Walker & Dunlop, Inc.
Form 10-Q
August 03, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-35000

Walker & Dunlop, Inc.

(Exact name of registrant as specified in its charter)

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

7501 Wisconsin Avenue, Suite 1200E

Bethesda, Maryland 20814

(301) 215-5500

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

area code)

Not Applicable

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

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

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

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

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

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

As of July 27, 2016, there were 30,811,048 total shares of common stock outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

June 30, 2016 and December 31, 2015

(In thousands, except per share data)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$ 60,993	$ 136,988
Restricted cash	17,611	5,306
Pledged securities, at fair value	78,491	72,190
Loans held for sale, at fair value	2,244,329	2,499,111
Loans held for investment, net	239,861	231,493
Servicing fees and other receivables, net	36,300	23,844
Derivative assets	28,358	11,678
Mortgage servicing rights	468,093	412,348
Goodwill and other intangible assets	91,389	91,488
Other assets	30,599	30,545
Total assets	$ 3,296,024	$ 3,514,991
Liabilities		
Accounts payable and other liabilities	$ 176,154	$ 169,109
Performance deposits from borrowers	16,799	5,112
Derivative liabilities	29,483	1,333
Guaranty obligation, net of accumulated amortization	28,406	27,570
Allowance for risk-sharing obligations	5,810	5,586
Warehouse notes payable	2,336,925	2,649,470
Note payable	164,313	164,462
Total liabilities	$ 2,757,890	$ 3,022,642
Equity		
Preferred shares, Authorized 50,000, none issued.	$ —	$ —
Common stock, $0.01 par value. Authorized 200,000; issued and outstanding 29,356 shares at June 30, 2016 and 29,466 shares at December 31, 2015	294	295

Additional paid-in capital	218,818	215,575
Retained earnings	314,613	272,030
Total stockholders' equity	$ 533,725	$ 487,900
Noncontrolling interests	4,409	4,449
Total equity	$ 538,134	$ 492,349
Commitments and contingencies (Note 9)	—	—
Total liabilities and equity	$ 3,296,024	$ 3,514,991

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
Revenues				
Gains from mortgage banking activities	$ 102,453	$ 69,950	$ 148,776	$ 142,670
Servicing fees	32,771	28,058	64,420	54,899
Net warehouse interest income	3,580	6,610	10,311	10,964
Escrow earnings and other interest income	1,955	1,170	3,595	1,957
Other	7,099	8,138	14,997	15,557
Total revenues	$ 147,858	$ 113,926	$ 242,099	$ 226,047
Expenses				
Personnel	$ 55,758	$ 45,993	$ 89,988	$ 86,038
Amortization and depreciation	26,425	23,470	51,580	48,144
Provision (benefit) for credit losses	292	398	(117)	482
Interest expense on corporate debt	2,465	2,472	4,934	4,949
Other operating expenses	11,212	8,951	19,826	18,386
Total expenses	$ 96,152	$ 81,284	$ 166,211	$ 157,999
Income from operations	$ 51,706	$ 32,642	$ 75,888	$ 68,048
Income tax expense	19,595	12,351	28,444	26,444
Net income before noncontrolling interests	$ 32,111	$ 20,291	$ 47,444	$ 41,604
Less: net income (loss) from noncontrolling interests	90	138	(35)	138
Walker & Dunlop net income	$ 32,021	$ 20,153	$ 47,479	$ 41,466
Basic earnings per share	$ 1.09	$ 0.69	$ 1.61	$ 1.37
Diluted earnings per share	$ 1.05	$ 0.67	$ 1.55	$ 1.32
Basic weighted average shares outstanding	29,388	29,057	29,438	30,279
Diluted weighted average shares outstanding	30,627	30,239	30,714	31,344

See accompanying notes to condensed consolidated financial statements.

