptions commonly used by buyers of these types of commercial/multifamily servicing rights. The model considers contractually specified servicing fee rates, prepayments assumptions, delinquency rates, cost of servicing and other economic factors. The MSRs are included within Level 3 of the fair value hierarchy.

MLHFS The book value of MLHFS includes loans for which the Company elected the fair value option and approximately \$310,368 of loans for which the fair value option was not elected. Fair values are determined using management's judgment based on the intended exit strategy for the mortgage loan, including whole loan sales. MLHFS for which the fair value option has been elected was determined by using quoted prices from market participants as well as an assessment of the present value of certain fee components that are retained by the Company. These MLHFS are included within Level 2 of the fair value hierarchy.

Derivative Assets and Liabilities The Company's derivatives are valued as follows:

The fair value of rate locks was determined by reviewing the index yield change from the date the loan was locked to period end as well as an assessment of the present value of certain fee components that are retained by the Company. Rate locks are classified within Level 3 of the fair value hierarchy.

The fair value of commitments to sell loans was determined by reviewing the index yield change from the time the sale commitment was entered into to the date of the financial statements. The fair value of commitments to sell loans was determined by reviewing the market change in the interest rate from the date the loan was locked to period end. Commitments to sell loans are included within Level 3 of the fair value hierarchy.

Loan and Bonds Held for Investment The fair values of loan and bonds held for investment was determined by using a discounted cash flow model that incorporates current market assumptions

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**CWCapital LLC**

**Notes to Condensed Financial Statements (Continued)**

**NOTE 8 FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

commonly used by buyers of these types of loans and bonds. Loan and bonds held for investment are classified within Level 3.

Notes Payable The fair value of notes payable is the same as the carrying value as these notes have a floating rate of interest which is a market rate of interest for these types of notes. Notes payable are included within Level 3 of the fair value hierarchy.

**NOTE 9 LITIGATION, COMMITMENTS AND CONTINGENCIES**

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

The Company is generally required to share the risk of any losses associated with loans sold under the Fannie Mae DUS program (the DUS risk-sharing obligations). The Company is required to secure this obligation by assigning restricted cash balances and securities to Fannie Mae. The reserve for loans may be posted over the first 48 months. As of March 31, 2012, the Company had pledged cash and securities in excess of these requirements. In 2010, Fannie Mae increased its collateral requirements for Tier II loans by approximately 25 basis points effective April 1, 2011. Based on our aggregate Fannie Mae portfolio as of March 31, 2012, the total incremental collateral required for all existing loans over the life of the portfolio, in accordance with Fannie Mae requirements, is expected to be approximately \$6.9 million. In January 2012, Fannie Mae notified its Multifamily DUS lenders that collateral requirements on Fannie Mae Tier II, III and IV loans will remain unchanged for 2012. However, collateral requirements for existing and new Fannie Mae Tier I loans will increase from 50 basis points to 90 basis points and that Level 2 and Level 3 loss sharing requirements will increase. We currently have no loans in our portfolio which will be affected by the announced collateral changes and do not expect it will have a material impact on our future operations; however, future changes to collateral requirements may adversely impact us. Under the provisions of the DUS agreement, the Company must also maintain a certain level of liquid assets referred to as the operational and unrestricted portions of the required reserves each year. These requirements were satisfied by the Company as of March 31, 2012.

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 accounts receivable trade.

Fannie Mae has established benchmark standards for capital adequacy, and reserves the right to terminate the Company's servicing authority for all or some of the portfolio, if at any time it determines that the Company's financial condition is not adequate to support its obligation under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the standards and the Company satisfied the requirements as of March 31, 2012. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk-sharing. At March 31, 2012, the net worth requirement was \$30.5 million and the Company's acceptable net worth was \$151.7 million. As of March 31, 2012, we were required to maintain at least

Table of Contents**CWCapital LLC****Notes to Condensed Financial Statements (Continued)****NOTE 9 LITIGATION, COMMITMENTS AND CONTINGENCIES (Continued)**

\$4.5 million of liquid assets to meet our operational liquidity requirements, as defined in the agreements, for Fannie Mae, Freddie Mac, HUD and Ginnie Mae. As of March 31, 2012, we had operational liquidity of \$21.4 million.

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

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

**NOTE 10 TRANSACTIONS WITH RELATED PARTIES**

The Company shares office facilities and personnel with the Parent and other subsidiaries of the Parent. Accordingly, the related costs of such arrangements have been allocated among the various subsidiaries in a manner which management believes is representative of the actual costs incurred. Included in general and administrative expense is \$1,843,017 and \$1,652,142 of cost allocations for the quarters ended March 31, 2012 and 2011, respectively.

The Company had accounts receivable outstanding with employees of \$75,555 primarily representing amounts advanced against future compensation.

Amounts earned from or paid to affiliates of the Company for the quarters ended March 31, 2012 and 2011, are as follows:

	For the quarter ended March 31,	
	2012	2011
Servicing fees	\$ 211,693	\$ 6,914
Mortgage banking activity	883,152	110,159
Interest income	847,375	
Other income	64,994	(39,000)
Total	\$ 2,007,214	\$ 78,073

**NOTE 11 SUBSEQUENT EVENTS**

The Company evaluated subsequent events after the condensed balance sheet date of March 31, 2012 through June 30, 2012, which was the date the financial statements were available to be issued.

On May 23, 2012, the Company increased its first mortgage warehousing demand line of credit to \$150 million and extended the maturity date to July 12, 2012.

On May 23, 2012, the Company increased its fourth mortgage warehousing demand line of credit to \$100 million.

On June 7, 2012, the Parent and the Company entered into an agreement pursuant to which Parent will sell to Walker & Dunlop, Inc. all of the Company's outstanding limited liability company

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**CWCapital LLC**

**Notes to Condensed Financial Statements (Continued)**

**NOTE 11 SUBSEQUENT EVENTS (Continued)**

interests, pursuant to a Purchase Agreement dated June 7, 2012, for approximately \$220 million, net of certain expenses and adjustments, and is expected to close by the end of 2012.

On June 25, 2012, the Company extended the maturity date on its first mortgage warehousing demand line of credit to October 1, 2012 and entered into a temporary increase of \$400 million for the period from June 25, 2012 to August 8, 2012.

On June 25, 2012, the Company extended the maturity date on its HUD servicing advance line of credit to October 1, 2012.

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**CWCapital LLC**  
**(A Wholly Owned Subsidiary of**  
**CW Financial Services LLC)**

**Financial Statements as of and**  
**for the year ended December 31, 2011, and**  
**Independent Auditors' Report**

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**CWCAPITAL LLC**

(A Wholly Owned Subsidiary of CW Financial Services LLC)

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**KPMG LLP**  
Two Financial Center  
60 South Street  
Boston, MA 02111

**Independent Auditors' Report**

To the Member  
of CWCapital LLC:

We have audited the accompanying balance sheet of CWCapital LLC (a wholly owned subsidiary of CW Financial Services LLC) (the "Company") as of December 31, 2011 and the related statements of income, member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CWCapital LLC as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

March 9, 2012

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****BALANCE SHEET****AS OF DECEMBER 31, 2011**

<b>ASSETS</b>	
Cash and cash equivalents	\$ 21,773,306
Restricted cash	23,678,476
Accounts receivable trade	12,769,594
Accounts receivable related party	253,794
Mortgage loans held for sale \$716,720,122 at fair value	717,030,490
Mortgage servicing rights at fair value	113,516,260
Intangible assets net	1,800,000
Derivative assets at fair value	42,012,160
Other assets \$1,371,446 at fair value	4,849,859
<b>TOTAL ASSETS</b>	<b>\$ 937,683,939</b>
<b>LIABILITIES AND EQUITY</b>	
<b>LIABILITIES:</b>	
Notes payable	\$ 695,215,604
Accounts payable	53,741
Borrower deposits	4,525,385
Derivative liabilities at fair value	40,667,215
Risk share liability (Note 4)	31,252,437
Accrued compensation	20,284,588
Accrued expenses and other liabilities	2,105,969
<b>Total liabilities</b>	<b>794,104,939</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 13)</b>	
<b>MEMBER'S EQUITY:</b>	
Paid-in capital	105,090,290
Retained earnings	38,488,710
<b>Total member's equity</b>	<b>143,579,000</b>
<b>TOTAL LIABILITIES AND MEMBER'S EQUITY</b>	<b>\$ 937,683,939</b>

See accompanying notes to financial statements.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****CONSOLIDATED STATEMENT OF INCOME****FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>REVENUE:</b>	
Servicing fees	\$ 27,666,698
Mortgage banking activities	102,454,040
Interest income:	
Interest income	9,038,282
Interest expense	(6,104,792)
Net interest income	2,933,490
Other income	585,482
<b>Total revenue</b>	<b>133,639,710</b>
<b>OPERATING EXPENSES:</b>	
Compensation expense	48,428,511
Fair value adjustments MSR	40,183,197
General and administrative	12,904,536
Consulting and professional fees	2,558,960
Rent expense	1,730,298
Travel and entertainment	1,870,759
Depreciation	96,453
<b>Total operating expenses</b>	<b>107,772,714</b>
<b>NET INCOME</b>	<b>\$ 25,866,996</b>

See accompanying notes to financial statements.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**STATEMENT OF MEMBER'S EQUITY**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<b>Paid-In Capital</b>	<b>Retained Earnings</b>	<b>Total</b>
BALANCE January 1, 2011	\$ 105,090,290	\$ 27,182,770	\$ 132,273,060
Net income		25,866,996	25,866,996
Distributions		(14,561,056)	(14,561,056)
BALANCE December 31, 2011	\$ 105,090,290	\$ 38,488,710	\$ 143,579,000

See accompanying notes to financial statements.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****STATEMENTS OF CASH FLOWS****FOR THE YEAR ENDED DECEMBER 31, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Net income	\$ 25,866,996
Adjustments to reconcile net income to net cash used in operating activities:	
Equity investment in investee	(99,198)
Mortgage banking activities	(49,045,190)
Fair value adjustments of MSRs	40,183,197
Amortization of Citigroup loan loss	(411,399)
Depreciation	96,453
Reserve for risk share liability	1,689,025
Changes in operating assets and liabilities:	
Restricted cash	(4,994,510)
Accounts receivable trade	(9,993,490)
Accounts receivable related party	(253,758)
Mortgage loans held for sale	(466,702,838)
Other assets	(455,327)
Accounts payable	10,146
Borrower deposits	1,649,290
Accrued compensation	2,908,030
Cash paid to settle risk sharing obligations	(589,101)
Accrued expenses and other liabilities	906,236
<b>Net cash used in operating activities</b>	<b>(459,235,438)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Cash paid to acquire Citigroup loan portfolio	(299,764)
Cash received on investments	19,005
Distributions from ARA	375,000
<b>Net cash provided by investing activities</b>	<b>94,241</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>	
Borrowings on notes payable	3,451,843,087
Repayments on notes payable	(2,989,179,528)
Distributions to Parent	(14,561,056)
<b>Net cash provided by financing activities</b>	<b>448,102,503</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(11,038,694)</b>
<b>CASH AND CASH EQUIVALENTS beginning of year</b>	<b>32,812,000</b>
<b>CASH AND CASH EQUIVALENTS end of year</b>	<b>\$ 21,773,306</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b> cash paid for interest	<b>\$ 5,716,835</b>

See accompanying notes to financial statements.



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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

**1. ORGANIZATION**

CWCapital LLC (the "Company"), a Massachusetts limited liability company, is a wholly owned operating subsidiary of CW Financial Services LLC ("CWFS" or "Parent"), a Delaware limited liability company. The Company commenced operations on September 9, 2002, and is in the business of originating, selling, and servicing commercial real estate mortgages.

CWFS is a wholly owned subsidiary of CWFS Holdings LLC ("Holdings"), which is a wholly owned subsidiary of Galaxy Acquisition LLC ("Galaxy"). Galaxy is an affiliate of the Fortress Investment Group LLC ("Fortress").

The Company is licensed as a U.S. Department of Housing and Urban Development ("HUD") approved Title II Nonsupervised Mortgagee. The Company is also licensed by Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae"), and Federal Home Loan Mortgage Corporation ("Freddie Mac").

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** The financial statements include the accounts of the Company. Entities where the Company holds 20% to 50% of the voting rights are accounted for under the equity method, and the pro rata share of the income is included in other income on the Company's statement of income.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant use of estimates relates to valuation of certain financial instruments and other assets and liabilities, such as mortgage loans held for sale ("MLHFS"), mortgage servicing rights ("MSRs"), intangible assets, derivative assets and liabilities, risk share liability and certain compensation plans. Actual results could differ from those estimates.

**Cash and Cash Equivalents** The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Company places its cash and cash equivalents with financial institutions which management considers to be of high quality; however, at times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit.

**Restricted Cash** Restricted cash represents cash that is restricted as to withdrawal or usage and includes amounts required to meet certain regulatory requirements.

**Accounts Receivable** Accounts receivable is composed primarily of security delivery deposits, primary servicing advances and primary servicing fees. Security delivery deposits are collected upon settlement of the security with the investor. Such deposits are made to insure delivery of the security to the investor by the Company. Primary servicing advances are either applied against loss settlement (Fannie Mae), recovered through claims settlement (Ginnie Mae), or from reimbursement from the CMBS trust. Primary servicing fees are collected as monthly remittances are received from the

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

borrower on the loan being serviced. For all of these receivables, collectability is not deemed to be a significant risk and no reserve has been established.

**MLHFS** MLHFS is composed of loans that have been originated by the Company and are held on balance sheet while awaiting sale. The Company elects the fair value option for MLHFS entered into at and after September 1, 2010. Fees and costs related to fair valued MLHFS are recognized in earnings as incurred and not deferred.

MLHFS where the Company has not elected the fair value option were initially recorded at fair value and subsequently have been accounted for at the lower of cost or fair value ("LOCOFV").

**MSRs** The Company is required to record a separate asset or liability initially measured at fair value for servicing rights relating to mortgages originated and sold where the servicing rights have been retained ("Originated Mortgage Servicing Rights" or "OMSRs"). MSRs are recognized as assets upon the sale of the loans. The Company also records a separate asset at fair value when it purchases servicing rights ("Purchased Mortgage Servicing Rights" or "PMSRs"). Management determines its classes of servicing assets and servicing liabilities based on program type.

The Company elected to measure and carry its MSRs using the fair value option. Under the fair value option, MSRs are carried on the Company's balance sheet at fair value and the changes in fair value are recorded in fair value adjustments MSRs in the Company's statement of income.

**Intangible Assets** Indefinite life intangible assets are not amortized until it is determined that the useful life is no longer indefinite. The Company reviews indefinite life intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value. Indefinite life intangible assets are tested for impairment annually or more frequently if events and circumstances indicate that it may be impaired.

**Derivatives** From time to time, the Company enters into certain transactions related to its mortgage banking activities that are considered to be derivatives, as follows:

Rate lock agreements ("rate locks") are contracts entered into that allow commercial mortgage customers to lock in the interest rate on a mortgage while the loan is being underwritten and awaiting closure. Rate locks are considered derivatives if the loans that will result from the exercise of the contract will be held for sale. The fair value of rate locks at inception includes the expected net future cash flows related to fees on the related loan including future MSRs. Changes subsequent to inception are based on changes in interest rates and the passage of time.

Commitments to sell loans are considered derivatives and are entered into simultaneously with the rate lock of the related loan to offset adverse changes in the market between the time an investor enters into the purchase agreement and the time the loan or a security which wraps around a loan is purchased (collectively, the "loan sale"). The fair value of these commitments at inception is zero. Changes subsequent to inception are based on changes in interest rates and the passage of time.



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CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Borrower Deposits** In the normal course of business, the Company receives cash from potential borrowers to pay expenses incurred during the loan origination process (i.e., legal, appraisal, engineering, environmental, etc.). Unused deposits generally are returned to the borrower at the time a loan is closed or at the time that an application for a loan is terminated. These amounts are included in the Company's cash balance, as the deposit can be used to fund costs paid by the Company during the course of underwriting and closing a loan. A corresponding liability is recognized in borrower deposits on the Company's balance sheet.

**Risk Share Liability** The Company has Citigroup Loan Portfolio and General Loan Portfolio risk, as follows:

**Citigroup Loan Portfolio** The Company has risk on certain Fannie Mae loans where the risk is limited to the first 1% of loss on a pool of loans (this risk is fully funded under a cash collateral agreement and the related cash is held in restricted cash). In addition, there are certain Fannie Mae loans where the Company's risk is 100% of the loss, and certain Fannie Mae loans where the Company's risk is pari passu with Fannie Mae on a one-third and two-thirds basis, respectively (collectively, "Citigroup Loan Portfolio"). Please see Note 4 for further information.

**General Loan Portfolio** The Company assumes risk sharing with respect to certain Fannie Mae loans, generally not exceeding 20% of the original principal balance. The Company assumes risk on the first 8% of losses on certain Freddie Mac target affordable loans and with respect to a certain GNMA securitized loan, the Company assumes the first 5% then 15% of any remainder (collectively, "General Loan Portfolio"). The Company records an estimated loss in the financial statements if it has been determined that it is probable that a liability will be incurred. Such estimate is recorded in risk share liability on the Company's balance sheet.

**Servicing Fees** Servicing fees primarily consist of primary servicing fees and placement fees for the deposit of escrows. The Company earns primary servicing fees in connection with the collection of monthly debt service payments. These fees are earned and collected monthly in accordance with each respective loan agreement. The Company earns placement fees for depositing escrow balances with third party financial institutions. These fees are earned and collected monthly through arrangements with third parties. All of these fees are recorded on a monthly basis when earned.

**Mortgage Banking Activities** Mortgage banking activity income is recognized when the Company originates a loan with a borrower (the rate lock). Also included in mortgage banking activities are changes to the fair value of MLHFS and derivatives 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.

**Interest Income** Interest income primarily is derived from interest earned from mortgages held for sale and interest earned from a loan and bonds held for investment. Interest income is accrued as earned and recorded in accounts receivable trade on the Company's balance sheet and in interest income in the Company's statement of income.

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CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Interest Expense** Interest expense primarily is derived from interest paid on credit facilities that the Company maintains to finance MLHFS and other credit facilities. Interest expense is accrued each period and any interest due is recorded in accrued expenses and other liabilities on the Company's balance sheet and in interest expense in the Company's statement of income.

**Leases** The Company receives an allocation of rental expense from CWFS. The Company recognizes rental expense on a straight-line basis over the lease term.

**Income Taxes** No provision was made in the Company's financial statements for federal income taxes because the Company is a disregarded entity for federal income tax purposes and its results are included in its ultimate parent's filing with the Internal Revenue Service. In addition, the Company is generally disregarded for state and local income tax purposes. For those jurisdictions that tax at the Company level, the amounts are inconsequential.

**Concentration of Credit Risk** A significant amount of the Company's business activities in 2011 involved multifamily and health care lending activities through programs sponsored by HUD, Ginnie Mae, Fannie Mae, and Freddie Mac.

The Company is subject to credit risk with respect to certain Fannie Mae and Freddie Mac loans and one securitized HUD loan. The Company's exposure is limited as described in Note 13. In addition, the Company does not believe that it has any significant concentration related to borrower or location. The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. At December 31, 2011, \$6,500,529 of cash held in the restricted cash accounts was not covered by FDIC insurance.

**Escrow Balances and Custodial Accounts** In the normal course of conducting its mortgage servicing business, the Company collects escrow deposits to fund customer property taxes, hazard and general liability insurance premiums, as well as other escrow requirements. The Company also temporarily holds principal and interest payments that are received from borrowers until such funds are remitted to the investors. The Company held \$497,043,823, which is not included on its balance sheet at December 31, 2011. The Company places these escrow balances with financial institutions, which, from time to time, may exceed federally insured limits. At December 31, 2011, \$130,683,349 of cash held in escrow was not covered by FDIC insurance.

**Recently Issued Accounting Standards** There were no accounting standards that were issued and required to be implemented that were not implemented that would have or are expected to have a material impact on the financial position or results of operations of the Company.

**3. HOLDINGS TERM LOAN**

On October 18, 2011, Holdings entered into an \$115,000,000 term loan (the "Agreement") with a lender. The Agreement has a four-year term unless extended by Holdings for an additional three months under certain conditions described in the Agreement. The financing bears interest at a variable rate of LIBOR plus 600 and was 6.28% at December 31, 2011. Principal payments are due quarterly in the amount of \$7,187,500 and Holdings has a one-time option to defer a quarterly payment as

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****3. HOLDINGS TERM LOAN (Continued)**

described in the Agreement. Prepayment of the Agreement is subject to certain prepayment penalties as described in the Agreement. The Agreement is secured by a pledge of the membership interests of the Company and other collateral as described in a guarantee and collateral agreement of even date with the Agreement. The most restrictive financial covenant is the minimum debt service coverage ratio.

**4. CITIGROUP**

On October 31, 2011, the Company acquired servicing rights on a Citigroup Loan Portfolio of 2,171 Fannie Mae loans with an unpaid principal balance ("UPB") of \$2,570,660,034, a subordinate loan with a UPB of \$1,003,296 and accrued interest of \$4,975 ("Loan Held for Investment"), two subordinate interest bonds which have a 20% interest in five loans ("Bonds Held for Investment"), and a Fannie Mae guarantee of \$1,500,000 in exchange for \$299,763 of cash.

The Company assumed risk share liability on certain loans with an exposure of \$16,022,988, of which the seller provided in cash an amount equal to this exposure. The cash is held in a custodial account and is included in restricted cash on the Company's balance sheet.

Due to the fair values ascribed to the MSR and other assets acquired in the purchase, the Company recorded an offsetting liability which has been reflected in the risk share liability in the amount of \$6,603,258. This amount is amortized into income over seven years and should offset the fair value adjustment recorded to the Citigroup MSR as the related servicing rights expire.

The Company also recorded risk share liability of \$1,104,609 related to loans where the Company has credit risk which is not directly matched by restricted cash.

The purchase price allocation is as follows:

Restricted cash	\$ 16,022,988
MSR	5,113,669
Fannie Mae guarantee	1,500,000
Subordinated loan	960,380
Accrued interest	4,975
Subordinated interest bonds	428,606
Risk share liability first loss Citigroup portfolio	(16,022,988)
Risk share liability pari passu Citigroup portfolio	(1,104,609)
Risk share liability Citigroup purchase accounting	(6,603,258)
 Total	 \$ 299,763

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****5. ACCOUNTS RECEIVABLE TRADE**

Accounts receivable trade at December 31, 2011, consists of the following:

Accrued income	\$ 2,323,848
Security delivery deposits	6,551,140
Primary servicing advances	3,444,716
Other receivables	449,890
<b>Total</b>	<b>\$ 12,769,594</b>

**6. MLHFS**

The following table displays the loans in the Company's mortgage portfolio as of December 31, 2011:

Loans at fair market value	\$ 716,720,122
Loans at LOCOFV	310,368
<b>Total</b>	<b>\$ 717,030,490</b>

The cost basis of these loans was \$700,339,014 at December 31, 2011.

**7. MSRs**

The changes in the Company's MSRs measured using the fair value method at December 31, 2011, consist of the following:

Beginning of year	\$ 101,943,550
Additions:	
MSRs	51,755,907
Changes in fair value:	
Due to disposals	(7,596,287)
Due to changes in valuation inputs/assumptions	(32,586,910)
<b>Fair value of MSRs end of year</b>	<b>\$ 113,516,260</b>

The MSR valuation process during the year ended December 31, 2011, was based on the use of a discounted cash flow model to arrive at an estimate of fair value at the balance sheet date. The cash flow assumptions used in the discounted cash flow model are based on the assumptions the Company believes a potential third party acquirer would use to value the portfolio. A change in the discount rate of 100 bps or 200 bps would result in a decrease in the fair value by \$4 million and \$8 million, respectively.

The risks inherent in the valuation of MSRs includes variations in the expected prepayment and default rate, unexpected changes in interest rates, and/or a variation in the expected timing of

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****7. MSRs (Continued)**

disbursement of escrows. Changes in market conditions could have had a material impact on the Company's estimates of fair value.

A summary of the Company's MSRs and related characteristics as of December 31, 2011, is as follows:

Servicing portfolio (unpaid principal)	\$15,832,501,195
Fair value of MSR portfolio	\$113,516,260
Value expressed in basis points	72
Weighted-average service fee (bps)	17.0
Multiple (value/service fee)	4.22
Weighted-average note rate	5.15%
Weighted-average life to maturity	10.9
Average discount rate	9%
Prepayment speeds	2.5% - 25%
Cost to service	\$750 - \$2,500

During the year ended December 31, 2011, the Company earned servicing fees, late fees, and other ancillary fees of \$20,518,601, \$150,717, and \$6,997,380, respectively. Such amounts are recorded in servicing fees in the Company's statement of income.

**8. INTANGIBLE ASSETS**

The following table reflects intangible assets at December 31, 2011:

	<b>Gross Carrying Amount</b>
Agency licenses(1)	\$ 1,800,000

(1)

Agency licenses are indefinite life intangibles and, therefore, not amortized.

Table of Contents**CWCAPITAL LLC**

(A Wholly Owned Subsidiary of CW Financial Services LLC)

**NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****9. DERIVATIVES**

The Company accounts for its derivatives at fair value, and recognizes all derivatives as either assets or liabilities in its balance sheet. From time to time, the Company enters into certain transactions that are accounted for as derivatives. Please see Note 2 for details.

**Fair Value Position of the Company's Derivatives** The following table displays the fair values of asset and liability derivatives as of December 31, 2011:

	Fair Values of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Risk management derivatives:				
Rate locks	Derivative assets	\$ 41,433,916	Derivative liabilities	\$
Mortgage commitment derivatives:				
Commitments to sell loans	Derivative assets	\$ 578,244	Derivative liabilities	\$ 40,667,215
Total derivatives not designated as hedging instruments		\$ 42,012,160		\$ 40,667,215

The following table displays the outstanding notional balances and the estimated fair value of the Company's derivative instruments as of December 31, 2011:

	Notional Amount	Fair Value
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks assets	\$ 335,906,438	\$ 41,433,916
Interest rate caps	12,779,896	
Total risk management derivatives	348,686,334	41,433,916
Mortgage commitment derivatives:		
Commitments to sell loans assets	92,173,600	578,244
Commitments to sell loans liabilities	950,721,852	(40,667,215)
Total mortgage commitment derivatives	1,042,895,452	(40,088,971)
Total derivatives not designated as hedging instruments	\$ 1,391,581,786	\$ 1,344,945

Table of Contents**CWCAPITAL LLC**

(A Wholly Owned Subsidiary of CW Financial Services LLC)

**NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****9. DERIVATIVES (Continued)**

The following table displays, by type of derivative instrument, the fair value gains and losses on the Company's derivatives for the year ended December 31, 2011:

	Fair Values of Derivative Instruments	
	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks	Mortgage banking activities	\$ 171,130,320
Rate locks	Compensation	(21,600,816)
Interest rate swaps	Mortgage banking activities	8,207
Total risk management derivatives		149,537,711
Mortgage commitment derivatives commitments to sell loans	Mortgage banking activities	(73,514,850)
Total derivative fair value gains net		\$ 76,022,861

**Volume and Activity of the Company's Derivatives**

**Risk Management Derivatives** The following table displays, by derivative instrument type, the Company's risk management derivative activity for the year ended December 31, 2011:

	Rate Locks	Interest Rate Swaps	Interest Rate Caps
Notional balance as of January 1, 2011	\$ 479,418,356	\$ 981,000	\$ 41,429,896
Additions	3,641,720,856		
Settlements	(3,785,232,774)	(981,000)	(28,650,000)
Notional balance as of December 31, 2011	\$ 335,906,438	\$	\$ 12,779,896

**Mortgage Commitment Derivatives** The following table displays, by commitment type, the Company's mortgage commitment derivative activity for the year ended December 31, 2011:

	Commitments to Sell Loans
Notional balance as of January 1, 2011	\$ 712,404,532
Mortgage related securities:	
Open commitments	3,641,720,856
Settled commitments	(3,311,229,936)
Notional balance as of December 31, 2011	\$ 1,042,895,452

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****10. NOTES PAYABLE**

Notes payable at December 31, 2011, consist of the following:

First mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.30%	\$ 35,760,600
Second mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.55%	112,118,114
Third mortgage warehousing demand line of credit, bearing interest at a variable rate of 1.58%	512,901,590
Fourth mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.55%	34,435,300
HUD servicing line of credit	
<b>Total notes payable</b>	<b>\$ 695,215,604</b>

The first mortgage warehousing demand line of credit is \$125,000,000 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line matures on June 26, 2012 and routinely is extended annually. At December 31, 2011, the unused portion of the line of credit was \$89,239,400.

The second mortgage warehousing demand line of credit is \$175,000,000 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line matures on November 14, 2012 and routinely is extended annually. At December 31, 2011, the unused portion of the line of credit was \$62,881,886.

The third mortgage warehousing demand line of credit is \$175,000,000 but was under a temporary increase to \$650,000,000 through January 27, 2012 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under a certain mortgage program. Security for the mortgage warehousing line of credit is the related MLHFS. There is no stated maturity date under the lending agreement. At December 31, 2011, the unused portion of the line of credit was \$137,098,410.

The fourth mortgage warehousing demand line of credit is \$50,000,000 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line matures November 17, 2012 under the lending agreement and routinely is extended annually. At December 31, 2011, the unused portion of the line of credit was \$15,564,700.

The HUD servicing advance line of credit is \$7,500,000, which is available for principal, interest, tax and insurance advances and other property protection advances on defaulted HUD loans. There is a sub-limit of \$5,000,000 for advances over 30 days. The line is secured by a pledge of the right to reimbursement from HUD and GNMA that is held by the Company and carries



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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

**10. NOTES PAYABLE (Continued)**

variable interest rate options, as defined in the line of credit agreement. The HUD servicing advance line of credit matures on June 26, 2012 and routinely is extended annually. At December 31, 2011, the unused portion of the line of credit was \$7,500,000.

**11. EMPLOYEE BENEFIT PLAN**

The Company participates in an employee tax-deferred 401(k) plan under which individual employee contributions to the plan are matched by the Company subject to the terms of the plan. Amounts contributed by the Company for the year ended December 31, 2011 were \$334,859, which are included in compensation expense in the Company's statement of income. Additionally, the Company elected to make a profit sharing contribution of \$777,209 for 2011, which was funded on February 24, 2012. Amounts contributed by the Company are subject to vesting and forfeiture and may be returned to the Company upon termination of employment of the employee to the extent not vested.

**12. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION**

**Fair Value Hierarchy** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date ("exit price"). The fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

**Fair Value Option** The Company may make an irrevocable election to carry certain financial instruments at fair value with corresponding changes in fair value recorded in the results of operations. The election to carry an instrument at fair value is made at the individual contract level and can be made only at origination or inception of the instrument, or upon the occurrence of an event that results in a new basis of accounting.

The Company elected the fair value option on a loan and bonds held for investment upon acquisition of the investments. This election was made to reflect current estimated value of the loan and bonds held for investment.

The Company elected the fair value option on MLHFS entered into after the election date. This election was made to decrease earnings volatility and match corresponding changes in the related commitment to sell loans.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

## 12. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)

The following table presents gains and losses due to changes in fair value for items measured at fair value pursuant to election of the fair value option for the year ended December 31, 2011:

	Fair Value Losses	MSRs	General and Administrative	Mortgage Banking Activities
MSRs	\$	(32,586,910)	\$	\$ 39,045,951
Loan held for investment			(5,145)	
Bonds held for investment			6,610	
Mortgage loans held for sale carried at fair value				15,411,901

The above amounts do not include interest and dividends earned during the period. Such interest and dividends are recorded in interest income or interest expense on an accrual basis. Additionally, amounts do not reflect associated derivatives.

**Items Measured at Fair Value on a Recurring Basis** The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2011, for each of the fair value hierarchy levels:

	Quoted Prices Active Markets for Identical Assets Level 1	Fair Value at Reporting Date Using		Total
		Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
Assets:				
MLHFS	\$	\$ 716,720,122	\$	\$ 716,720,122
MSRs			113,516,260	113,516,260
Derivative assets			42,012,160	42,012,160
Loan held for investment			943,738	943,738
Bonds held for investment			427,708	427,708
Total assets at fair value	\$	\$ 716,720,122	\$ 156,899,866	\$ 873,619,988
Liabilities:				
Derivative liabilities	\$	\$	(40,667,215)	(40,667,215)
Total liabilities at fair value	\$	\$	\$ (40,667,215)	\$ (40,667,215)

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****12. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

The following table represents the changes in the Level 3 assets and liabilities for the year ended December 31, 2011:

	MSRs	Derivative Asset	Loan Held for Investment	Bonds Held for Investment	Derivative Liability
Beginning balance January 1, 2011	\$ 101,943,550	\$ 37,329,641	\$	\$	\$ (18,022,927)
Purchases	5,113,669		960,380	428,606	
Issuances	46,642,238	120,371,841			
Settlements	(7,596,287)	(122,921,709)	(11,497)	(7,508)	
Unrealized gains (losses)	(32,586,910)	7,232,387	(5,145)	6,610	(22,644,288)
Ending balance December 31, 2011	\$ 113,516,260	\$ 42,012,160	\$ 943,738	\$ 427,708	\$ (40,667,215)

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date	\$ (32,586,910)	\$ 42,012,160	\$ (5,145)	\$ 6,610	\$ (40,667,215)
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Gains and losses (realized and unrealized) included in the Company's statement of income for the year ended December 31, 2011, for Level 3 assets and liabilities recorded in its balance sheet at fair value are presented in the table as follows:

	Mortgage Banking	Fair Value Adjustments	MSRs	General and Administrative
Total gains or losses included in earnings for the year	\$ 31,230,337	\$ (40,183,197)	\$	\$ 1,465
Change in unrealized gains or losses related to assets still held at year end	\$ 1,344,945	\$ (32,586,910)	\$	\$ 1,465

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(A Wholly Owned Subsidiary of CW Financial Services LLC)

**NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****12. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

The estimated fair values of the Company's financial instruments are as follows:

	<b>Book Value</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 21,773,306	\$ 21,773,306
Restricted cash	23,678,476	23,678,476
Accounts receivable trade	12,769,594	12,769,594
Accounts receivable related party	253,794	253,794
MSRs	113,516,260	113,516,260
MLHFS	717,030,490	717,138,460
Derivative assets	42,012,160	42,012,160
Loan held for investment	943,738	943,738
Bonds held for investment	427,708	427,708
Notes payable	(695,215,604)	(695,215,604)
Derivative liabilities	(40,667,215)	(40,667,215)

Cash and Cash Equivalents, Restricted Cash, Accounts Receivable Carrying amount approximates fair value due to the short term nature of the instruments.

MSRs Fair value of MSRs was determined by using a discounted cash flow model that incorporates current market assumptions commonly used by buyers of these types of commercial/multifamily servicing rights. The model considers contractually specified servicing fee rates, prepayments assumptions, delinquency rates, cost of servicing and other economic factors. The MSRs are included within Level 3 of the fair value hierarchy.

MLHFS The book value of MLHFS includes loans for which the Company elected the fair value option and approximately \$310,368 of loans for which the fair value option was not elected. Fair values are determined using management's judgment based on the intended exit strategy for the mortgage loan, including whole loan sales. MLHFS for which the fair value option has been elected was determined by using quoted prices from market participants as well as an assessment of the present value of certain fee components that are retained by the Company. These MLHFS are included within Level 2 of the fair value hierarchy.

Derivative Assets and Liabilities The Company's derivatives are valued as follows:

The fair value of rate locks was determined by reviewing the index yield change from the date the loan was locked to period end as well as an assessment of the present value of certain fee components that are retained by the Company. Rate locks are classified within Level 3 of the fair value hierarchy.

The fair value of commitments to sell loans was determined by reviewing the index yield change from the time the sale commitment was entered into to the date of the financial statements. The fair value of commitments to sell loans was determined by reviewing the market change in the interest rate from the date the loan was locked to period end. Commitments to sell loans are included within Level 3 of the fair value hierarchy.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****12. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

**Loan and Bonds Held for Investment** The fair values of loan and bonds held for investment was determined by using a discounted cash flow model that incorporates current market assumptions commonly used by buyers of these types of loans and bonds. Loan and bonds held for investment are classified within Level 3.

**Notes Payable** The fair value of notes payable is the same as the carrying value as these notes have a floating rate of interest which is a market rate of interest for these types of notes. Notes payable are included within Level 3 of the fair value hierarchy

**13. COMMITMENTS AND CONTINGENCIES**

**Legal Contingencies** The Company is currently engaged in litigation resulting from the normal course of business. The Company does not believe liabilities will result from such claims that will materially affect the financial statements of the Company.

**Commitments to Lend** At December 31, 2011, the Company had commitments to originate mortgage loans in the normal course of business for \$335,906,438. These commitments to lend are either covered under sale commitments to HUD, Ginnie Mae, Freddie Mac or Fannie Mae for commercial mortgage loans or are future advances on HUD/Ginnie Mae construction loans. In addition, the Company has commitments from investors to purchase certain of these mortgage loans in the amount of \$1,042,895,452 for December 31, 2011.

**Risk Share Liability** At December 31, 2011, the Company had certain obligations with respect to mortgage loans originated:

Outstanding principal balances	\$	16,561,925,938
Principal outstanding on nonrecourse loans		10,876,875,625
Principal outstanding subject to risk sharing	\$	5,685,050,313
Net Risk Share Liability	\$	9,037,590(1)

(1) Excludes \$22,214,847 of loan loss reserve related to the acquired Citigroup portfolio. Please see Note 4 for further information.

*Citigroup Loan Portfolio*

The Company has risk on certain Fannie Mae loans where the risk is limited to the first 1% of loss on a pool of loans (this risk is fully funded under a cash collateral agreement and the related cash is held in restricted cash), certain Fannie Mae loans where the risk is 100% of the loss and certain Fannie Mae loans where the risk is on a pari passu basis with Fannie Mae with the Company taking one-third of all losses and Fannie Mae taking the remaining two-thirds.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011****13. COMMITMENTS AND CONTINGENCIES (Continued)***General Loan Portfolio*

The Company assumes risk sharing with respect to certain Fannie Mae loans, not exceeding 20% of the original principal balance. The Company assumes risk on the first 8% of losses on Freddie Mac target affordable loans and with respect to a certain GNMA securitized loan, the Company assumes the first 5% then 15% of any remainder.

Pursuant to various compliance requirements, the Company is required to maintain capital resources based on the total outstanding unpaid principal balances of mortgages issued and serviced. The most restrictive of these minimum net worth requirements is that of the Fannie Mae Delegated Underwriting and Servicing ("DUS") program, which required the Company to maintain minimum net worth of approximately \$28.3 million at December 31, 2011. At December 31, 2011, the Company had net worth, computed in accordance with the Fannie Mae DUS program requirements of \$149,457,024.

**Restricted Cash** At December 31, 2011, the Company has cash of \$22,523,516 posted with the custodial agent for the Fannie Mae Lender Reserve pursuant to the Loss Sharing Obligation with Fannie Mae, of which \$16,022,918 (please refer to Note 4) and \$6,500,598 relates to the Citigroup Loan Portfolio and General Loan Portfolio, respectively. At December 31, 2011, the Company has cash of \$1,154,960 posted with the custodial agent for the Freddie Mac Target Affordable Reserve pursuant to the Loss Sharing Obligation with Freddie Mac.

**Lease Commitments** Future minimum lease commitments under leases entered into by the Company at December 31, 2011, are as follows:

2012	\$ 1,499,315
2013	948,955
2014	836,581
2015	856,184
2016	532,959
Thereafter	359,247
<b>Total</b>	<b>\$ 5,033,241</b>

The Company, at the end of certain lease terms, may renew its lease at the then fair rental value for periods of 5 years. Future minimum lease commitments do not necessarily represent the rent expense that will be incurred by the Company as rent expense derived from an allocation from its Parent based on headcount in all offices occupied by the Parent and its subsidiaries. Rent expense for the year ended December 31, 2011, was \$1,730,298.

**Borrower Deposits** At December 31, 2011, the Company held deposits amounting to \$4,525,385. These amounts are included in the Company's cash balance, as the deposit can be used to fund costs paid by the Company during the course of underwriting and closing a loan.

**Representations and Warranties on Sales of Loans** The Company, in the ordinary course of business, issues certain representations and warranties in connection with the sale of mortgages. Such representations and warranties relate to the quality and condition of the documentation supporting

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

**13. COMMITMENTS AND CONTINGENCIES (Continued)**

each loan at the point of sale and not to recourse provisions, if any, of the mortgage's sale agreement. The Company has evaluated the fair value of these representations and warranties and has determined that the liability is immaterial to the Company's financial statements.

**14. RELATED PARTY TRANSACTIONS**

The Company shares office facilities and personnel with the Parent and other subsidiaries of the Parent. Accordingly, the related costs of such arrangements have been allocated among the various subsidiaries in a manner which management believes is representative of the actual costs incurred. Included in general and administrative expense is \$7,212,954 of cost allocations.

The Company had accounts receivable outstanding with employees of \$253,794 primarily representing amounts advanced against future compensation.