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Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income before noncontrolling interests	$ 47,444	$ 41,604
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gains attributable to the fair value of future servicing rights, net of guaranty obligation	(79,496)	(63,675)
Change in the fair value of premiums and origination fees	(11,954)	(2,031)
Amortization and depreciation	51,580	48,144
Provision (benefit) for credit losses	(117)	482
Other operating activities, net	314,038	189,365
Net cash provided by (used in) operating activities	$ 321,495	$ 213,889
Cash flows from investing activities		
Capital expenditures	$ (777)	$ (940)
Net cash paid to increase ownership interest in a previously held equity method investment	(1,058)	—
Acquisitions, net of cash received	—	(12,767)
Purchase of mortgage servicing rights	(43,374)	—
Originations of loans held for investment	(141,842)	(114,945)
Principal collected on loans held for investment	133,120	22,920
Net cash provided by (used in) investing activities	$ (53,931)	$ (105,732)
Cash flows from financing activities		
Borrowings (repayments) of warehouse notes payable, net	$ (333,615)	$ (176,469)
Borrowings of interim warehouse notes payable	98,863	88,325
Repayments of interim warehouse notes payable	(97,873)	(17,190)
Repayments of note payable	(552)	(4,268)
Proceeds from issuance of common stock	3,291	5,677
Repurchase of common stock	(11,979)	(49,681)
Debt issuance costs	(1,689)	(793)
Distributions to noncontrolling interests	(5)	—
Tax benefit from vesting of equity awards	—	677
Net cash provided by (used in) financing activities	$ (343,559)	$ (153,722)
Net increase (decrease) in cash and cash equivalents	$ (75,995)	$ (45,565)
Cash and cash equivalents at beginning of period	136,988	113,354

Cash and cash equivalents at end of period	$ 60,993	$ 67,789
Supplemental Disclosure of Cash Flow Information:		
Cash paid to third parties for interest	$ 18,008	$ 17,047
Cash paid for income taxes	$ 16,426	$ 16,584

See accompanying notes to condensed consolidated financial statements.

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NOTE 1—ORGANIZATION AND BASIS OF PRESENTATION

These financial statements represent the condensed consolidated financial position and results of operations of Walker & Dunlop, Inc. and its subsidiaries. Unless the context otherwise requires, references to “we,” “us,” “our,” “Walker & Dunlop” and the “Company” mean the Walker & Dunlop consolidated companies. The statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”). In the opinion of management, all adjustments (consisting only of normal recurring accruals except as otherwise noted herein) considered necessary for a fair presentation of the results for the Company in the interim periods presented have been included. Results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or thereafter.

Walker & Dunlop, Inc. is a holding company and conducts substantially all of its operations through Walker & Dunlop, LLC, the operating company. Walker & Dunlop is one of the leading commercial real estate finance companies in the United States. The Company originates, sells, and services a range of multifamily and other commercial real estate financing products and provides multifamily investment sales brokerage services. The Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac,” and together with Fannie Mae, the “GSEs”), the Government National Mortgage Association (“Ginnie Mae”), and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, “HUD”). The Company also offers proprietary loan programs offering interim loans (the “Interim Program”) and loans for a Commercial Mortgage Backed Securities (“CMBS”) execution (the “CMBS Program”).

Prior to 2016, the Company executed the CMBS Program through a partnership in which the Company owned a noncontrolling interest. The Company accounted for its investment in the partnership under the equity method of accounting. Effective January 1, 2016, the Company’s partner exited the CMBS Program, and the Company increased its ownership percentage to 100%. As the CMBS Program is now wholly owned, the Company began to consolidate the activities, financial results, and balances of the CMBS Program beginning in the first quarter of 2016, primarily impacting loans held for sale, warehouse notes payable, and gains from mortgage banking activities.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Subsequent Events—The Company has evaluated the effects of all events that have occurred subsequent to June 30, 2016. There have been no material events that would require recognition in the condensed consolidated financial statements. The Company has made certain disclosures in the notes to the condensed consolidated financial statements of events that have occurred subsequent to June 30, 2016. No other material subsequent events have occurred that would require disclosure.

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

Comprehensive Income—For the three and six months ended June 30, 2016 and 2015, comprehensive income equaled net income; therefore, a separate statement of comprehensive income is not included in the accompanying condensed consolidated financial statements.

Loans Held for Investment, net—Loans held for investment are multifamily loans originated by the Company through the Interim Program for properties that currently do not qualify for permanent GSE or HUD financing. These loans have terms of up to three years. The loans are carried at their unpaid principal balances, adjusted for net unamortized loan fees and costs, and net of any allowance for loan losses. Interest income is accrued based on the actual coupon rate, adjusted for the amortization of net deferred fees and costs, and is recognized as revenue when earned and deemed collectible. All loans held for investment are multifamily loans with similar risk characteristics. As of

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June 30, 2016, Loans held for investment, net consisted of $242.1 million of unpaid principal balance less $1.6 million of net unamortized deferred fees and costs and $0.6 million of allowance for loan losses. As of December 31, 2015, Loans held for investment, net consisted of $233.4 million of unpaid principal balance less $1.1 million of net unamortized deferred fees and costs and $0.8 million of allowance for loan losses.