Amounts earned from or paid to affiliates of the Company for the year ended December 31, 2011, is as follows:

Servicing fees	\$	27,128
Mortgage banking activity		3,891,845
Interest income		1,200,372
Other income		204,206
<b>Total</b>	<b>\$</b>	<b>5,323,551</b>

**15. SUBSEQUENT EVENTS**

Management has not identified any subsequent events requiring financial statement disclosure as of March 9, 2012, the date these financial statements were available for issuance.

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**CWCapital LLC**  
**(A Wholly Owned Subsidiary of**  
**CW Financial Services LLC)**

**Financial Statements as of December 31, 2010**  
**(Successor) and August 31, 2010 (Predecessor) and**  
**for the period September 1, 2010 through**  
**December 31, 2010 (Successor) and December 1,**  
**2009 through August 31, 2010 (Predecessor), and**  
**Independent Auditors' Report**

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(A Wholly Owned Subsidiary of CW Financial Services LLC)

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**KPMG LLP**  
1676 International Drive  
McLean, VA 22102

**Independent Auditors' Report**

To the Member  
of CWCapital LLC:

We have audited the accompanying balance sheets of CWCapital LLC (a wholly owned subsidiary of CW Financial Services LLC) (the "Company") as of December 31, 2010 and August 31, 2010, and the related statements of net income/loss, member's equity, and cash flows for the four month period ended December 31, 2010 and the nine month period ended August 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and August 31, 2010, and the results of its operations and its cash flows for the four month period ended December 31, 2010 and the nine month periods ended August 31, 2010 in conformity with U.S. generally accepted accounting principles.

March 30, 2011

KPMG LLP is a Delaware limited liability partnership,  
the U.S. member firm of KPMG International Cooperative  
("KPMG International"), a Swiss entity.

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(A Wholly Owned Subsidiary of CW Financial Services LLC)

**BALANCE SHEETS****FOR THE SUCCESSOR PERIOD AS OF DECEMBER 31, 2010 AND THE PREDECESSOR PERIOD  
AS OF AUGUST 31, 2010**

	December 31, 2010	August 31, 2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 32,812,000	\$ 25,541,792
Restricted cash	2,660,978	2,160,978
Accounts receivable trade	2,771,129	3,336,947
Accounts receivable related party	36	113,742
Mortgage loans held for sale \$229,839,939 of loans at fair value at December 31, 2010	230,150,307	84,719,157
Mortgage servicing rights at fair value at December 31, 2010, net at August 31, 2010	101,943,550	67,311,647
Property and equipment net	124,970	166,846
Intangible assets net	1,800,000	
Commitments to sell loans at fair value	87,120	
Derivative assets at fair value	37,242,521	38,898,808
Other assets	1,771,836	2,082,223
<b>TOTAL ASSETS</b>	<b>\$ 411,364,447</b>	<b>\$ 224,332,140</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Notes payable	\$ 232,552,045	\$ 82,451,681
Accounts payable	43,595	378,715
Loan closing costs on deposit	2,876,095	6,613,853
Derivative liabilities at fair value	18,210,303	29,617,522
Commitments to sell loans at fair value		2,372,810
Accrued compensation	17,376,558	6,942,058
Accrued expenses and other liabilities	8,032,791	6,418,967
<b>Total liabilities</b>	<b>279,091,387</b>	<b>134,795,606</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 15)</b>		
<b>EQUITY:</b>		
Paid-in capital	105,090,290	90,443,658
Retained earnings (accumulated deficit)	27,182,770	(907,124)
<b>Total equity</b>	<b>132,273,060</b>	<b>89,536,534</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 411,364,447</b>	<b>\$ 224,332,140</b>

See accompanying notes to financial statements.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

**STATEMENT OF NET INCOME FOR THE SUCCESSOR PERIOD SEPTEMBER 1, 2010  
THROUGH DECEMBER 31, 2010 AND STATEMENT OF NET LOSS FOR THE PREDECESSOR  
PERIOD DECEMBER 1, 2009 THROUGH AUGUST 31, 2010**

	September 1, 2010 through December 31, 2010	December 1, 2009 through August 31, 2010
<b>REVENUE:</b>		
Servicing fees	\$ 7,329,980	\$ 14,395,690
Mortgage banking activities	47,723,777	37,021,289
Net interest income:		
Interest income	4,930,312	4,376,266
Interest expense	(4,032,420)	(3,754,145)
Net interest income	897,892	622,121
Other income	195,268	391,910
Total revenue	56,146,917	52,431,010
<b>OPERATING EXPENSES:</b>		
Compensation expense	15,127,637	20,647,040
Fair value gains MSR, net	(2,025,197)	
Impairment and amortization of servicing rights		10,892,970
Amortization of intangible assets	2,943,203	
Capital market losses, net (Note 8)		2,465,928
General and administrative expense	3,827,203	18,251,839
Consulting and professional fees	752,840	2,289,769
Rent expense	532,804	1,162,420
Travel and entertainment	462,814	917,435
Depreciation	38,767	172,539
Total operating expenses	21,660,071	56,799,940
NET INCOME (LOSS)	\$ 34,486,846	\$ (4,368,930)

See accompanying notes to financial statements.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****STATEMENTS OF MEMBER'S EQUITY****FOR THE PREDECESSOR PERIOD ENDED AUGUST 31, 2010 AND FOR THE SUCCESSOR PERIOD ENDED DECEMBER 31, 2010**

	<b>Paid-In Capital</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total</b>
BALANCE December 1, 2009	\$ 70,591,276	\$ 3,461,806	\$ 74,053,082
Net loss		(4,368,930)	(4,368,930)
Contributions	19,852,382		19,852,382
 BALANCE August 31, 2010	 \$ 90,443,658	 \$ (907,124)	 \$ 89,536,534
 BALANCE September 1, 2010	 \$ 105,090,290	 \$	 \$ 105,090,290
Net income		34,486,846	34,486,846
Distributions		(7,304,076)	(7,304,076)
 BALANCE December 31, 2010	 \$ 105,090,290	 \$ 27,182,770	 \$ 132,273,060

See accompanying notes to financial statements.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## STATEMENTS OF CASH FLOWS

FOR THE SUCCESSOR PERIOD SEPTEMBER 1, 2010 THROUGH DECEMBER 31, 2010 AND THE  
PREDECESSOR PERIOD DECEMBER 1, 2009 THROUGH AUGUST 31, 2010

	September 1, 2010 through December 31, 2010	December 1, 2009 through August 31, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 34,486,846	\$ (4,368,930)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Equity investment in investee	(68,747)	(219,512)
Mortgage banking activities	(28,060,764)	(22,482,344)
LOCOFV adjustments	(475,500)	132,095
Amortization of servicing rights		10,892,970
Fair value adjustments of MSR's	(2,025,197)	
Amortization of intangible assets	2,943,203	
Depreciation	38,767	172,539
Guarantee obligation	25,357	2,992,428
Changes in operating assets and liabilities:		
Accounts receivable trade	590,309	(724,435)
Accounts receivable related party	89,215	83,962
Mortgage loans held for sale	(150,058,995)	222,929,027
Other assets	256,045	89,938
Accounts payable	(335,120)	148,857
Loan closing costs on deposit	(3,737,758)	4,610,874
Accrued compensation	10,434,500	2,556,994
Accrued expenses and other liabilities	671,759	(1,857,572)
Net cash (used in) provided by operating activities	(135,226,080)	214,956,891
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in restricted cash	(500,000)	
Disposal of property and equipment		39,691
Distributions from ARA	200,000	
Net cash (used in) provided by investing activities	(300,000)	39,691
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
(Distribution) contribution to/from Parent	(7,304,076)	23,371,632
Borrowings on notes payable	1,791,406,359	1,053,243,508
Repayments on notes payable	(1,641,305,995)	(1,029,959,779)
Borrowing on notes payable related party		7,735,271
Repayments on notes payable related party		(256,085,528)
Net cash provided by (used in) financing activities	142,796,288	(201,694,896)
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,270,208	13,301,686
CASH AND CASH EQUIVALENTS beginning of period	25,541,792	12,240,106
CASH AND CASH EQUIVALENTS end of period	\$ 32,812,000	\$ 25,541,792

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	cash paid for interest	\$	3,596,962	\$	3,953,682
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND FINANCING					
ACTIVITIES	Valuation adjustment to mortgage loans held for sale and notes payable related party			\$	21,232,125

See accompanying notes to financial statements.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010**

**1. ORGANIZATION**

CWCapital LLC (the "Company"), a Massachusetts limited liability company, is a wholly owned operating subsidiary of CW Financial Services LLC ("CWF" or "Parent"), a Delaware limited liability company. The Company commenced operations on September 9, 2002, and is in the business of originating, selling, and servicing commercial real estate mortgages.

CWF's members included its management and an indirect subsidiary of Caisse de dépôt et placement du Québec ("CDP"), a Canadian global fund manager whose clients are mostly Quebec public and private pension and insurance plans. On September 1, 2010, Galaxy Acquisition LLC ("Galaxy") acquired all of the membership interests in CWF from the former members (the "Acquisition"), which resulted in CWF becoming a wholly owned subsidiary of Galaxy. Galaxy is an affiliate of the Fortress Investment Group LLC ("Fortress").

The Company is licensed as a U.S. Department of Housing and Urban Development ("HUD") approved Title II Nonsupervised Mortgagee. The Company is also licensed by Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac").

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** Galaxy elected to push-down the accounting for the acquisition of the membership interests of CWF to the individual assets and liabilities of CWF and its subsidiaries, including the Company. This push-down election presents the assets and liabilities of the Company at their respective fair values on the date of acquisition to reflect the purchase price paid in the Acquisition.

The balance sheet of the Company as of August 31, 2010, and the related statement of loss, statement of member's equity and statement of cash flows for the period December 1, 2009 through August 31, 2010, are those of the ("Predecessor") and are referred to as "the period ended August 31, 2010."

The balance sheet of the Company as of December 31, 2010, and the related statement of income, statement of member's equity and statement of cash flows for the period September 1, 2010 through December 31, 2010, are those of the ("Successor") and are referred to as "the period ended December 31, 2010."

The Predecessor statements of financial position and results of operations for the period ended August 31, 2010, are recorded on a historical cost basis and may not be comparable to the Successor statements of financial position and results of operations for the period ended December 31, 2010, which are affected by the application of push-down accounting on September 1, 2010.

The financial statements include the accounts of the Company.

In conjunction with the Acquisition, the Company changed its fiscal year end from November 30<sup>th</sup> to December 31<sup>st</sup>. See Note 3 for further details of this transaction.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates



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CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant use of estimates relates to the valuation of certain financial instruments and other assets and liabilities, such as mortgage loans held for sale ("MLHFS"), mortgage servicing rights ("MSRs"), intangible assets, derivative assets and liabilities and commitments to sell loans. Actual results could differ from those estimates.

**Cash and Cash Equivalents** The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Company places its cash and cash equivalents with financial institutions which management considers to be of high quality; however, at times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit.

**Restricted Cash** Restricted cash represents cash that is restricted as to withdrawal or usage and includes amounts required to meet certain regulatory requirements. It also includes cash collateral, which consists of margin calls posted with a swap counterparty.

**Accounts Receivable** Accounts receivable is composed primarily of primary servicing fees. Primary servicing fees are collected as monthly remittances are received from the borrower on the loan being serviced. For this receivable, collectability is not deemed to be a risk; therefore, no reserve has been established.

**MLHFS** MLHFS is composed of loans that have been originated by the Company and are held on balance sheet while awaiting sale.

On September 1, 2010, the Successor elected the fair value option for MLHFS entered into at and after the election date.

Fees and costs related to fair valued MLHFS are recognized in earnings as incurred and not deferred. Changes in fair value are recorded in 'mortgage banking activities' during the four months ended December 31, 2010 and in 'allocation of expense from affiliates net' during the nine months ended August 31, 2010 on the Company's statements of income (loss).

MLFHS where the Company has not elected the fair value option were initially recorded at fair value and subsequently have been accounted for at the lower of cost or fair value ("LOCOFV").

**MSRs** The Company is required to record a separate asset or liability initially measured at fair value for servicing rights relating to mortgages originated and sold where the servicing rights have been retained ("Originated Mortgage Servicing Rights" or "OMSRs"). The Company also records a separate asset at fair value when it purchases servicing rights ("Purchased Mortgage Servicing Rights" or "PMSRs").

The Predecessor elected the amortization method to account for MSRs subsequent to initial recognition. Servicing rights created or purchased between December 1, 2008 through August 31, 2010 were amortized in proportion to and over the period of estimated net servicing income. For all servicing rights created or purchased in prior periods, the Predecessor amortized them using a

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

straight-line methodology which approximated amortization in proportion to and over the period of estimated net servicing income. Amortization is reported as a component of 'amortization of servicing rights' on the Predecessor's statement of loss. If a loan had future funding features, then the MSR related to future draws was recognized as the future draws were funded and sold, whether funded by the Company or directly by the investor.

MSRs were evaluated for impairment by stratifying the portfolio according to predominant risk characteristics, primarily investor or program type. To the extent that the carrying value of an individual stratum exceeded its estimated fair value, that MSR was considered to be impaired. Such impairment would have been recognized through the income statement. In connection with its impairment analysis, the Predecessor monitored the rate of prepayment in the servicing loan portfolio, since the prepayment rate is a primary factor affecting impairment. Additionally, the Predecessor engaged an independent third party to assist in determining appropriate assumptions in determining fair value.

The Successor elected to measure and carry its MSRs using the fair value option. Under the fair value option, MSRs are carried on the Successor's balance sheet at fair value and the changes in fair value are reported in 'fair value gains MSRs net' in the Successor's statement of income.

**Intangible Assets** The Successor recorded both indefinite and finite life intangible assets on its balance sheet in conjunction with the Acquisition. Finite life intangible assets are generally amortized over the estimated benefit period and in proportion to the projected benefit timing. Indefinite life intangible assets are not amortized until it is determined that the useful life is no longer indefinite. The Successor reviews finite life intangible assets for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment is indicated if the sum of undiscounted estimated future net cash flows is less than the carrying value of the intangible asset. Impairment is permanently recognized by writing down the asset to the extent that the carrying value exceeds the estimated fair value. Infinite life intangible assets are tested for impairment annually or more frequently if events and circumstances indicate that it may be impaired.

**Property and Equipment** Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the remaining lives of the underlying leases.

**Mortgage Banking** From time to time, the Company enters into certain transactions related to its mortgage banking activities, as follows:

Rate lock agreements ("rate locks") are contracts entered into that allow commercial mortgage customers to lock in the interest rate on a mortgage while the loan is being underwritten and awaiting closure. Rate locks are considered derivatives if the loans that will result from the exercise of the contract will be held for sale. The fair value of rate locks at inception includes the expected net future cash flows related to fees on the related loan including future MSRs. Changes subsequent to inception are based on changes in interest rates and the passage of time.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest rate swaps are entered into to offset the change in fair value of certain fixed rate MLHFS and are considered derivatives. Interest rate swaps are agreements in which one counterparty pays a floating rate of interest on a notional principal amount and the other party pays a fixed rate of interest on the same notional principal amount for a specified period of time. The Company records interest rate swaps at fair value and any subsequent changes in fair value are recorded as an adjustment to 'mortgage banking activities.' Amounts paid to and received from the swap counterparty are recorded as an adjustment to 'mortgage banking activities.' When an interest rate swap is terminated, the Company will record an adjustment to income equal to the difference between the proceeds from (or cash paid) closing the transaction and the Company's basis in the contract, if any. The fair value of the interest rate swaps is determined by estimating the amount that the Company would have realized if the Company had terminated the agreement at the financial statement date, with such estimation based on the value obtained from third party trading desks. For each swap, the key valuation variables are notional amount, fixed rate, effective date, maturity date, and floating rate convention (i.e., one month LIBOR vs. three month LIBOR, etc.). Additionally, the Company considers both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of interest rate swaps.

Commitments to sell Ginnie Mae and Fannie Mae securities ("commitments to sell securities") are considered derivatives and are entered into simultaneously with the rate lock of the related loan to offset adverse changes in the securities market between the time an investor enters into the purchase agreement and the time the security is issued. The fair value of these commitments at inception is zero. Changes subsequent to inception are based on changes in interest rates and the passage of time.

Commitments to sell loans are entered into simultaneously with the rate lock of Fannie Mae and Freddie Mac loans in order to offset adverse changes in the mortgage loan market between the time Fannie Mae or Freddie Mac enters into a purchase agreement and the time the mortgage loan is purchased. The Company elected to record these commitments at fair value. The fair value of these commitments at inception is zero. Changes subsequent to inception are based on changes in interest rates and the passage of time.

Effective December 1, 2009, the Company changed its accounting policy to recognize the fair value of rate locks, commitments to sell securities and commitments to sell loans at inception, which includes the fair value of all future cash flows. The effect of this change in policy has been recognized as an opening retained earnings adjustment of \$6.2 million.

**Loan Closing Costs on Deposit** In the normal course of business, the Company receives cash from potential borrowers to pay expenses incurred during the loan origination process (i.e., legal, appraisal, engineering, environmental, etc.). Unused deposits are generally returned to the borrower at the time a loan is closed or at the time that an application for a loan is terminated. These amounts are included in the Company's cash balance, as the deposit can be used to fund costs incurred by the Company during the course of underwriting and closing a loan. A corresponding liability is recognized in 'loan closing costs on deposit' in the balance sheets.

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CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Guarantee Obligation** The Company assumes risk sharing generally not to exceed 20% of the principal balances with respect to certain Fannie Mae loans, generally not to exceed 8% with respect to certain Freddie Mac affordable loans and with respect to a certain GNMA securitized loan, the Company assumes the first 5% then 15% of any remainder. The Company records an estimated loss in the financial statements if it has been determined that it is probable that a liability has been incurred. Such estimate is recorded in 'accrued expenses and other liabilities' in the balance sheets. Pursuant to various compliance requirements, the Company is required to maintain capital resources based on the total outstanding unpaid principal balances of mortgages issued and serviced.

**Member's Equity/Paid-In Capital/Retained Earnings (Accumulated Deficit)** As a result of the Acquisition, retained earnings was reset to zero and paid in capital was restated to reflect the purchase price allocation to the Company based on the fair value of its assets and liabilities on the Successor's statement of member's equity. Results of operations subsequent to the Acquisition date are allocated to the Successor. Periods prior to the Acquisition are allocated to the Predecessor. Profits and losses are allocated to the member.

**Servicing Fees** Servicing fees primarily consist of primary servicing fees and placement fees for the deposit of escrows. The Company earns primary servicing fees in connection with the collection of monthly debt service payments. These fees are earned and collected monthly in accordance with each respective loan agreement. The Company earns placement fees for depositing escrow balances with third party financial institutions. These fees are earned and collected monthly through arrangements with third parties. All of these fees are recorded on a monthly basis when earned.

**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 (the rate lock) and sell the loan to an investor (the sale commitment). The derivative asset is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of costs, and the estimated fair value of the expected net future cash flows associated with servicing of loans. Also included in gains from mortgage banking activities are changes to the fair value of derivative liabilities 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. MSR's are recognized as assets upon the sale of the loans.

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 as completed sales. When the mortgage loans are sold, the Company retains the right to service the loan and recognizes the MSR at fair value.

**Interest Income** Interest income is primarily derived from interest earned from mortgages held for sale, including accretion of the discount related to the initial fair value measurement of the loans that were reacquired from the special-purpose entity ("SPEs"). For loans where the fair value option were elected which were in nonaccrual status, no accretion of the related discount was recorded.

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CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Interest income is accrued as earned and recorded in 'accounts receivable trade' in the balance sheets and in 'interest income' in the statements of net income (loss).

**Interest Expense** Interest expense is primarily derived from interest paid on credit facilities that the Company maintains to finance MLHFS, including accretion of the discount related to the initial fair value measurement of the debt related to the SPEs and working capital lines. Interest expense is accrued each period and any interest due is recorded in 'accrued expenses and other liabilities' in the balance sheets and in 'interest expense' in the statements of net income (loss).

**Allocation of Expense from Affiliates Net** The allocation was recorded based upon an allocation agreement between the Company and its parent company, CWF. The Company agreed to share certain costs related to loans that the Company originated and sold to SPEs and former qualified special purpose entities ("QSPEs"). These SPEs and former QSPEs were owned 100% by CWF. As the fair value of the residual interest retained by CWF and of the loans held by SPEs that were reacquired by CWF due to the change in QSPE status was primarily driven by the value of the loans sold by the Company, it was agreed that changes in the related fair values and other revenues, costs and reimbursements paid/received by CWF related to the SPEs and former QSPEs should be reflected in the Predecessor's statement of net loss. The amount of the allocation was reflected in the statement of net loss as 'allocation of expense from affiliates net.' See Note 8 for additional information on the allocation agreement.

**Leases** The Company receives an allocation of rental expense from CWF. CWF recognizes rental expense on a straight-line basis over the lease term and records the difference between rent expense and the amount currently payable as deferred rent in 'accrued expenses and other liabilities' in the balance sheets.

**Income Taxes** No provision has been made in the financial statements for federal income tax because the Company is a disregarded entity for federal income tax purposes and its results are included in its ultimate parent's filing with the Internal Revenue Service. In addition, the Company is generally disregarded for state and local income tax purposes. For those jurisdictions that tax at the Company level, the amounts are immaterial and no related provision has been recorded.

**Concentration of Credit Risk** A significant amount of the Company's business activities in 2010 involved multifamily and health care lending activities through programs sponsored by HUD, Ginnie Mae, Fannie Mae and Freddie Mac. There are no significant concentrations to these agencies in the Company's balance sheets at December 31, 2010 and August 31, 2010.

The Company is subject to credit risk with respect to certain Fannie Mae and Freddie Mac loans and one securitized HUD loan. The Company's exposure is limited as described in Note 15. In addition, the Company does not believe that it has any significant concentration related to property type, borrower or location.

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. At December 31, 2010 and August 31, 2010, \$2,250,000 and \$26,785,447,

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

respectively, of cash held in the corporate operating and restricted cash accounts was not covered by FDIC insurance.

**Escrow Balances** In the normal course of conducting its mortgage servicing business, the Company collects escrow deposits to fund customer property taxes, hazard and general liability insurance premiums as well as other escrow requirements. The Company held \$437,449,964 and \$426,253,893, which are not included in the Company's balance sheets, in escrow balances at December 31, 2010 and August 31, 2010, respectively. Such amounts have been segregated in separate accounts at third party depository institutions.

**Recently Issued Accounting Standards** There were no accounting standards that were issued and required to be implemented that were not implemented that would have or are expected to have a material impact on the financial position or results of operations of the Company.

**3. ACQUISITION TRANSACTION**

As described in Note 1, Organization, on September 1, 2010, the Company's Parent was acquired by Galaxy. In accordance with FASB ASC 805, *Business Combinations*, the Acquisition was accounted for under the purchase method of accounting. Under this method, assets acquired and liabilities assumed are recorded on the Successor's opening balance sheet at their estimated fair value.

The allocation of the purchase price to the Company is as follows:

	September 1, 2010
Current assets	\$ 157,845,050
Intangible assets	4,743,203
Property and equipment	163,737
Other assets	78,050,614
<b>Total assets acquired</b>	<b>240,802,604</b>
Current liabilities	135,712,314
<b>Purchase price</b>	<b>\$ 105,090,290</b>

**4. ACCOUNTS RECEIVABLE TRADE**

Accounts receivable trade at December 31, 2010 and August 31, 2010, consists of the following:

	December 31, 2010	August 31, 2010
Accrued income	\$ 1,529,247	\$ 1,296,497
Accrued interest receivable	179,807	47,617
Primary servicing advances	863,548	1,358,411
Other receivables	198,527	634,422
<b>Total</b>	<b>\$ 2,771,129</b>	<b>\$ 3,336,947</b>

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010****5. MLHFS**

The following table displays the loans in the Company's mortgage portfolio as of December 31, 2010 and August 31, 2010:

	December 31, 2010	August 31, 2010
Loans at LOCOFV:		
Commercial fixed rate loans	\$ 310,368	\$ 84,719,157
Loans at fair market value(1)	229,839,939	
Total	\$ 230,150,307	\$ 84,719,157

(1)

The Successor elected to record MLHFS at fair value under the fair value option election date. See Note 14 for further discussion.

Commercial mortgage loans at LOCOFV were originated by the Company prior to period end and generally have been sold to investors with settlement occurring after period end. At December 31, 2010 and August 31, 2010, the fair value of these loans approximated their carrying amount.

**6. MSRs**

The changes in the Successor's MSRs measured using the fair value method at December 31, 2010, consist of the following:

	December 31, 2010
PMSRs September 1, 2010	\$ 75,891,480
Additions:	
OMSRs	24,026,873
Changes in fair value:	
Due to changes in valuation model inputs/assumptions	2,025,197
Fair value of MSRs December 31, 2010	\$ 101,943,550

The MSR valuation process during the four months ended December 31, 2010 was based on the use of a discounted cash flow model to arrive at an estimate of fair value at each balance sheet date. The cash flow assumptions and prepayment assumptions used in the discounted cash flow model are based on the assumptions the Company believes a potential third party acquirer would use to value the portfolio.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010****6. MSRs (Continued)**

The changes in the Predecessor's MSRs using the amortization method at August 31, 2010 consist of the following:

	<b>August 31, 2010</b>
Balance December 1, 2009	\$ 63,106,946
Additions	15,097,671
Impairment	(2,544,373)
Amortization	(8,348,597)
<b>Balance end of period</b>	<b>\$ 67,311,647</b>
Fair value of MSRs December 1, 2009	\$ 76,720,850
Fair value of MSRs August 31, 2010	\$ 74,389,007

The allowance for the impairment of MSRs at August 31, 2010 is as follows:

	<b>August 31, 2010</b>
Balance December 1, 2009	\$
Additions	2,544,373
<b>Balance August 31, 2010</b>	<b>\$ 2,544,373</b>

During the nine months ended August 31, 2010, MSRs were initially recorded at fair value on the date a loan was sold and a servicing right was created. The OMSRs were fair valued using a loan level discounted cash flow analysis based on current market assumptions (including cost of servicing, escrow earnings rate, escrow inflation factors, prepayment rates and default factors) commonly used by buyers of these types of commercial/multifamily servicing, which were derived from prevailing conditions in the secondary servicing market.

For both the Successor and the Predecessor, the risks inherent in the valuation of MSRs includes higher than expected default rates, unexpected changes in interest rates, and/or delays in the receipt of cash flows. Changes in market conditions could have had a material impact on the Company's estimates of fair value.



Table of Contents**CWCAPITAL LLC**

(A Wholly Owned Subsidiary of CW Financial Services LLC)

**NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010****6. MSR's (Continued)**

A summary of the Company's MSR's and related characteristics as of December 31, 2010 and August 31, 2010, is as follows:

	December 31, 2010	August 31, 2010
Servicing portfolio (unpaid principal)	\$12,431,661,001	\$11,100,776,478
Fair value of MSR portfolio	\$101,943,550	\$74,389,007
Value expressed in basis points	82	67
Weighted-average service fee (bps)	13.5	12.2
Multiple (value/service fee)	6.1	5.5
Weighted-average note rate	5.5%	5.6%
Weighted-average life to maturity	10.5 years	10.6 years
Average discount rate	9%	9%
Prepayment speeds	1% - 12%	1% - 12%

During the period ended December 31, 2010, the Successor earned servicing fees, late fees, and other ancillary fees of \$5,096,738, \$50,795 and \$2,182,447, respectively. During the period ended August 31, 2010, the Predecessor earned servicing fees, late fees, and other ancillary fees of \$10,218,149, \$170,972 and \$4,006,569, respectively. Such amounts are reported in 'servicing fees' in the statements of income (loss).

**7. INTANGIBLE ASSETS**

The following table reflects the initial fair value measurement of intangible assets and accumulated amortization amounts for each major class of intangible asset at December 31, 2010:

	Weighted-Average Amortization Period (in months)	Acquisition		Total
		Amount Assigned	Accumulated Amortization	
<b><i>Amortized intangible assets:</i></b>				
Customer relationships(1)		\$ 2,943,203	\$ (2,943,203)	\$
Agency licenses(2)	NA	1,800,000		1,800,000
Total intangible assets		\$ 4,743,203	\$ (2,943,203)	\$ 1,800,000

(1) Customer relationships are fully amortized at December 31, 2010.

(2) Agency licenses are indefinite life intangibles and, therefore, are not amortized.

**8. CAPITAL MARKETS TRANSACTIONS**

In prior years, the Company originated commercial mortgage loans structured for ultimate resale in securitization transactions, CDOs, and privately placed sale transactions. The mortgages were sold by the Company to SPEs. The SPEs were established for the purpose of purchasing the mortgages originated by the Company and issuing participation certificates to certain financial institutions that



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**8. CAPITAL MARKETS TRANSACTIONS (Continued)**

would provide temporary financing to the SPEs while the assets were warehoused and awaited final disposition. Each participation certificate issued by the SPEs was governed by a Master Participation Agreement that provided the financial institution with control over the disposition of the participation certificates, including a put option, held and executable only by the certificate holder, at whatever time the holder deemed appropriate. The Predecessor's parent held 100% of the common equity in each of the SPEs. In each of these transactions, the Predecessor's parent retained a residual interest in the assets transferred to the SPEs in addition to the Company retaining the MSRs related to the loans. The transactions were structured so that lenders had no recourse to other assets of the Predecessor's parent or any of their affiliates for the SPEs' failure to pay their obligations when due. The Predecessor's parent and its affiliates provided a guarantee for a portion of the debt related to all assets transferred to the SPEs.

On December 1, 2009, the Predecessor adopted the provisions of FASB ASC 810, *Consolidation*, which removed the concept of a QSPE. The Predecessor determined that it was the primary beneficiary of the remaining SPE; and on December 1, 2009, consolidated this entity on its balance sheet. During March and April of 2010 all of the assets in the SPEs were sold to the former parent of the Company.

The Company had an allocation agreement with CWF related to the loans that the Company originated and sold to the QSPEs as well as for the assets and liabilities recombined in CWF's financial statements in connection with the SPEs that failed to meet QSPE status. While CWF owned 100% of the equity of the QSPEs and SPEs, and therefore owned the residual interest in the QSPEs and the SPEs assets and liabilities, the changes in the fair value of the investment in residual interests and of the fair value of the SPEs assets and liabilities was based on the changes in value of the underlying loans which were originated and sold by the Company. Therefore, the Company had agreed that all changes related to the fair value for the SPEs and QSPEs would be reflected in the Company's statements of net loss. All fees, costs and reimbursements under the reimbursement agreements between CDP and CWF were reported through the Predecessor's statement of net loss. The intent of the agreement was to recognize the costs and revenues related to loans originated by the Company in statements of net loss.

Additionally, CWF and CDP had agreed to share certain losses related to loans held by the SPEs and QSPEs owned by CWF. All profits and losses related to the loans were shared 80% by an affiliate of CDP and 20% by CWF.

**9. JOINT VENTURE**

The Company invested in a joint venture, ARA Finance LLC, ("ARA"), with a third party for the purposes of seeking opportunities to provide mortgage loans for market rate and affordable multifamily, senior, and student housing and manufactured housing. The Company owns 50% of ARA, which is accounted for under the equity method. For the periods ended December 31, 2010 and August 31, 2010, there was a gain from this investment of \$68,747 and \$219,512, respectively.

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AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

**10. PROPERTY AND EQUIPMENT**

Major classes of property and equipment at December 31, 2010 and August 31, 2010, consist of the following:

	December 31, 2010	August 31, 2010
Furniture, fixtures and equipment	\$ 78,089	\$ 1,930,132
Leasehold improvements	85,648	727,337
	163,737	2,657,469
Less accumulated depreciation	(38,767)	(2,490,623)
Property and equipment net	\$ 124,970	\$ 166,846

**11. DERIVATIVES**

The Company accounts for its derivatives at fair value, and recognizes all derivatives as either assets or liabilities in its balance sheets. From time to time, the Company enters into certain transactions that are accounted for as derivatives. Please see Note 2 for details.

**Fair Value Position of the Company's Derivatives** The following table displays the fair values of asset and liability derivatives as of December 31, 2010 and August 31, 2010:

	Fair Values of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>December 31, 2010</b>				
Derivatives not designated as hedging instruments:				
Risk management derivatives:				
Rate locks	Derivative assets	\$ 3,187,648	Derivative liabilities	\$ 16,944,825
Interest rate swaps	Derivative assets		Derivative liabilities	187,376
Interest rate caps	Other assets	103	Accrued expenses/other liabilities	
Total risk management derivatives		3,187,751		17,132,201
Mortgage commitment derivatives:				
Commitments to sell Ginnie Mae securities	Derivative assets	29,606,716	Derivative liabilities	1,078,102
Commitments to sell Fannie Mae MBS	Derivative assets	4,448,157	Derivative liabilities	
Total mortgage commitment derivatives		34,054,873		1,078,102
Total derivatives not designated as hedging instruments		\$ 37,242,624		\$ 18,210,303



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## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

## 11. DERIVATIVES (Continued)

	Fair Values of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>August 31, 2010</b>				
Derivatives not designated as hedging instruments:				
Risk management derivatives:				
Rate locks	Derivative assets	\$ 38,759,273	Derivative liabilities	\$ 76,720
Interest rate swaps	Derivative assets		Derivative liabilities	245,916
Interest rate caps	Other assets	76	Accrued expenses/other liabilities	
<b>Total risk management derivatives</b>		<b>38,759,349</b>		<b>322,636</b>
Mortgage commitment derivatives:				
Commitments to sell Ginnie Mae securities	Derivative assets	58,652	Derivative liabilities	28,026,791
Commitments to sell Fannie Mae MBS	Derivative assets	80,883	Derivative liabilities	1,268,095
<b>Total mortgage commitment derivatives</b>		<b>139,535</b>		<b>29,294,886</b>
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 38,898,884</b>		<b>\$ 29,617,522</b>

The following table displays the outstanding notional balances and the estimated fair values of the Company's derivative instruments as of December 31, 2010 and August 31, 2010.

	Notional Amount	Fair Value
<b>December 31, 2010</b>		
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks assets	\$ 83,314,844	\$ 3,187,648
Rate locks liabilities	396,103,512	(16,944,825)
Interest rate swaps	981,000	(187,376)
Interest rate caps	41,429,896	103
<b>Total risk management derivatives</b>	<b>521,829,252</b>	<b>(13,944,450)</b>
Mortgage commitment derivatives:		
Commitments to sell Ginnie Mae securities assets	490,208,401	29,606,716
Commitments to sell Fannie Mae MBS assets	153,295,891	4,448,157
Commitments to sell Ginnie Mae securities liabilities	28,160,240	(1,078,102)

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Total mortgage commitment derivatives	671,664,532	32,976,771
Total derivatives not designated as hedging instruments	\$ 1,193,493,784	\$ 19,032,321

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	Notional Amount	Fair Value
<b>August 31, 2010</b>		
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks assets	\$ 449,788,956	\$ 38,759,273
Rate locks liabilities	1,000,999	(76,720)
Interest rate swaps	981,000	(245,916)
Interest rate caps	41,429,896	76
Total risk management derivatives	493,200,851	38,436,713
Mortgage commitment derivatives:		
Commitments to sell Ginnie Mae securities assets	27,115,199	58,652
Commitments to sell Fannie Mae MBS assets	18,500,000	80,883
Commitments to sell Ginnie Mae securities liabilities	304,128,437	(28,026,791)
Commitments to sell Fannie Mae MBS liabilities	135,061,000	(1,268,095)
Total mortgage commitment derivatives	484,804,636	(29,155,351)
Total derivatives not designated as hedging instruments	\$ 978,005,487	\$ 9,281,362

The following table displays, by type of derivative instrument, the fair value gains and losses on the Company's derivatives for the periods ended December 31, 2010 and August 31, 2010:

	Fair Values of Derivative Instruments	
	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative
<b>December 31, 2010</b>		
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks	Mortgage banking activities	\$ (12,225,437)
Rate locks	Compensation	(5,625,931)
Interest rate swaps	Mortgage banking activities	32,548
Total risk management derivatives		(17,818,820)
Mortgage commitment derivatives commitments to sell Ginnie Mae securities and Fannie Mae MBS	Mortgage banking activities	62,132,122
Total derivative fair value gains net		\$ 44,313,302



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## CWCAPITAL LLC

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## NOTES TO FINANCIAL STATEMENTS (Continued)

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## 11. DERIVATIVES (Continued)

	Fair Values of Derivative Instruments	
	Location of Gain (loss) Recognized in Income on Derivative	Amount of Gain (loss) Recognized in Income on Derivative
<b>August 31, 2010</b>		
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks	Mortgage banking activities	\$ 71,103,035
Rate locks	Compensation	(6,644,238)
Interest rate swaps	Mortgage banking activities	(172,826)
Interest rate swaps	Allocation of expenses from affiliate net	8,432,455
Total risk management derivatives		72,718,426
Mortgage commitment derivatives commitments to sell Ginnie Mae securities and Fannie Mae MBS	Mortgage banking activities	(28,782,847)
Total derivative fair value gains net		\$ 43,935,579

## Volume and Activity of the Company's Derivatives

*Risk Management Derivatives* The following table displays, by derivative instrument type, the Company's risk management derivative activity for the periods ended December 31, 2010 and August 31, 2010:

	Rate Locks	Interest Rate Swaps	Interest Rate Caps
<b>December 31, 2010</b>			
Notional balance as of September 1, 2010	\$ 450,789,955	\$ 981,000	\$ 41,429,896
Additions	1,570,980,191		
Terminations	(1,542,351,790)		
Notional balance as of December 31, 2010	\$ 479,418,356	\$ 981,000	\$ 41,429,896

	Rate Locks	Interest Rate Swaps	Interest Rate Caps
<b>August 31, 2010</b>			
Notional balance as of December 1, 2009	\$ 151,662,368	\$ 28,181,000	\$ 95,050,000
Additions	1,310,159,334	33,600,000	25,079,896
Terminations	(1,011,031,747)	(60,800,000)	(78,700,000)
Notional balance as of August 31, 2010	\$ 450,789,955	\$ 981,000	\$ 41,429,896

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*Mortgage Commitment Derivatives* The following table displays, by commitment type, the Company's mortgage commitment derivative activity for the periods ended December 31, 2010 and August 31, 2010:

	Commitments to Sell Ginnie Mae Securities	Commitments to Sell Fannie Mae MBS	Total
Notional balance as of September 1, 2010	\$ 331,243,636	\$ 153,561,000	\$ 484,804,636
Mortgage related securities:			
Open commitments	425,124,300	811,915,891	1,237,040,191
Settled commitments	(237,999,295)	(812,181,000)	(1,050,180,295)
Notional balance as of December 31, 2010	\$ 518,368,641	\$ 153,295,891	\$ 671,664,532

	Commitments to Sell Ginnie Mae Securities	Commitments to Sell Fannie Mae MBS	Total
Notional balance as of December 1, 2009	\$ 125,125,219	\$ 10,167,000	\$ 135,292,219
Mortgage related securities:			
Open commitments	579,354,934	341,891,000	921,245,934
Settled commitments	(373,236,517)	(198,497,000)	(571,733,517)
Notional balance as of August 31, 2010	\$ 331,243,636	\$ 153,561,000	\$ 484,804,636

*Derivative Counterparties and Credit Exposure* Certain derivative instruments contain provisions that require the Company to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit risk related event, as defined by the existing derivative contracts. The fair value of all derivative instruments with credit risk related contingent features that are in a liability position at December 31, 2010 and August 31, 2010, is \$187,376 and \$245,916, respectively. The Company posted \$160,978 as collateral for this exposure in the normal course of business as of December 31, 2010 and August 31, 2010. Each change could trigger additional collateral requirements for the Company and its affiliates. If the credit risk related contingent features underlying these agreements had been triggered on December 31, 2010 and August 31, 2010, the Company would have been required to post an additional \$26,398 and \$84,938 of collateral to its counterparties, respectively.

The Company's derivative credit exposure relates principally to interest rate derivative contracts. Typically, the Company seeks to manage these exposures by contracting with experienced counterparties that are rated A- (or its equivalent) or better. These counterparties consist of large banks, broker-dealers, and other financial institutions that have a significant presence in the derivatives market, most of which are based in the United States.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to certain derivatives; however, the Company monitors the performance of the counterparties and currently does not anticipate nonperformance by any of these counterparties.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010****12. NOTES PAYABLE**

Notes payable at December 31, 2010 and August 31, 2010, consist of the following:

	<b>December 31, 2010</b>	<b>August 31, 2010</b>
First mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.76% and 2.76% at December 31, 2010 and August 31, 2010	\$ 56,618,079	\$ 6,394,481
Second mortgage warehousing demand line of credit, bearing interest at a variable rate of 3.01% and 3.01% at December 31, 2010 and August 31, 2010	82,919,898	76,057,200
Third mortgage warehousing demand line of credit, bearing interest at a variable rate of 1.45% at December 31, 2010	76,778,868	
Fourth mortgage warehousing demand line of credit, bearing interest at a variable rate of 3.06% at December 31, 2010	16,235,200	
Multiple advance line of credit		
<b>Total notes payable</b>	<b>\$ 232,552,045</b>	<b>\$ 82,451,681</b>

The first mortgage warehousing demand line of credit is \$125,000,000 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line stated maturity date is June 27, 2011. At December 31, 2010 and August 31, 2010, the unused portion of the line of credit was \$68,381,921 and \$118,605,519, respectively.

The second mortgage warehousing demand line of credit is \$125,000,000 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line stated maturity date is July 12, 2011. At December 31, 2010 and August 31, 2010, the unused portion of the line of credit was \$42,080,102 and \$48,942,800, respectively.

The third mortgage warehousing demand line of credit is \$175,000,000. This line carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under a certain mortgage program. Security for the mortgage warehousing line of credit is the related MLHFS. There is no stated maturity date under the lending agreement. At December 31, 2010 and August 31, 2010, the unused portion of the line of credit was \$98,221,132 and \$175,000,000, respectively.

The fourth mortgage warehousing demand line of credit is \$50,000,000 and carries variable interest rate options as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under various mortgage programs. Security for the mortgage warehousing line of credit is the related MLHFS. The line stated maturity date is November 17, 2011 under the lending agreement. At December 31, 2010 and August 31, 2010, the unused portion of the line of credit was \$33,764,800 and \$50,000,000, respectively.



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**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**12. NOTES PAYABLE (Continued)**

The multiple advance line of credit is \$15,000,000, which is available for principal and interest advances and working capital advances. Each type is subject to an individual sub-limit of \$7,500,000. The line is secured by a pledge of the servicing agreements held by the Company, except that the pledge related to the Fannie Mae, Freddie Mac, and Ginnie Mae servicing agreements is junior and subordinate to the rights of Fannie Mae, Freddie Mac and Ginnie Mae. The line of credit agreement provides for variable interest rate options as elected by the Company at the dates of the borrowings. The multiple advance line of credit matures on June 27, 2011. At December 31, 2010 and August 31, 2010, the unused portion of the line of credit was \$15,000,000.

**13. EMPLOYEE BENEFIT PLAN**

The Company participates in an employee tax-deferred 401(k) plan under which individual employee contributions to the plan are matched by the Company subject to terms of the plan. Amounts contributed by the Company for the periods ended December 31, 2010 and August 31, 2010, were \$92,445 and \$200,164, respectively, which are included in 'compensation expense' on the statements of net income (loss). Additionally, the Company elected to make a profit sharing contribution of \$790,439 for 2010, which was funded in February 2011. Amounts contributed by the Company are subject to vesting and forfeiture and may be returned to the Company upon termination of employment of the employee to the extent not vested.

**14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION**

**Fair Value Measurements** The Company measures certain assets and liabilities at fair value, such as MLHFS where the fair value option has been elected, MSRs, derivative assets, derivative liabilities and commitments to sell loans on a recurring basis. From time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as certain MLHFS at LOCOFV.

**Fair Value Hierarchy** Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date ("exit price"). The fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is as follows:

*Level 1* Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

*Level 2* Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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**14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

**Determination of Fair Value** In determining fair value, the Company uses market prices of the same or similar instruments whenever such prices are available, even in situations where trading volume may be low when compared with prior periods. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants; and, accordingly, fair value is not determined based upon a forced liquidation or distressed sale. Where possible, the Company estimates fair value using other market observable data. Where the market price of the same or similar instruments is not available, the valuation of financial instruments becomes more subjective and involves a high degree of judgment. The following sections describe the valuation methodologies used to measure classes of financial instruments at fair value and specify the level in the fair value hierarchy where various financial instruments are generally classified. Valuation models, significant inputs to those models and any significant assumptions are included where appropriate.

*Cash and Cash Equivalents* Carrying amount approximates fair value due to the short term nature of the instruments.

*Restricted Cash* Carrying amount approximates fair value due to the short term nature of the instruments.

*Accounts Receivable* Carrying amount approximates fair value due to the short term nature of the instruments.

**MLHFS:**

**LOCOFV Assets** Fair value of MLHFS for which fair value accounting was not elected was determined using management's judgment based on the intended exit strategy for the mortgage loans, including whole loan sales. These loans are generally held for short periods of time, usually less than 30 days, and are usually 'presold.' The Company obtained fair values using available market information and/or valuation methodologies and recorded any impairment through the statements of income (loss). These MLHFS are included within Level 3 of the fair value hierarchy.

**Assets at Fair Value** Fair value of MLHFS is determined by using a discounted cash flow model that incorporates quoted observable prices from market participants. These MLHFS are included within Level 2 of the fair value hierarchy.

**MSRs** Fair value of MSRs was determined using management's judgment as well as information from a third party service provider based on current market assumptions commonly used by buyers of these types of commercial/multifamily servicing, which are derived from prevailing conditions in the secondary servicing market. The MSRs are included within Level 3 of the fair value hierarchy.

**Intangible Assets** Fair value of intangible assets was determined as the difference between the present value of projected revenue and the present value of projected costs based on management's best estimate.

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**AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010**

**14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

*Derivative Assets and Liabilities* The Company's derivatives are not listed on an exchange. As no quoted market prices exist for such instruments, derivatives are valued using internal valuation techniques using observable data. Valuation techniques and inputs to internally developed models depend on the type of derivative and the nature of the underlying rate, price, or index upon which the derivative's value is based. Key inputs can include duration and index rate. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified within Level 2 of the fair value hierarchy. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified within Level 3. Additionally, significant judgments are required when classifying financial instruments within the fair value hierarchy, particularly between Levels 2 and 3, as is the case for certain derivatives. The following provides additional information about specific derivative instruments:

The fair value of rate locks was determined by reviewing the index yield change from the date the loan was locked to period end. The pull-through rate for rate locks was not material to the valuation. Rate locks are classified within Level 3 of the fair value hierarchy.

The fair value of interest rate swaps was determined by estimating the amount that would have been realized if the Company had terminated the agreement at the financial statement date, with such estimation based on the value obtained from third party trading desks. For each swap, the key valuation variables are notional amount, fixed rate, effective date, maturity date, and floating rate convention (i.e., one month LIBOR vs. three month LIBOR etc.). Interest rate swaps are classified within Level 2 of the fair value hierarchy.

The fair value of commitments to sell securities was determined by reviewing the index yield change from the time the sale commitment was entered into to the date of the financial statements. Commitments to sell securities are included within Level 3 of the fair value hierarchy.

*Notes Payable* Fair value of debt of the Predecessor, where the fair value option was elected, was determined based on information observable in the market calibrated to the specific instrument through management judgment and management's estimate of the value of the underlying collateral. It is classified within Level 3 of the fair value hierarchy.

*Commitments to Sell Loans* The fair value of commitments to sell loans was determined by reviewing the market change in the interest rates from the date the loan was locked to period end. Commitments to sell loans are classified within Level 3 of the fair value hierarchy.

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## CWCAPITAL LLC

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## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

## 14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 2010		August 31, 2010	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	\$ 32,812,000	\$ 32,812,000	\$ 25,541,792	\$ 25,541,792
Restricted cash	2,660,978	2,660,978	2,160,978	2,160,978
Accounts receivable trade	2,771,129	2,771,129	3,336,947	3,336,947
Mortgage loans held for sale	230,150,307	230,150,307	84,719,157	89,058,937
Derivative assets	37,242,521	37,242,521	38,898,808	38,898,808
Notes payable	(232,552,045)	(232,552,045)	(82,451,681)	(82,451,681)
Derivative liabilities	(18,210,303)	(18,210,303)	(29,617,522)	(29,617,522)
Commitments to sell loans	87,120	87,120	(2,372,810)	(2,372,810)

**Items Measured at Fair Value on a Recurring Basis** The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2010 and August 31, 2010, for each of the fair value hierarchy levels.

	Quoted Prices Active Markets for Identical Assets Level 1	Fair Value at Reporting Date Using		Total
		Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
<b>For the Period Ended December 31, 2010</b>				
Assets:				
MLHFS	\$	\$ 229,839,939	\$	\$ 229,839,939
MSRs			101,943,550	101,943,550
Derivative assets			37,242,521	37,242,521
Commitments to sell loans			87,120	87,120
<b>Total assets at fair value</b>	<b>\$</b>	<b>\$ 229,839,939</b>	<b>\$ 139,273,191</b>	<b>\$ 369,113,130</b>
Liabilities:				
Derivative liabilities		(187,376)	(18,022,927)	(18,210,303)
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$ (187,376)</b>	<b>\$ (18,022,927)</b>	<b>\$ (18,210,303)</b>



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## 14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)

	Fair Value at Reporting Date Using			
	Quoted Prices Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
<b>For the Period Ended August 31, 2010</b>				
Assets:				
Derivative assets	\$	\$	\$ 38,898,808	\$ 38,898,808
Total assets at fair value	\$	\$	\$ 38,898,808	\$ 38,898,808
Liabilities:				
Derivative liabilities	\$	\$ (245,916)	\$ (29,371,606)	\$ (29,617,522)
Commitments to sell loans			(2,372,810)	(2,372,810)
Total liabilities at fair value	\$	\$ (245,916)	\$ (31,744,416)	\$ (31,990,332)

**Level 3 Items Measured at Fair Value on a Recurring Basis** The determination to classify a financial instrument within Level 3 of the fair value hierarchy is based on the significance of the unobservable inputs to the overall fair value measurement. However, in addition to unobservable inputs, the valuation of Level 3 instruments typically includes observable inputs as well. Thus, the gains and losses reflected in the rollforward of balances in the tables that follow include changes in fair value that are due at least partially to observable factors that are part of the valuation methodology. Additionally, the Company uses certain derivatives classified within Level 2 of the fair value hierarchy to manage certain risk characteristics of Level 3 financial instruments. Because Level 2 instruments are not included in this discussion or in the rollforward, gains and losses may appear to reflect a certain degree of volatility when presented exclusive of related Level 2 derivatives that may be used to offset risk in Level 3 instruments.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

**14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

The following table represents the changes in the Level 3 assets and liabilities for the periods ended December 31, 2010 and August 31, 2010:

	MSR	Derivative Asset	Derivative Liability	Commitments to Sell Loans
<b>For the Period Ended December 31, 2010</b>				
Beginning balance September 1, 2010	\$ 75,891,480	\$ 38,898,808	\$ (29,371,606)	\$ (2,372,810)
Total gains or losses:				
Included in earnings	26,052,070	(1,656,287)	11,348,679	2,459,930
Purchases, issuances and settlements				
Ending balance December 31, 2010	\$ 101,943,550	\$ 37,242,521	\$ (18,022,927)	\$ 87,120

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date	\$ 26,052,070	\$ 37,242,521	\$ (18,022,927)	\$ 87,120
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	Derivative Asset	NP Related Party	Derivative Liability	Commitments to Sell Loans
<b>For the Period Ended August 31, 2010</b>				
Beginning balance December 1, 2009	\$ 9,828,998	\$ (228,272,309)	\$ (4,776,306)	\$ (802,095)
Total gains or losses:				
Included in earnings	29,069,810	(131,959,323)	(24,595,300)	(1,570,715)
Purchases, issuances and settlements		360,231,632		
Ending balance August 31, 2010	\$ 38,898,808	\$	\$ (29,371,606)	\$ (2,372,810)

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date	\$ 38,898,808	\$	\$ (29,371,606)	\$ (2,372,810)
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Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010****14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

Gains and losses (realized and unrealized) included in the Company's statements of income (loss) for the periods ended December 31, 2010 and August 31, 2010, for Level 3 assets and liabilities reported in its balance sheets at fair value are presented in the table as follows:

	<b>Mortgage Banking</b>
<b>For the Period Ended December 31, 2010</b>	
Total gains or losses included in earnings for the period ended December 31, 2010	\$ 38,204,392
Change in unrealized gains or losses related to assets still held at December 31, 2010	\$ 45,358,784

	<b>Mortgage Banking</b>	<b>Allocation of Exp from Affiliates</b>	<b>Realized Gain (Loss)</b>
<b>For the Period Ended August 31, 2010</b>			
Total gains or losses included in earnings for the period ended August 31, 2010	\$ 2,903,795	\$ 29,297,482	\$ (31,763,410)
Change in unrealized gains or losses related to assets still held at August 31, 2010	\$ 7,154,392	\$	\$

**Items Measured at Fair Value on a Nonrecurring Basis** Certain assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value measurement in certain circumstances, for example, when there is evidence of impairment. These instruments are measured at fair value on a nonrecurring basis and include assets such as MLHFS that have been deemed impaired.

There were no financial instruments held on the balance sheet at December 31, 2010, by level within the fair value hierarchy for which a nonrecurring change in fair value was recorded during the period ended December 31, 2010. MLHFS with a carrying amount of \$442,463 were written down to their fair value of \$310,368, resulting in a loss of \$132,095, which is included in earnings for the period ended August 31, 2010.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

## 14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)

The following table presents financial instruments measured at fair value on a nonrecurring basis at December 31, 2010 and August 31, 2010:

	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Other Unobservable Inputs Level 3	Total	Total Gains (Losses)
<b>For the Period Ended December 31, 2010</b>					
Assets mortgage loans held for sale	\$	\$	\$ 310,368	\$ 310,368	\$
<b>For the Period Ended August 31, 2010</b>					
Assets mortgage loans held for sale	\$	\$	\$ 310,368	\$ 310,368	\$ 132,095

**Fair Value Option** Under fair value option accounting guidance, the Company may make an irrevocable election to carry certain financial instruments at fair value with corresponding changes in fair value reported in the results of operations. The election to carry an instrument at fair value is made at the individual contract level and can be made only at origination or inception of the instrument, or upon the occurrence of an event that results in a new basis of accounting.

The Predecessor elected the fair value option for loan sale commitments for fixed rate loans entered into after the election date with corresponding changes in fair value reported in the results of operations. As these loan sale commitments were not considered derivatives prior to adoption and were not recorded on the financial statements, no transition adjustment was required. This election was intended to decrease earnings volatility and to match the related rate lock. Upon acquisition of the Predecessor, the Successor elected to continue to record the loan sale commitments for fixed rate loans at fair value.

The Predecessor elected the fair value for certain newly reacquired MLHFS that it had originated and sold into SPEs, as well as the warehouse debt related to those MLHFS. These elections were made to decrease earnings volatility and match the loan with the related debt. During March and April 2010 the reacquired MLHFS were sold, and the related warehouse debt was assumed by the buyer. See Note 8 for additional information on these transactions.

Upon the acquisition of the Predecessor, the Successor elected fair value on MLHFS entered into after the election date. This election was made to decrease earnings volatility and match corresponding changes in the related commitment to sell securities, which is a derivative.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

**14. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

The following table presents gains and losses due to changes in fair value for items measured at fair value pursuant to election of the fair value option for the periods ended December 31, 2010 and August 31, 2010:

	Fair Value Losses	Net	Mortgage Banking Activities	Total
<b>For the Period Ended December 31, 2010</b>				
Loan sale commitments	\$		\$ 2,459,930	\$ 2,459,930
Mortgage loans held for sale carried at fair value		8,671,199		8,671,199
<b>For the Period Ended August 31, 2010</b>				
Loan sale commitments	\$		\$ (1,570,715)	\$ (1,570,715)
Mortgage loans held for sale carried at fair value		1,154,177		1,154,177
Note payable related party		(1,154,177)		(1,154,177)

The above amounts do not include interest and dividends earned during the period. Such interest and dividends are recorded in interest income or interest expense on an accrual basis. Additionally, amounts do not reflect associated derivatives.

As of December 31, 2010, the aggregate fair value of MLHFS for which the fair value option was elected was \$3,146,237 less than the aggregate unpaid contractual principal amount. There are no loans that are 90 days or more past due. As of August 31, 2010, there were no MLHFS for which the fair value option was elected.

**15. COMMITMENTS AND CONTINGENCIES**

**Legal Contingencies** The Company is currently engaged in litigation resulting from the normal course of business. The Company does not believe liabilities will result from such claims that will materially affect the financial statements of the Company.

**Commitments to Lend** At December 31, 2010 and August 31, 2010, the Company had commitments to originate mortgage loans in the normal course of business for \$479,418,356 and \$450,789,955, respectively. These commitments to lend are either covered under commitments to HUD, Ginnie Mae, Freddie Mac, Fannie Mae for commercial mortgage loans or are future advances on HUD/Ginnie Mae construction loans. In addition, the Company has commitments from investors to purchase certain of these mortgage loans and mortgage-backed securities in the amount of \$712,404,532 and \$533,241,636 for December 31, 2010 and August 31, 2010, respectively.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

## 15. COMMITMENTS AND CONTINGENCIES (Continued)

**Guarantee Obligation** At December 31, 2010 and August 31, 2010, the Company had certain obligations with respect to mortgage loans originated:

	December 31, 2010	August 31, 2010
Outstanding principal balances	\$ 12,664,764,962	\$ 11,625,552,431
Principal outstanding on nonrecourse loans	9,954,951,772	9,771,795,822
Principal outstanding subject to risk sharing	\$ 2,709,813,190	\$ 1,853,756,609

The Company assumes a risk generally not to exceed 20% of the principal balances with respect to certain Fannie Mae loans and generally not to exceed 8% with respect to Freddie Mac affordable loans and with respect to a certain GNMA securitized loan, the Company assumes the first 5% then 15% of any remainder. At December 31, 2010 and August 31, 2010, the Company has recorded a liability of \$6,833,058 and \$5,890,993, respectively, as a reserve under these loss-sharing arrangements recorded in 'accrued expenses and other liabilities' in the balance sheets.

Pursuant to various compliance requirements, the Company is required to maintain capital resources based on the total outstanding unpaid principal balances of mortgages issued and serviced. The most restrictive of these minimum net worth requirements is that of the Fannie Mae Delegated Underwriting and Servicing ("DUS") program which required the Company to maintain minimum net worth of approximately \$18.5 million and \$15.6 million at December 31, 2010 and August 31, 2010, respectively. At December 31, 2010 and August 31, 2010, the Company had net worth, computed in accordance with the Fannie Mae DUS program requirements of \$137,305,254 and \$95,311,228, respectively. If the Company was required to comply only with the minimum required net worth requirements as a HUD Title II Nonsupervised Mortgagee, the Company would be required to maintain \$5,825,478 and \$4,782,113 of net worth for December 31, 2010 and August 31, 2010, respectively.

**Restricted Cash** At December 31, 2010 and August 31, 2010, the Company had restricted cash of \$2,000,000 at a bank, which is collateral for a \$4,000,000 letter of credit supporting its Fannie Mae Lender Reserve pursuant to the Loss Sharing Obligation with Fannie Mae. In addition, at December 31, 2010, the Company has cash of \$500,000 posted with the custodial agent for the Fannie Mae Lender Reserve pursuant to the Loss Sharing Obligation with Fannie Mae.

Also, at December 31, 2010 and August 31, 2010, the Company had \$160,978 in cash collateral posted related to swaps entered into with a financial institution in order to protect against interest rate movements in relation to two fixed rate B-notes originated by the Company.

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## CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010

## 15. COMMITMENTS AND CONTINGENCIES (Continued)

**Lease Commitments** The Company leases office space under operating leases. Future minimum lease commitments under these leases at December 31, 2010, are as follows:

2011	\$ 2,109,849
2012	889,909
2013	558,937
2014	574,538
2015	589,812
Thereafter	603,168
<b>Total</b>	<b>\$ 5,326,213</b>

Rent expense for the periods ended December 31, 2010 and August 31, 2010, was \$532,804 and \$1,162,420, respectively.

**Loan Closing Costs on Deposit** At December 31, 2010 and August 31, 2010, the Company held deposits amounting to \$2,876,095 and \$6,613,853, respectively. These amounts are included in the Company's cash balance, as the deposit can be used to fund costs incurred by the Company during the course of underwriting and closing a loan.

**Representations and Warranties on Sales of Loans** The Company, in the ordinary course of business, issues certain representations and warranties in connection with the sale of mortgages. Such representations and warranties relate to the quality and condition of the documentation supporting each loan at the point of sale and not to recourse provisions, if any, of the mortgages' sale agreement. The Company has evaluated the fair value of these representations and warranties and has determined that the liability is immaterial to the financial statements.

## 16. RELATED PARTY TRANSACTIONS

The Predecessor Company had accounts receivable outstanding with CDP and its affiliates of \$27,116 as of August 31, 2010. This represents miscellaneous charges due to the Company.

The Company had accounts receivable outstanding with ARA of \$86,612 as of August 31, 2010 and accrued expenses and other liabilities of \$118,508 as of December 31, 2010. These balances represented amounts owed from ARA for services provided by the Company and amounts owed to ARA related to fee splits.

The Company shares office facilities and personnel with the Parent and other subsidiaries of the Parent. Accordingly, the related costs of such arrangements have been allocated among the various subsidiaries in a manner which management believes is representative of the actual costs incurred.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE PERIODS ENDED DECEMBER 31, 2010 AND AUGUST 31, 2010****16. RELATED PARTY TRANSACTIONS (Continued)**

Amounts earned from or paid to affiliates of the Successor and Predecessor for the periods ended December 31, 2010 and August 31, 2010, are as follows:

	<b>For the Period Ended December 31, 2010</b>	<b>For the Period Ended August 31, 2010</b>
Servicing fees	\$ 437,141	\$ 1,470,327
Finance fees	1,470,327	1,878,573
Other income	87,083	258,477
Interest expense		(113,634)
<b>Total</b>	<b>\$ 1,557,410</b>	<b>\$ 2,460,557</b>

**17. SUBSEQUENT EVENTS**

Management has not identified any subsequent events requiring financial statement disclosure as of March 30, 2010, the date these financial statements were available for issuance.

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**CWCapital LLC**  
**(A Wholly Owned Subsidiary of**  
**CW Financial Services LLC)**

**Financial Statements as of and for the**  
**Years Ended November 30, 2009 and 2008, and**  
**Independent Auditors' Report**

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

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**INDEPENDENT AUDITORS' REPORT**

To the Member of  
CWCapital LLC  
Needham, Massachusetts

We have audited the accompanying balance sheets of CWCapital LLC (a wholly owned subsidiary of CW Financial Services LLC) (the "Company") as of November 30, 2009 and 2008, and the related statements of net loss, other comprehensive loss, member's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of November 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

February 23, 2010

Member of  
Deloitte Touche Tohmatsu

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Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****BALANCE SHEETS****AS OF NOVEMBER 30, 2009 AND 2008**

	2009	2008
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 12,240,106	\$ 27,920,231
RESTRICTED CASH	2,160,978	2,160,978
ACCOUNTS RECEIVABLE Trade	1,505,341	2,109,604
ACCOUNTS RECEIVABLE Related party	197,704	233,322
DUE FROM PARENT	3,519,250	
MORTGAGE LOANS HELD FOR SALE (including \$228,272,309 and \$277,589,055 recorded at fair value option at November 30, 2009 and 2008, respectively)	285,322,051	296,530,428
MORTGAGE SERVICING RIGHTS Net	61,621,952	54,675,888
PROPERTY AND EQUIPMENT Net	379,076	881,225
RATE LOCK AGREEMENTS At fair value	1,539,238	3,248,596
OTHER ASSETS	1,952,649	869,438
<b>TOTAL</b>	<b>\$ 370,438,345</b>	<b>\$ 388,629,710</b>
<b>LIABILITIES AND MEMBER'S EQUITY</b>		
<b>LIABILITIES:</b>		
Notes payable	\$ 59,167,952	\$ 18,437,605
Notes payable related party recorded at fair value option at November 30, 2009 and 2008	228,272,309	277,589,055
Accounts payable	229,858	158,605
Due to Parent		13,820,874
Loan closing costs on deposit	2,002,979	2,259,557
Interest rate swaps at fair value	4,087,041	215,425
Commitments to sell securities at fair value	936,435	951,027
Commitments to sell loans at fair value	802,095	2,351,303
Accrued compensation	4,385,064	4,862,630
Accrued expenses and other liabilities	4,011,841	2,831,352
<b>Total liabilities</b>	<b>303,895,574</b>	<b>323,477,433</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 14)</b>		
<b>MEMBER'S EQUITY:</b>		
Paid-in capital	70,591,276	49,091,276
(Accumulated deficit)/retained earnings	(4,048,505)	16,061,001
<b>Total member's equity</b>	<b>66,542,771</b>	<b>65,152,277</b>
<b>TOTAL</b>	<b>\$ 370,438,345</b>	<b>\$ 388,629,710</b>

See notes to financial statements.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****STATEMENTS OF NET LOSS****FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>REVENUE:</b>		
Servicing fees	\$ 16,268,855	\$ 16,985,723
Gain on sale of mortgages net and derivative income	29,403,046	10,461,227
Net interest income:		
Interest income	6,812,991	13,298,338
Interest expense	(4,521,713)	(7,118,666)
Net interest income	2,291,278	6,179,672
Other income	72,799	595,971
<b>Total revenue</b>	<b>48,035,978</b>	<b>34,222,593</b>
<b>OPERATING EXPENSES:</b>		
Compensation expense	17,336,645	18,757,011
Lower of cost or fair value ("LOCOFV")	120,287	
Amortization of servicing rights	11,620,143	10,026,363
General and administrative expense	11,579,631	10,399,275
Allocation of expense from affiliates net (Note 15)	21,424,474	4,073,515
Consulting and professional fees	2,396,677	1,421,538
Rent expense	1,737,099	2,125,323
Securitization expense		112,911
Travel and entertainment	923,047	1,120,206
Depreciation	491,401	781,301
Marketing and promotion	516,080	974,424
<b>Total operating expenses</b>	<b>68,145,484</b>	<b>49,791,867</b>
<b>NET LOSS</b>	<b>\$ (20,109,506)</b>	<b>\$ (15,569,274)</b>

See notes to financial statements.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**STATEMENTS OF OTHER COMPREHENSIVE LOSS**

**FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
NET LOSS	\$ (20,109,506)	\$ (15,569,274)
OTHER COMPREHENSIVE LOSS Unrealized losses during the year		(629,382)
COMPREHENSIVE LOSS	\$ (20,109,506)	\$ (16,198,656)

See notes to financial statements.

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Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****STATEMENTS OF MEMBER'S EQUITY****FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

		<b>Paid-In Capital</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Retained Earnings (Accumulated Deficit)</b>	<b>Total</b>
BALANCE	November 30, 2007	\$ 14,708,000	\$ 629,382	\$ 31,630,275	\$ 46,967,657
Net loss				(15,569,274)	(15,569,274)
Contributions		34,383,276			34,383,276
Other comprehensive loss			(629,382)		(629,382)
BALANCE	November 30, 2008	49,091,276		16,061,001	65,152,277
Net loss				(20,109,506)	(20,109,506)
Contributions		21,500,000			21,500,000
BALANCE	November 30, 2009	\$ 70,591,276	\$	\$ (4,048,505)	\$ 66,542,771

See notes to financial statements.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (20,109,506)	\$ (15,569,274)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Gain on interest-only securities		(460,415)
Gain on sale of mortgages net and derivative income	(15,163,304)	(13,453,264)
Allocation of expense from affiliates net		(983,875)
Change in rate lock agreements	1,709,358	2,464,024
Change in sale commitments	(1,563,800)	
Change in interest rate swaps	3,871,616	
Amortization of servicing rights	11,620,143	10,026,363
Depreciation	491,401	781,301
Equity investment in investee	20,693	
LOCOFV adjustments	120,287	
Loan loss reserve	1,605,456	
Changes in operating assets and liabilities:		
Accounts receivable trade	604,263	947,005
Accounts receivable related party	35,618	(233,322)
Mortgage loans held for sale	(52,084,975)	113,665,091
Other assets	(603,904)	381,464
Accounts payable	71,253	(1,740,048)
Due from/to Parent	4,159,876	26,896,971
Loan closing costs on deposit	(256,578)	(1,533,489)
Accrued compensation	(477,566)	(11,212,810)
Accrued expenses and other liabilities	(424,967)	1,066,016
<b>Net cash (used in) provided by operating activities</b>	<b>(66,374,636)</b>	<b>111,041,738</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in restricted cash		229,303
Disposal (purchase) of property and equipment	10,748	(8,446)
Cash paid for purchased mortgage servicing rights ("PMSRs")	(2,996,635)	
Investment in ARA Finance LLC ("ARA")	(500,000)	
Proceeds from investment in interest-only securities		423,833
<b>Net cash (used in) provided by investing activities</b>	<b>(3,485,887)</b>	<b>644,690</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on notes payable	1,467,824,722	1,233,894,514
Repayments on notes payable	(1,427,094,375)	(1,356,463,041)
Borrowing on notes payable related party	14,587,626	
Repayments on notes payable related party	(1,137,575)	
<b>Net cash provided by (used in) financing activities</b>	<b>54,180,398</b>	<b>(122,568,527)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(15,680,125)</b>	<b>(10,882,099)</b>
CASH AND CASH EQUIVALENTS Beginning of year	27,920,231	38,802,330
<b>CASH AND CASH EQUIVALENTS End of year</b>	<b>\$ 12,240,106</b>	<b>\$ 27,920,231</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b> Cash paid for interest	<b>\$ 2,544,293</b>	<b>\$ 3,738,629</b>



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SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Conversion of due to Parent to contributions from member see Note 16.	\$	21,500,000	\$	34,383,276
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Net consolidation of mortgage loans held for sale and related secured financings see Note 6.	\$		\$	36,597,146
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SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING AND FINANCING ACTIVITIES Valuation

adjustment to mortgage loans held for sale and notes payable related party	\$	62,766,797	\$	
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See notes to financial statements.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**1. ORGANIZATION**

CWCapital LLC (the "Company"), a Massachusetts limited liability company, is a wholly owned operating subsidiary of CW Financial Services LLC ("CWF" or "Parent"), a Delaware limited liability company. The Company commenced operations on September 9, 2002, and is in the business of originating, selling, and servicing commercial real estate mortgages.

CWF's members include its management and an indirect subsidiary of Caisse de dépôt et placement du Québec ("CDP"), a Canadian global fund manager whose clients are mostly Quebec public and private pension and insurance plans. CDP owned approximately an 82% interest in CWF as of November 30, 2009.

In August 2009, the Company entered into a joint venture agreement with a third party and formed ARA. The Company and the third party each hold a 50% interest in the joint venture. ARA was formed to seek opportunities to provide mortgage loans for market rate and affordable multifamily, senior, and student housing.

The Company is licensed as a U.S. Department of Housing and Urban Development ("HUD") approved Title II Nonsupervised Mortgagee. The Company is also licensed by Federal National Mortgage Association ("Fannie Mae"), Government National Mortgage Association ("Ginnie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac").

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of our significant accounting policies is as follows:

*Basis of Presentation* The financial statements include the accounts of the Company.

*Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant use of estimates relates to the valuation of certain financial instruments and other assets and liabilities, such as mortgage loans held for sale, mortgage servicing rights ("MSRs"), rate lock agreements ("rate locks"), notes payable, interest rate swaps, commitments to sell securities and commitments to sell loans. Actual results could differ from those estimates.

*Cash and Cash Equivalents* The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Company places its cash and cash equivalents with financial institutions which management considers to be of high quality; however, at times, such deposits may be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limit.

*Restricted Cash* Restricted cash represents cash that is restricted as to withdrawal or usage and includes amounts required to meet certain regulatory requirements. It also includes cash collateral, including margin calls posted with a swap counterparty.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Accounts Receivable* Accounts receivable is composed primarily of servicing advances. The Company is required to make principal and interest advances to investors under certain of the lending programs for which it is licensed. Such advances are generally recoverable, and as a result, no reserve has been recorded.

*Mortgage Loans Held for Sale* Mortgage loans held for sale is composed of loans that have been originated or acquired by the Company and are held on balance sheet while awaiting sale or securitization.

Mortgage loans held for sale where the Company has not elected the fair value option are initially recorded at the principal amount outstanding adjusted for any premiums or discounts and deferred fees and costs. The Company's mortgage loans consist of commercial real estate loans held for sale to investors, which are accounted for at LOCOFV. Loan origination fees and direct origination costs are deferred until the loan is sold. If a loan has future funding features, then the deferred fees and costs related to future draws are recognized as the future draws are funded.

Certain mortgage loans held for sale are measured at fair value. Fees and costs related to fair valued mortgage loans held for sale are recognized in earnings as incurred and not deferred.

The Company obtains fair values using available market information and/or valuation methodologies on a loan-by-loan basis. Considerable judgment is required in interpreting market data to develop estimates of fair value; therefore, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange. The effect of using different market assumptions or estimation methodologies may materially impact the fair value amounts.

*MSRs* The Company is required to record a separate asset or liability initially measured at fair value for servicing rights relating to mortgages originated and sold where the servicing rights have been retained (Originated Mortgage Servicing Rights or "OMSRs"). The Company also records a separate asset at fair value when it purchases servicing rights. The Company has elected to utilize the amortization method to account for MSRs subsequent to initial recognition. Servicing rights created or purchased in 2009 are amortized in proportion to and over the period of estimated net servicing income. For all servicing rights created or purchased prior to fiscal year 2009, the Company has amortized them using a straight-line methodology which approximates amortization in proportion to and over the period of estimated net servicing income. The amortization is being reported as a component of 'amortization of servicing rights' in the statements of net loss. If a loan has future funding features, then the MSR related to future draws is recognized as the future draws are funded and sold, whether funded by the Company or directly by the investor.

MSRs are evaluated for impairment by stratifying the portfolio according to predominant risk characteristics, primarily investor or program type. To the extent that the carrying value of an individual stratum exceeds its estimated fair value, that MSR is considered to be impaired. Such impairment would be recognized through the income statement. In connection with its impairment analysis, the Company monitors the rate of prepayment in the servicing loan portfolio, as the prepayment rate is a primary factor affecting impairment. Additionally, the Company engages an independent third party to assist the Company in determining appropriate assumptions in determining fair value.

**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and Equipment* Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the remaining lives of the underlying leases.

*Derivative Instruments* From time to time, the Company enters into certain transactions that are accounted for as derivatives as follows:

Rate locks are contracts entered into that allow commercial mortgage customers to lock in the interest rate on a mortgage while the loan is being underwritten and awaiting closure. Market interest rate changes, between the time the customer receives a rate lock and the time the mortgage loan is funded, can change the fair value of a potential mortgage and the resulting fair value of the rate lock. The Company records rate locks at fair value and any subsequent change in fair value is recorded as a component of 'gain on sale of mortgages net and derivative income.' The fair value of these rate locks is determined by reviewing the index yield change from the date the interest rate of the loan was locked to the date of the financial statements.

Interest rate swaps are entered into to offset the change in fair value of certain fixed rate mortgage loans held for sale and rate locks. Interest rate swaps are agreements in which one counterparty pays a floating rate of interest on a notional principal amount and the other party pays a fixed rate of interest on the same notional principal amount for a specified period of time. The Company records interest rate swaps at fair value and any subsequent change in fair value is recorded as an adjustment to 'gain on sale of mortgages net and derivative income.' Amounts paid to and received from the swap counterparty are recorded as an adjustment to 'gain on sale of mortgages net and derivative income.' When an interest rate swap is terminated, the Company will record an adjustment to income equal to the difference between the proceeds from (or cash paid) closing the transaction and the Company's basis in the contract, if any. The fair value of the interest rate swaps is determined by estimating the amount that the Company would have realized if the Company had terminated the agreement at the financial statement date, with such estimation based on the value obtained from Bloomberg, an industry standard vendor service for pricing financial instruments. For each swap, the key input variables to Bloomberg are notional amount, fixed rate, effective date, maturity date, and floating rate convention (i.e., one month LIBOR vs. three month LIBOR, etc.). Additionally, the Company considers both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements of interest rate swaps.

Commitments to sell Ginnie Mae and Fannie Mae securities are entered into simultaneously with the rate lock of the related loan to offset adverse changes in the securities market between the time an investor enters into the purchase agreement and the time the security is issued. The Company records these sales commitments at fair value and any subsequent change in fair value is recorded as a component of 'gain on sale of mortgages net and derivative income.' The fair value of these sales commitments is determined by reviewing the market changes based on interest rates from the time the sale commitment was entered into to the date of the financial

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

statements. The value of commitments to sell securities is expected to offset the interest rate lock for the loan underlying that security.

Interest rate caps for floating rate loans that the Company has originated are entered into to mitigate the risk of default by the borrower from changing interest rates. The monthly payments received under such caps are applied to the monthly debt service payment of the borrower. The Company records interest rate caps at fair value based on duration and index, considering a valuation obtained from a third party provider. As any monthly payment received by the Company is applied to the debt service of the loan, a liability equal to the fair value of the interest rate cap is also recorded to reflect that practice. The Company records interest rate caps at fair value and any subsequent change in fair value is recorded as a component of 'gain on sale of mortgages net and derivative income.' The caps are reflected in 'other assets' and the related liability is reflected in 'accrued expenses and other liabilities' in the balance sheets.

*Notes Payable* For notes where the Company has elected the fair value option, the notes are measured at fair value. Fees and costs related to notes for which the Company has elected the fair value option are recognized in earnings as incurred and are not deferred.

The fair value of these notes is determined by a model where the significant inputs are market financing spreads, market advance rate and equity replication rate. The inputs were based on management's best estimate.

*Loan Closing Costs on Deposit* In the normal course of business, the Company receives cash from potential borrowers to pay expenses incurred during the loan origination process (i.e., legal, appraisal, engineering, environmental, etc.). Unused deposits are returned to the borrower at the time a loan is closed or at the time that an application for a loan is terminated. These amounts are included in the Company's cash balance as the deposit can be used to fund costs incurred by the Company during the course of underwriting and closing a loan. A corresponding liability is recognized in 'loan closing costs on deposit' in the balance sheets.

*Commitments to Sell Loans* Commitments to sell loans are entered into simultaneously with the rate lock of Fannie Mae and Freddie Mac loans in order to offset adverse changes in the mortgage loan market between the time Fannie Mae or Freddie Mac enter into a purchase agreement and the time the mortgage loan is purchased. The Company elected to record these commitments at fair value. Any subsequent change in fair value is recorded as a component of 'gain on sale of mortgages net and derivative income.' The fair value of these sales commitments is determined by reviewing the market change from the time the sale commitment was entered into to the date of the financial statements. The value of commitments to sell loans is expected to offset the interest rate lock for the same loan.

*Loan Loss Reserves* The Company assumes risk sharing generally not to exceed 20% of the principal balances with respect to certain Fannie Mae loans and generally not to exceed 8% with respect to Freddie Mac affordable loans. Pursuant to various compliance requirements, the Company is required to maintain capital resources based on the total outstanding unpaid principal balances of mortgages issued and serviced. The Company records an estimated loss in the financial statements if it

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

has been determined that it is probable that a liability has been incurred. Such estimate is recorded in 'accrued expenses and other liabilities' in the balance sheets.

*Member's Equity/Paid-In Capital/Accumulated Other Comprehensive Income (Loss)/Retained Earnings (Accumulated Deficit)* At the end of each fiscal year, profits and losses are generally allocated to the member. This allocation may be adjusted pursuant to the terms of the Limited Liability Company ("LLC") agreement. Other comprehensive loss was primarily the result of unrealized gains and losses for assets classified as available for sale.

*Servicing Fees* Servicing fees primarily consist of servicing fees and placement fees for the deposit of escrows. The Company earns servicing fees in connection with the collection of monthly debt service payments. These fees are earned and collected monthly in accordance with each respective loan agreement. The Company earns placement fees for depositing escrow balances with third party financial institutions. These fees are earned and collected monthly through arrangements with third parties.

*Gain on Sale of Mortgages Net and Derivative Income* Gain on sale of mortgages net and derivative income includes both the gain on sale of mortgages and related derivatives, as well as any change related to the fair value of those derivatives and the cash payments received. Changes in fair value of commitments to sell loans are also recorded in this account. The Company recognizes gain on sale of mortgages and related derivatives based on the difference between (a) the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold, and the interests that continue to be held by the Company, based on their relative fair value at the date of transfer and (b) the proceeds received. For loans recorded at LOCOFV, the carrying amount of the loans sold includes the original principal amount plus deferrals of fees and points received and direct loan origination costs, less any write downs to fair value. For loans recorded at fair value under the fair value option election, deferred fees and points received and direct loan origination costs are recognized in earnings at the date they are incurred. The Company includes the initial fair value of any MSR related to the portion of the loan sold in 'gain on sale of mortgages net and derivative income.'

*Interest Income* Interest income is derived from interest earned from mortgages held for sale, including accretion of the discount related to the initial fair value measurement of the loans that were reacquired from the qualified special purpose entities ("QSPEs") (see Note 6 for additional information), interest earned from investments in securities and from other assets where the effective yield method is used. For loans where the fair value option was elected which are in nonaccrual status, no accretion of the related discount is recorded. Interest income is accrued as earned and recorded in 'accounts receivable trade' in the balance sheets and in 'interest income' in the statements of net loss.

*Interest Expense* Interest expense is derived from interest paid on credit facilities that the Company maintains to finance mortgage loans held for sale, secured financings with affiliates and working capital lines. See Note 11 for details regarding notes payable. Interest expense is accrued each period and any interest due is recorded in 'accrued expenses and other liabilities' in the balance sheets and in 'interest expense' in the statements of net loss.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Fair Value Losses Net* Mortgage loans held for sale and notes payable related party that are fair valued are initially recorded at fair value with subsequent changes in fair value recorded in the statements of net loss. Subsequent changes in fair value for those instruments that have been recorded at fair value are recorded in 'allocation of expense from affiliates net.' The Company has provided fair value estimates and information about valuation methodologies in Note 13.

*Allocation of Expense From Affiliates Net* The allocation is recorded based upon an allocation agreement between the Company and its parent company, CWF. The Company has agreed to share certain costs related to loans that the Company originated and sold to special purpose entities ("SPEs") and QSPEs. These SPEs and QSPEs are owned 100% by CWF, as more fully described in Note 6. As the fair value of the residual interest retained by CWF and of the loans held by SPEs that have been reacquired by CWF due to the change in QSPE status is primarily driven by the value of the loans sold by the Company, it has agreed that changes in the related fair values and other revenues, costs and reimbursements paid/received by CWF related to the SPEs and QSPEs should be reflected in the Company's statements of net loss. The amount of the allocation is reflected in the statements of net loss as 'allocation of expense from affiliates net' and reflected in the balance sheets in 'due to Parent.' See Note 15 for additional information on the allocation agreement.

*Leases* For leases that contain fixed escalations of the minimum annual lease payment during the original term of the lease and for leases with free rent periods, the Company recognizes rental expense on a straight-line basis over the lease term and records the difference between rent expense and the amount currently payable as deferred rent in 'accrued expenses and other liabilities' in the balance sheets.

*Income Taxes* No provision has been made in the financial statements for income tax because the Company is a disregarded entity for tax purposes and its results are included in its Parent's filing with the Internal Revenue Service.

*Concentration of Credit Risk* A significant amount of the Company's business activities in 2009 and 2008 involved multifamily and health care lending activities through programs sponsored by HUD, Ginnie Mae, Fannie Mae and Freddie Mac. There are no significant concentrations to these agencies in the Company's balance sheets at November 30, 2009 and 2008. During 2008, Fannie Mae and Freddie Mac entered conservatorship. The Company has determined that there have been no changes in credit risk due to the conservatorship. The Company could be susceptible to changes in governmental appropriations and regulations.

As a result of reacquiring certain mortgage loans from the QSPEs in the prior year (as discussed in Note 6), the Company now has a significant amount of mortgage loans and related interest rate swaps on its financial statements for which the Company has credit risk. The Company's exposure to the reacquired loans is limited as described in Note 15. The Company is also subject to credit risk with respect to certain Fannie Mae and Freddie Mac loans. The Company's exposure to the certain Fannie Mae and Freddie Mac loans is limited as described in Note 14. In addition, the Company does not believe that it has any significant concentration related to property type, borrower or location. The Company maintains cash deposits with financial institutions, which, from time to time, may exceed

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CWCAPITAL LLC

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NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

federally insured limits. At November 30, 2009 and 2008, \$13,934,423 and \$29,669,831, respectively, of cash held in the corporate operating and restricted cash accounts was not covered by FDIC insurance.

*Escrow Balances* In the normal course of conducting its mortgage servicing business, the Company collects escrow deposits to fund customer property taxes, hazard and general liability insurance premiums as well as other escrow requirements. The Company held \$360,986,259 and \$334,591,538, which are not included in the Company's balance sheets, in escrow balances at November 30, 2009 and 2008, respectively. Such amounts have been segregated in separate accounts at third party depository institutions.

**Recently Issued Accounting Standards**

*Other-Than-Temporary Impairments ("OTTIs") on Purchased Beneficial Interests* In January 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") No. 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, which amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an OTTI has occurred. FSP EITF 99-20-1 is effective for interim and annual periods ending after December 15, 2008. This FSP had no effect on the Company's financial statements.

*OTTIs on Investment Securities* In April 2009, the FASB issued FSP FASB Statement No. 115-2 and FASB Statement No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends the recognition guidance for OTTI of debt securities and expands the financial statement disclosures for OTTI on debt and equity securities. This statement is effective for interim and annual reporting periods ending after June 15, 2009. The impact of adopting this FSP had no effect on the Company's financial statements.

*Measurement of Fair Value in Inactive Markets* In April 2009, the FASB issued FSP FAS 157-4 *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. The FSP reaffirms that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The FSP also reaffirms the need to use judgment in determining if a formerly active market has become inactive and in determining fair values when the market has become inactive. This statement is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of the FSP had no effect on the Company's financial statements.

*Additional Disclosures for Derivative Instruments* On December 1, 2008, the Company adopted FASB Statement No. 161 *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. The standard requires enhanced disclosures about derivative instruments and hedged items that are accounted for under FASB Statement No. 133 and related interpretations. No comparative information for periods prior to the effective date is required. This statement is effective for interim and annual reporting periods beginning after November 15, 2008. The



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CWCAPITAL LLC

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NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

adoption of FASB Statement No. 161 had no impact on how the Company accounts for these instruments. The Company has included the required disclosures in Note 10.

*Sale With Repurchase Financing Agreements* In February 2008, the FASB issued FSP FASB Statement No. 140-3 *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. FSP FASB Statement No. 140-3 provides implementation guidance on whether a security transfer with a contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate de-linked transactions. FSP FASB Statement No. 140-3 requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement's price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another. This statement is effective for interim and annual reporting periods beginning after November 15, 2008, and applied prospectively to initial transfers and repurchase financings for which initial transfer is executed on or after the beginning of December 1, 2008. The adoption of FSP FASB Statement No. 140-3 had no impact on the Company's financial statements.

*Equity Method Investment Accounting Considerations* In November 2008, the EITF issued EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. The objective of EITF Issue No. 08-6 is to clarify the accounting for certain transactions and impairment considerations involving equity method investments. Under EITF Issue No. 08-6, an entity shall measure its equity method investment initially at cost in accordance with FASB Statement No. 141(R), *Business Combinations*. Any OTTI of an equity method investment should be recognized in accordance with Opinion 18. An equity method investor shall not separately test an investee's underlying assets for impairment. Share issuance by an investee shall be accounted for as if the equity method investor had sold a proportionate share of its investment, with a gain or loss recognized in earnings. EITF Issue No. 08-6 is effective for interim and fiscal years beginning on or after December 15, 2008. EITF Issue No. 08-6 is not expected to have a material impact on the Company's financial statements.

*Accounting for Collaborative Arrangements* In December 2007, the EITF issued EITF Issue No. 07-1 *Accounting for Collaborative Arrangements*. The objective of EITF Issue No. 07-1 is to define collaborative arrangements and to establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF Issue No. 07-1 is effective for interim and fiscal years beginning on or after December 15, 2008. The Company is currently evaluating the impact on the Company's financial statements.

*Business Combinations* In April 2009, the FASB issued FSP FASB Statement No. 141(R) *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*. This FSP addresses the application issues raised on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

contingencies in a business combination. FSP FASB Statement No. 141(R) is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. FSP FASB Statement No. 141(R) is not expected to have a material impact on the Company's financial statements.

*Elimination of QSPEs* In May 2009, the FASB issued FASB Statement No. 166 *Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140*. This statement removes the concept of a QSPE from FASB Statement No. 140 and removes the exception from applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to qualifying special-purpose entities. This statement modifies the financial-components approach used in FASB Statement No. 140 and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The special provisions in FASB Statement No. 140 and FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, for guaranteed mortgage securitizations are removed to require those securitizations to be treated the same as any other transfer of financial assets within the scope of FASB Statement No. 140, as amended by this statement. Enhanced disclosures are required to provide financial statement users with greater transparency about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. FASB Statement No. 166 is effective as of the beginning of each fiscal year that begins after November 15, 2009. At November 30, 2009, CWC Capital Mortgage Securities VI LLC ("Mortgage VI") was the only SPE that continued to meet the definition of a QSPE. Upon adoption of FASB Statement No. 166, Mortgage VI, which it currently has involvement, will no longer be considered a QSPE. The Company is currently evaluating the impact of this statement on its financial statements.

*Changes in the FIN 46(R) Consolidation Model* In May 2009, the FASB issued FASB Statement No. 167 *Amendments to FASB Interpretation No. 46(R)*. FASB Statement No. 167 amends FASB Interpretation ("FIN") No. 46(R) to include in its scope former QSPEs, to require ongoing reassessments of whether an enterprise is the primary beneficiary of a Variable Interest Entity ("VIE"), and eliminates the quantitative approach previously required for determining the primary beneficiary of a VIE, which was based on determining which enterprise absorbs the majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both. This statement also amends FIN No. 46(R) to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a VIE. The enhanced disclosures are required for any enterprise that holds a variable interest in a VIE. As a result of the new consolidation rules, the Company expects to be required to consolidate certain of the VIEs. An ongoing evaluation of the application of these new requirements could result in the identification of additional VIEs that may require consolidation.

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CWCAPITAL LLC

(A Wholly Owned Subsidiary of CW Financial Services LLC)

NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Subsequent Events* In May 2009, the FASB issued FASB Statement No. 165 *Subsequent Events*. This statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and disclosures that an entity should make about events or transactions that occurred after the balance sheet date. FASB Statement No. 165 is effective for fiscal years ending after June 15, 2009. FASB Statement No. 165 had no impact on the Company's financial statements.

*Codification* In June 2009, the FASB issued FASB Statement No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. All then-existing, non-SEC accounting and reporting standards are superseded. Concurrently, all nongrandfathered, non-SEC accounting literature not included in the codification is deemed nonauthoritative. FASB Statement No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. FASB Statement No. 168 had no impact on the Company's financial statements.

*Measuring Liabilities at Fair Value* In August 2009, the FASB issued Accounting Standards Update ("ASU") 2009-5 *Fair Value Measurements and Disclosures* ("Topic 820"). ASU 2009-5 provides clarification that in circumstances in which a quoted price in an active market for an identical liability is not available, the Company is required to measure fair value of that liability using the quoted market price of the identical liability when traded as an asset; quoted prices for similar liabilities or similar liabilities when traded as assets or another valuation technique that is consistent with the principles of Topic 820. ASU 2009-5 is effective for the first reporting period beginning after issuance. The adoption of ASU 2009-5 will have no effect on the Company's financial statements.

*Income Taxes* In September 2009, the FASB issued ASU 2009-06 *Income Taxes, Topic 740, Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*. ASU 2009-06 provides implementation guidance through examples and eliminates the disclosure requirements required for nonpublic entities. ASU 2009-06 is effective as of the beginning of each fiscal year that begins after December 15, 2008. ASU 2009-06 had no effect on the Company's financial statements.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****3. ACCOUNTS RECEIVABLE TRADE**

Accounts receivable trade at November 30, 2009 and 2008, consists of the following:

	<b>2009</b>	<b>2008</b>
Accrued income	\$ 199,442	\$ 387,225
Accrued interest receivable	431,887	804,217
Primary servicing advances	755,517	688,102
Other receivables	118,495	230,060
<b>Total</b>	<b>\$ 1,505,341</b>	<b>\$ 2,109,604</b>

**4. MORTGAGE LOANS HELD FOR SALE**

Mortgage loans held for sale at November 30, 2009 and 2008, consist of the following:

	<b>2009</b>	<b>2008</b>
<b>Loans at LOCOFV:</b>		
Commercial fixed rate loans	\$ 57,472,915	\$ 18,958,277
Deferred fees and costs associated with mortgage loans held for sale	(423,173)	(16,904)
Subtotal at LOCOFV	57,049,742	18,941,373
Loans at fair market value	228,272,309	277,589,055
<b>Total</b>	<b>\$ 285,322,051</b>	<b>\$ 296,530,428</b>

Commercial mortgage loans at LOCOFV were originated by the Company prior to November 30 and generally have been sold to investors with settlement occurring after year end. At November 30, 2009 and 2008, the fair value of these loans approximates their carrying amount.

Loans at fair market value represent mortgage loans that were originated and sold into QSPEs by the Company that subsequently were reacquired when the loans failed sales treatment in fiscal year 2008. Please see Note 6 for further discussion.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****5. MSRs**

The Company's MSRs at November 30, 2009 and 2008, consist of the following:

	<b>2009</b>	<b>2008</b>
Balance beginning of year	\$ 54,675,888	\$ 51,429,695
PMSRs	2,996,635	
Additions	15,569,572	13,272,556
Amortization	(11,620,143)	(10,026,363)
<b>Balance end of year</b>	<b>\$ 61,621,952</b>	<b>\$ 54,675,888</b>
Fair value of MSRs beginning of year	\$ 62,142,102	\$ 55,782,819
<b>Fair value of MSRs end of year</b>	<b>\$ 76,720,850</b>	<b>\$ 62,142,102</b>

MSRs are initially recorded at fair value on the date a loan is sold or when a servicing right is purchased. The OMSRs are fair valued using a loan level discounted static cash flow analysis based on current market assumptions (including cost of servicing, escrow earnings rate, escrow inflation factors, prepayment rates and default factors) commonly used by buyers of these types of commercial/multifamily servicing, which are derived from prevailing conditions in the secondary servicing market. The risks inherent in the valuation of MSRs include higher than expected prepayment rates, unexpected changes in interest rates, and/or delays in the receipt of cash flows. Changes in market conditions could have a material impact on the Company's estimates of fair value.

A summary of the Company's MSR and related characteristics as of November 30, 2009 and 2008, is as follows:

	<b>2009</b>	<b>2008</b>
Servicing portfolio (unpaid principal)	\$10,920,460,381	\$9,615,696,300
Fair value of portfolio	\$76,720,850	\$62,142,102
Value expressed in basis points	70	65
Weighted-average service fee (bps)	11.3	10.1
Multiple (value/service fee)	6.2	6.4
Weighted-average note rate	5.51%	6.03%
Weighted-average life to maturity	10.3 years	10.7 years
Average discount rate	10%	11%
Prepayment speeds	4% - 24%	2% - 25%

During the year ended November 30, 2009, the Company earned service fees, late fees, and other ancillary fees of \$11,364,842, \$219,780, and \$4,684,233, respectively. During the year ended November 30, 2008, the Company earned servicing fees, late fees, and other ancillary fees of \$8,964,924, \$175,423, and \$7,845,376, respectively. Such amounts are reported in 'servicing fees' in the statements of net loss.

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## CWCAPITAL LLC

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## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

**6. CAPITAL MARKETS TRANSACTIONS**

**Capital Market Transactions** In prior years, the Company had originated commercial mortgage loans structured for ultimate resale in securitization transactions, Collateralized Debt Obligations ("CDOs"), and privately placed sale transactions. The mortgages were sold by the Company to CWCapital Mortgage Securities I LLC ("Mortgage I"), CWCapital Mortgage Securities II LLC ("Mortgage II"), CWCapital Mortgage Securities III LLC ("Mortgage III"), CWCapital Mortgage Securities IV LLC ("Mortgage IV"), CWCapital Mortgage Securities V LLC ("Mortgage V") and Mortgage VI, all of which qualified as QSPEs at November 30, 2007, as applicable. The QSPEs were established for the purpose of purchasing the mortgages originated by the Company and issuing participation certificates to certain financial institutions that provide temporary financing to the QSPEs while the assets are warehoused and awaiting final disposition. Each participation certificate issued by the QSPEs was governed by a Master Participation Agreement that provided the financial institution with control over the disposition of the participation certificates, including a put option, held and executable only by the certificate holder, at whatever time the holder deems appropriate. CWF held 100% of the common equity in each of the QSPEs. In each of these transactions, CWF retained a residual interest in the assets transferred to the QSPEs in addition to MSRs held by the Company. The transactions were structured so that lenders had no recourse to other assets of CWF, the Company or any of their affiliates for the QSPEs' failure to pay their obligations when due. Affiliates of CDP originally provided up to a 10% guarantee for the debt related to all assets transferred to the QSPEs. The guarantees did not jeopardize the "true sale" of the mortgages to the QSPEs. CWF paid an affiliate of CDP a fee of 2% of the guarantee outstanding amount plus 20% of the operating profits, if any, earned from operation of the conduit business unit of the Company. During 2007, the fee agreement for the guarantee was modified such that a 3% floor of the guarantee amount would be paid for Mortgage IV and Mortgage VI. As of July 1, 2008, the guarantee amount was changed to 2% on 20% of the outstanding financing. Please see Note 15 for further discussion. The cost of the guarantee and the change in fair value of the residual interest asset owned by CWF have been recorded in 'allocation of expense from affiliates net' in the statements of net loss. See Note 15 for more information on the allocation agreement.

**2009 Capital Market Transactions** At November 30, 2009, Mortgage VI continued to meet the definition of a QSPE. However, as of December 1, 2009, Mortgage VI will no longer be a QSPE due to the adoption of newly issued GAAP as described in Note 2. When valuing the residual interest at November 30, 2009, it was anticipated that the loan held by Mortgage VI would remain in the QSPE through November 30, 2009. The discount rate utilized to discount (i) the monthly carry and (ii) the anticipated December 1, 2009, net disposition proceeds was, in each case, equal to the participant's lending rate. The fair value of the loan in Mortgage VI was estimated using a hypothetical whole loan sale at December 1, 2009, based on the forecasted yield curve and whole loan spreads. To minimize the volatility of earnings, the Company entered into an interest rate swap when the loan was originated, which was then novated to Mortgage VI. The fair value of the interest rate swap is estimated using the amount that the Company would realize if the swap was terminated at the expected sale date of the related loan taking into account expected swap interest rates and information obtained from counterparties and the Company's own current creditworthiness. In addition to the cash flows expected to be generated by the loan as noted above, the current assets and liabilities of the QSPE were considered when determining the residual interest fair value. At November 30, 2009, there was

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**CWCAPITAL LLC**

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**6. CAPITAL MARKETS TRANSACTIONS (Continued)**

\$24,263,814 of additional cash collateral posted by Mortgage VI with the participant related to the loan and swap held by Mortgage VI in addition to the other assets and liabilities generated in the normal course of business.

**2008 Capital Market Transactions** At November 30, 2008, Mortgage VI was the only SPE which continued to meet the definition of a QSPE. When valuing the residual interest at November 30, 2008, it was anticipated that the loan held by Mortgage VI would remain in the QSPE through May 31, 2009. The discount rate utilized to discount (i) monthly carry and (ii) the anticipated May 31, 2009 net disposition proceeds was, in each case, equal to the participant's lending rate plus 100 basis points. This represents an extension of the estimated holding period between 2007 and 2008 resulting from changing market conditions and lack of liquidity in the current market. The fair value of the loan in Mortgage VI was estimated using a hypothetical whole loan sale at May 31, 2009, based on the forecasted yield curve and whole loan spreads. To minimize the volatility of earnings, the Company entered into an interest rate swap, which was then novated to the QSPE. The fair value of the interest rate swap is estimated using the amount that the Company would realize if the swap was terminated at the expected sale date of the related loan taking into account expected swap interest rates and information obtained from counterparties and the Company's own current creditworthiness. In addition to the cash flows expected to be generated by the loan as noted above, the current assets and liabilities of the QSPE were considered when determining the residual interest fair value. At November 30, 2008, there was \$15,654,405 of additional cash collateral posted by Mortgage VI with the participants related to the loan and swap held by the QSPE in addition to the other assets and liabilities generated in the normal course of business of the QSPE. At November 30, 2008, the fair value of this residual interest held by CWF was \$0. Gains or losses ultimately realized related to the Mortgage VI residual interest will be shared 20% by CWF and 80% by an affiliate of the Parent as described in Note 15.

At November 30, 2008, it was believed that future changes in interest rates would have a minimal impact on the value of this residual interest due to the mitigating effect of the swap on the value of the loan.

On May 23, 2008, Mortgage IV was restructured and on July 3, 2008, Mortgage I and Mortgage V were restructured in order to finance the assets held by these entities for an extended period. As a result of these restructurings, which required an increase in the guarantees and a modification to the governing documents, Mortgage I, Mortgage IV, and Mortgage V failed to meet the requirements of a QSPE on each of the respective restructure dates. This resulted in the loans being recombined on the financial statements of CWF. Also as a result of the restructuring, loans sold by the Company to Mortgage I, Mortgage IV, and Mortgage V failed the previous sales treatment. Due to the failure of sales treatment, loans held by Mortgage I, Mortgage IV, and Mortgage V and any related swaps held by these SPEs have been recorded on the financial statements of the Company at fair value on each of the respective restructure dates.

Mortgage I, Mortgage IV, and Mortgage V are all considered VIEs. CWF is considered the primary beneficiary and accordingly, Mortgage IV was consolidated into CWF on May 23, 2008, Mortgage IV's "date of recognition" and Mortgage I and Mortgage V were consolidated into CWF on July 3, 2008, Mortgage I and Mortgage V's "date of recognition." As a result, the assets, liabilities,

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****6. CAPITAL MARKETS TRANSACTIONS (Continued)**

interest income, interest expense, and other related expenses of Mortgage I, Mortgage IV, and Mortgage V earned since consolidation have been presented as a part of CWF's balance sheets and results of operations. CWF elected the fair value option at the date of recognition of Mortgage I, Mortgage IV and Mortgage V for the mortgage loans held for sale and associated debt.

Under the Allocation Agreement (see Note 15), all related costs and benefits derived by CWF relative to the SPEs are allocated to the Company and recorded in 'allocation of expense from affiliate net' in the statements of net loss.

For Mortgage IV, the estimated fair value of the loans at November 30, 2008 was \$120,068,592. For Mortgage I and Mortgage V, the estimated fair value of the loans at November 30, 2008 was \$134,800,132 and \$22,720,331, respectively. These assets are classified as 'mortgage loans held for sale' on the Company's balance sheets. The Company also records secured financings in amounts equal to the fair value of the loans on the SPEs, which are reflected in 'notes payable related party' on the Company's balance sheets.

The following noncash supplemental information summarizes the amounts that were recognized by the Company upon the consolidation of Mortgage I, Mortgage IV, and Mortgage V at their respective dates of recognition:

Accounts receivable trade	\$	1,085,740
Mortgage loans held for sale		306,161,631
Notes payable related party		(301,871,356)
Accounts payable		(1,085,740)
Interest rate swaps at fair value		(1,439,284)

Allocation of expense from affiliates net	\$	2,850,991
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The following provides quantitative information about components of transferred assets into QSPEs by the Company and cash activity between the QSPEs and CWF during each of the years ended November 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Principal amount of loans transferred to QSPEs	\$	\$ 69,177,219
Proceeds from loans and derivatives sold		54,153,557
Cash received from QSPEs by CWF		4,110,478
Cash contributions to QSPEs from CWF	9,214,031	24,312,992
Servicing income earned on transferred loans	7,703	113,221
Gain (loss) on sale of loans transferred to QSPEs		(3,464,097)

**7. ACQUISITIONS**

On June 30, 2009, the Company acquired substantially all of the assets and certain liabilities of a commercial real estate lender for \$3,000,000. The transaction primarily consisted of the acquisition of servicing rights for a portfolio of loans with a current unpaid principal balance of approximately



Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****7. ACQUISITIONS (Continued)**

\$799,600,000 and the hiring of a staff of eleven people. The purchase price was allocated as follows: \$2,996,635 to the PMSRs, \$3,364 to property and equipment, and \$1 to goodwill.

**8. JOINT VENTURE**

On August 31, 2009, the Company entered into a joint venture, ARA with a third party for the purposes of seeking opportunities to provide mortgage loans for market rate and affordable multifamily, senior, and student housing and manufactured housing. The Company owns 50% of ARA, which is accounted for under the equity method. For the year ended November 30, 2009, there was a loss from this investment of \$20,693.

**9. PROPERTY AND EQUIPMENT**

Major classes of property and equipment at November 30, 2009 and 2008, consist of the following:

	<b>2009</b>	<b>2008</b>
Furniture, fixtures and equipment	\$ 2,624,879	\$ 3,770,618
Leasehold improvements	1,443,244	1,493,934
	4,068,123	5,264,552
Less accumulated depreciation	(3,689,047)	(4,383,327)
Property and equipment net	\$ 379,076	\$ 881,225

**10. DERIVATIVES**

The Company accounts for its derivatives at fair value, and recognizes all derivatives as either assets or liabilities in its balance sheets.

From time to time, the Company enters into certain transactions that are accounted for as derivatives. Please see Note 2 for details.

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## CWCAPITAL LLC

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## NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

## 10. DERIVATIVES (Continued)

**Fair Value Position of the Company's Derivatives** The following table displays the fair values of asset and liability derivatives as of November 30, 2009:

	Fair Values of Derivative Instruments			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS:</b>				
Risk management derivatives:				
Rate locks	Rate lock agreements	\$ 1,539,238	Rate lock agreements	\$
Interest rate swaps	Interest rate swaps		Interest rate swaps	4,087,041
Interest rate caps	Other assets	14,475	Accrued expenses and other liabilities	
Total risk management derivatives		1,553,713		4,087,041
Mortgage commitment derivatives:				
Commitments to sell Ginnie Mae securities	Commitments to sell securities		Commitments to sell securities	755,606
Commitments to sell Fannie Mae MBS	Commitments to sell securities		Commitments to sell securities	180,829
Total mortgage commitment derivatives				936,435
Total derivatives not designated as hedging instruments		\$ 1,553,713		\$ 5,023,476

The following table displays the outstanding notional balances and the estimated fair value of our derivative instruments as of November 30, 2009.

	Notional Amount	Fair Value
<b>Derivatives not designated as hedging instruments:</b>		
Risk management derivatives:		
Rate locks	\$ 116,076,700	\$ 1,539,238
Interest rate swaps	28,181,000	(4,087,041)
Interest rate caps	95,050,000	14,475
Total risk management derivatives	239,307,700	(2,533,328)
Mortgage commitment derivatives:		
Commitments to sell Ginnie Mae securities	83,980,300	(755,606)
Commitments to sell Fannie Mae MBS	10,167,000	(180,829)
Total mortgage commitment derivatives	94,147,300	(936,435)
Total derivatives not designated as hedging instruments	\$ 333,455,000	\$ (3,469,763)



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## CWCAPITAL LLC

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## NOTES TO FINANCIAL STATEMENTS (Continued)

## AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

**10. DERIVATIVES (Continued)**

The following table displays, by type of derivative instrument, the fair value gains and losses on our derivatives for the year ended November 30, 2009:

	Fair Values of Derivative Instruments Asset Derivatives	Amount of Gain (Loss)
	Location of Gain (Loss) Recognized in	Recognized in
	Income on Derivative	Income on Derivative
Derivatives not designated as hedging instruments:		
Risk management derivatives:		
Rate locks	Gain on sale of mortgages net and derivative income	\$ (1,709,358)
Interest rate swaps	Gain on sale of mortgages net and derivative income	(115,498)
Interest rate swaps	Allocation of expenses from affiliates net	117,059
Interest rate caps	Gain on sale of mortgages net and derivative income	
Total risk management derivatives		(1,707,797)
Mortgage commitment derivatives commitments to sell		
Ginnie Mae securities and Fannie Mae MBS	Gain on sale of mortgages net and derivative income	1,563,800
Total derivative fair value gains (losses) net		\$ (143,997)

**Volume and Activity of the Company's Derivatives**

*Risk Management Derivatives* The following table displays, by derivative instrument type, the Company's risk management derivative activity for the year ended November 30, 2009:

	Rate Locks	Interest Rate Swaps	Interest Rate Caps
Notional balance as of December 1, 2008	\$ 50,186,800	\$ 981,000	\$ 468,679,053
Additions	663,807,700	27,200,000	50,850,000
Terminations	(597,917,800)		(424,479,053)
Notional balance as of November 30, 2009	\$ 116,076,700	\$ 28,181,000	\$ 95,050,000

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****10. DERIVATIVES (Continued)**

*Mortgage Commitment Derivatives* The following table displays, by commitment type, the Company's mortgage commitment derivative activity for the year ended November 30, 2009:

	Commitments to Sell Ginnie Mae Securities	Commitments to Sell Fannie Mae MBS	Total
Notional balance as of December 1, 2008	\$ 27,718,800	\$	\$ 27,718,800
Mortgage related securities:			
Open commitments	410,418,000	416,367,000	826,785,000
Settled commitments	(354,156,500)	(406,200,000)	(760,356,500)
Notional balance as of November 30, 2009	\$ 83,980,300	\$ 10,167,000	\$ 94,147,300

*Derivatives Counterparties and Credit Exposure* Certain derivative instruments contain provisions that require the Company to either post additional collateral or immediately settle any outstanding liability balances upon the occurrence of a specified credit risk related event, as defined by the existing derivative contracts. The fair value of all derivative instruments with credit risk related contingent features that are in a liability position at November 30, 2009, is \$4,087,041. The Company and its affiliates have posted \$3,876,384 as collateral for this exposure in the normal course of business as of November 30, 2009. Each change could trigger additional collateral requirements for the Company and its affiliates. If the credit risk related contingent features underlying these agreements were triggered on November 30, 2009, the Company or its affiliates would be required to post an additional \$210,657 of collateral to its counterparties.

The counterparty risk associated with a derivative transaction is that a counterparty will default on payments due to the Company. If there is a default, the Company may have to acquire a replacement derivative from a different counterparty at a higher cost or may be unable to find a suitable replacement. The Company's derivative credit exposure relates principally to interest rate derivative contracts. Typically, the Company seeks to manage these exposures by contracting with experienced counterparties that are rated A- (or its equivalent) or better. These counterparties consist of large banks, broker-dealers, and other financial institutions that have a significant presence in the derivatives market, most of which are based in the United States.

The Company is exposed to credit risk in the event of nonperformance by the counterparties to certain derivatives; however, the Company monitors the performance of the counterparties and currently does not anticipate nonperformance by any of these counterparties.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****11. NOTES PAYABLE AND NOTES PAYABLE RELATED PARTY**

Notes payable and notes payable related party at November 30, 2009 and 2008, consist of the following:

	2009	2008
First mortgage warehousing demand line of credit, bearing interest at a variable rate of 2.98% and 2.44% at November 30, 2009 and 2008, respectively	\$ 57,030,452	\$ 7,395,526
Second mortgage warehousing demand line of credit, bearing interest at a variable rate of 1.33% and 2.14% at November 30, 2009 and 2008, respectively		11,042,079
Third mortgage warehousing demand line of credit		NA
Multiple advance line of credit, bearing interest at a variable rate of 4.23% and 3.44% at November 30, 2009 and 2008, respectively	2,137,500	
Loan acquisition line of credit, at November 30, 2009 and 2008		
<b>Total notes payable</b>	<b>\$ 59,167,952</b>	<b>\$ 18,437,605</b>
Second secured financing bearing interest at a variable rate of 2.13% and 5.08% at November 30, 2009 and 2008(1)(2), respectively	\$ 108,921,768	\$ 134,800,132
Third secured financing bearing interest at a variable rate of 1.44% and 3.60% at November 30, 2009 and 2008(1)(2), respectively	103,077,797	120,068,592
Fourth secured financing bearing interest at a variable rate of 1.23% and 5.26% at November 30, 2009 and 2008(1)(2), respectively	16,272,744	22,720,331
<b>Total notes payable related party</b>	<b>\$ 228,272,309</b>	<b>\$ 277,589,055</b>

(1) Represents the portion of loans that failed sales treatment. See Note 6 for further discussion.

(2) Amounts carried at fair value as a result of electing the fair value option.

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**CWCAPITAL LLC**

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**11. NOTES PAYABLE AND NOTES PAYABLE RELATED PARTY (Continued)**

The first mortgage warehousing demand line of credit is \$175,000,000 and carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under various mortgage programs. The line initially had a commitment of \$125,000,000 and was temporarily increased to \$175,000,000 from April 29, 2008 through June 5, 2008, and to \$225,000,000 from June 27, 2008 to September 25, 2008. The mortgage warehousing line of credit matured on June 29, 2009, and was extended through July 31, 2009, and then through June 28, 2010, at a commitment of \$125,000,000. On October 6, 2009, the commitment was permanently increased to \$175,000,000. At November 30, 2009 and 2008, the unused portion of the line of credit was \$117,969,548 and \$117,604,474, respectively.

The second mortgage warehousing demand line of credit was entered into on May 16, 2008 and was originally \$150,000,000. On June 3, 2009, this line was increased to \$175,000,000. This line carries variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under a certain mortgage program. There is no stated maturity date under the lending agreement. At November 30, 2009 and 2008, the unused portion of the line of credit was \$175,000,000 and \$138,957,921, respectively.

The third mortgage warehousing demand line of credit is \$30,000,000 and was entered into on November 17, 2009. This line's interest rate is LIBOR plus a spread based on the product as defined in the line of credit agreement. The mortgage warehousing line is available to fund temporary advances under various mortgage programs. The line stated maturity date is November 17, 2011 under the lending agreement. At November 30, 2009, unused portion of the line of credit was \$30,000,000.

The Company also had a temporary mortgage warehousing demand line of credit for \$130,000,000 which was entered into on July 15, 2009. This line carried variable interest rate options, as defined in the line of credit agreement. The mortgage warehousing line was available to fund the temporary advance under a specific mortgage loan. The line matured on July 23, 2009.

The multiple advance line of credit is \$17,137,500 at November 30, 2009, and was \$15,000,000 at November 30, 2008, which is available for principal and interest advances, working capital advances, and servicing rights purchase advances. Each specific type is subject to an individual sub-limit up to the total committed line availability (principal and interest advances of \$7,500,000, working capital advances of \$7,500,000, and servicing rights purchase advances of \$2,137,500. The servicing rights purchase advances sublimit was initially \$2,250,000, but the sublimit reduces quarterly by \$112,500 over five years until the sublimit is eliminated). The line is secured by a pledge of the servicing agreements held by the Company, except that the pledge related to the Fannie Mae, Freddie Mac, and Ginnie Mae servicing agreements is junior and subordinate to the rights of Fannie Mae, Freddie Mac, and Ginnie Mae. The line of credit agreement provides for variable interest rate options to be elected by the Company at the dates of the borrowings. The multiple advance line of credit matured on March 31, 2009, but was extended through June 29, 2009, then through July 31, 2009, and then through June 28, 2010. At November 30, 2009 and 2008, the unused portion of the line of credit was \$15,000,000.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**11. NOTES PAYABLE AND NOTES PAYABLE RELATED PARTY (Continued)**

The loan acquisition line of credit carries variable interest rate options as defined in the line of credit agreement. There is no stated maturity date or limitation on commitments under the lending agreement. Advances made under this line of credit are collateralized by specific loans held by the Company.

The second, third and fourth secured financings relate to debt of the SPEs that failed sales treatment and were recorded as secured financings (see Note 6). The first secured financing expired when the second, third and fourth secured financings were recorded.

**12. EMPLOYEE BENEFIT PLAN AND OTHER EMPLOYEE TRANSACTIONS**

The Company sponsors an employee tax-deferred 401(k) plan under which individual employee contributions to the plan are matched by the Company subject to terms of the plan. Amounts contributed by the Company for the years ended November 30, 2009 and 2008, were \$249,554 and \$335,549, respectively, which are included in 'compensation expense' on the statements of net loss. Amounts contributed by the Company are subject to vesting and forfeiture, and may be returned to the Company upon termination of employment of the employee to the extent not vested.

The Company has other receivables from officers and employees of \$185,000 and \$134,514 as of November 30, 2009 and 2008, respectively.

**13. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION**

**Fair Value Measurements** Fair value measurements reflect assumptions market participants would use in pricing an asset or liability. The use of "block discounts" for large holdings of unrestricted financial instruments are prohibited where quoted prices are readily and regularly available in an active market and requires a company to consider its creditworthiness when valuing derivatives and other liabilities recorded at fair value.

The provisions of Topic 820 are applied prospectively with changes recorded in current earnings, except changes in fair value measurements that result from the initial application to certain existing financial instruments. The Company did not hold any of these instruments; therefore, no cumulative effect adjustment was recorded.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or if none exists, the most advantageous market, for the specific asset or liability at the measurement date ("exit price"). The fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is as follows:

*Level 1* Quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

*Level 2* Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.



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NOTES TO FINANCIAL STATEMENTS (Continued)

AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008

**13. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

*Level 3* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

**Determination of Fair Value** In determining fair value, the Company uses market prices of the same or similar instruments whenever such prices are available, even in situations where trading volume may be low when compared with prior periods. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants; and accordingly, fair value is not determined based upon a forced liquidation or distressed sale. Where possible, the Company estimates fair value using other market observable data. Where the market price of the same or similar instruments is not available, the valuation of financial instruments becomes more subjective and involves a high degree of judgment. The following sections describe the valuation methodologies used by the Company to measure classes of financial instruments at fair value and specify the level in the fair value hierarchy where various financial instruments are generally classified. Valuation models, significant inputs to those models and any significant assumptions are included where appropriate.

*Cash and Cash Equivalents* Carrying amount approximates fair value due to the short term nature of the instruments.

*Restricted Cash* Carrying amount approximates fair value due to the short term nature of the instruments.

*Accounts Receivable* Carrying amount approximates fair value due to the short term nature of the instruments.

*Mortgage Loans Held for Sale*

*LOCOFV Assets* Fair value of mortgage loans held for sale for which fair value accounting was not elected was determined using management's judgment based on the intended exit strategy for the mortgage loans, including whole loan sales. These loans are generally held for short periods of time, usually less than 30 days, and are usually 'presold.' The Company obtained fair values using available market information and/or valuation methodologies and record any impairment through the statements of net loss. These mortgage loans held for sale are included within Level 3 of the fair value hierarchy.

*Assets at Fair Value* For certain loans, the Company has elected the fair value option. The fair value for these loans was determined by using management's judgment and a model where the significant inputs are the value of the underlying collateral, spread, and duration. The value of the underlying collateral was determined using a discounted cash flow analysis. Spread was determined through evaluating the loan to value of the underlying collateral and applying calibrated observable spreads to the Company's portfolio. These mortgage loans held for sale are included within Level 3 of the fair value hierarchy.

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**CWCAPITAL LLC**

**(A Wholly Owned Subsidiary of CW Financial Services LLC)**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008**

**13. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

*MSRs* Fair value of MSRs was determined using management's judgment as well as information from a third party service provider and using a loan level discounted static cash flow analysis based on current market assumptions commonly used by buyers of these types of commercial/multifamily servicing, which are derived from prevailing conditions in the secondary servicing market. The MSRs are included within Level 3 of the fair value hierarchy.

*Derivatives* The Company's derivatives are not listed on an exchange. As no quoted market prices exist for such instruments, derivatives are valued using internal valuation techniques using observable data. Valuation techniques and inputs to internally developed models depend on the type of derivative and the nature of the underlying rate, price, or index upon which the derivative's value is based. Key inputs can include duration and index rate. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified within Level 2 of the fair value hierarchy. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified within Level 3. Additionally, significant judgments are required when classifying financial instruments within the fair value hierarchy, particularly between Levels 2 and 3, as is the case for certain derivatives. The following provides additional information about specific derivative instruments:

The fair value of rate locks was determined by reviewing the index yield change from the date the loan was locked to year end. The pull-through rate for rate locks was not material to the valuation. Rate locks are included within Level 2 of the fair value hierarchy.

The fair value of interest rate caps was determined by duration and index. Interest rate caps are included within Level 2 of the fair value hierarchy.

The fair value of interest rate swaps was determined by estimating the amount that the Company would have realized or paid if the Company had terminated the agreement at the financial statement date, with such estimation based on the value obtained from Bloomberg, an industry standard vendor service for pricing financial instruments, including interest rate swaps. For each swap, the key input variables to Bloomberg are notional amount, fixed rate, effective date, maturity date, and floating rate convention (i.e., one month LIBOR vs. three month LIBOR). Interest rate swaps are included within Level 2 of the fair value hierarchy.

The fair value of commitments to sell securities was determined by reviewing the index yield change from the time the sale commitment was entered into to the date of the financial statements. Commitments to sell securities are included within Level 2 of the fair value hierarchy.

*Notes Payable* Fair value of debt was determined based on information observable in the market calibrated to the specific instrument through management judgment and management's estimate of the value of the underlying collateral. It is classified within Level 3 of the fair value hierarchy.

*Notes Payable Related Party* Fair value of the secured financings was determined using management's judgment based on the related mortgage loans held for sale that secure the notes payable related party. They are classified within Level 3 of the fair value hierarchy.

Table of Contents**CWCAPITAL LLC****(A Wholly Owned Subsidiary of CW Financial Services LLC)****NOTES TO FINANCIAL STATEMENTS (Continued)****AS OF AND FOR THE YEARS ENDED NOVEMBER 30, 2009 AND 2008****13. FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION (Continued)**

*Commitments to Sell Loans* The fair value of commitments to sell loans was determined by reviewing the market change in the interest rates from the date the loan was locked to year end. Commitments to sell loans are included within Level 2 of the fair value hierarchy.

The estimated fair values of the Company's financial instruments at November 30, 2009 and 2008, are as follows:

	2009		2008	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	\$ 12,240,106	\$ 12,240,106	\$ 27,920,231	\$ 27,920,231
Restricted cash	2,160,978	2,160,978	2,160,978	2,160,978
Accounts receivable trade	1,505,341			