The allowance for loan losses is the Company's estimate of credit losses inherent in the interim loan portfolio at the balance sheet date. The Company has established a process to determine the appropriateness of the allowance for loan losses that assesses the losses inherent in the portfolio. That process includes assessing the credit quality of each of the loans held for investment by monitoring the financial condition of the borrower and the financial trends of the underlying property. The allowance levels are influenced by the outstanding portfolio balance, delinquency status, historic loss experience, and other conditions influencing loss expectations, such as economic conditions. The allowance for loan losses is estimated collectively for loans with similar characteristics and for which there is no evidence of impairment. The allowances for loan losses recorded as of June 30, 2016 and December 31, 2015 were based on the Company's collective assessment of the portfolio.

Loans held for investment are placed on non-accrual status when full and timely collection of interest or principal is not probable. Loans held for investment are considered past due when contractually required principal or interest payments have not been made on the due dates and are charged off when the loan is considered uncollectible. The Company evaluates all loans held for investment for impairment. A loan is considered impaired when the Company believes that the facts and circumstances of the loan suggest that the Company will not be able to collect all contractually due principal and interest. Delinquency status and property financial condition are key components of the Company's consideration of impairment status.

None of the loans held for investment was delinquent, impaired, or on non-accrual status as of June 30, 2016 or December 31, 2015. Additionally, we have not experienced any delinquencies related to these loans or charged off any loan held for investment since the inception of the Interim Program.

Provision (benefit) for Credit Losses—The Company records the income statement impact of the changes in the allowance for loan losses and the allowance for risk-sharing obligations within Provision (benefit) for credit losses in the Condensed Consolidated Statements of Income. Note 5 contains additional discussion related to the allowance for risk-sharing obligations. Provision (benefit) for credit losses consisted of the following activity for the three and six months ended June 30, 2016 and 2015:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Provision (benefit) for loan losses	$ 17	$ 340	$ (238)	$ 274
Provision for risk-sharing obligations	275	58	121	208

Provision (benefit) for credit losses	$ 292	$ 398	$ (117)	$ 482

Net Warehouse Interest Income—The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans held for sale and loans held for investment. Substantially all loans that are held for sale are financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. A portion of all loans that are held for investment is financed with matched borrowings under our warehouse facilities. The portion of loans held for investment not funded with matched borrowings is financed with the Company's own cash. Warehouse interest expense is incurred on borrowings used to fund loans solely while they are held for sale or for investment. Warehouse interest income and expense are earned or incurred on loans held for sale after a loan is closed and before a loan is sold. Warehouse interest income and expense are earned or incurred on loans held for investment after a loan is closed and before a loan is repaid. Included in Net warehouse interest income for the three and six months ended June 30, 2016 and 2015 are the following components:

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	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Warehouse interest income - loans held for sale	$ 7,298	$ 11,063	$ 20,821	$ 18,472
Warehouse interest expense - loans held for sale	(5,168)	(6,764)	(13,516)	(11,719)
Net warehouse interest income - loans held for sale	$ 2,130	$ 4,299	$ 7,305	$ 6,753
Warehouse interest income - loans held for investment	$ 2,630	$ 3,770	$ 5,453	$ 6,827
Warehouse interest expense - loans held for investment	(1,180)	(1,459)	(2,447)	(2,616)
Net warehouse interest income - loans held for investment	$ 1,450	$ 2,311	$ 3,006	$ 4,211
Total net warehouse interest income	$ 3,580	$ 6,610	$ 10,311	$ 10,964

Recently Announced Accounting Pronouncements—In the second quarter of 2016, Accounting Standards Update 2016-13 (“ASU 2016-13” or “the Standard”), Financial Instruments – Credit Losses (Topic 326), was issued. ASU 2016-13 represents a significant change to the incurred loss model currently used to account for credit losses. The Standard requires an entity to estimate the credit losses expected over the life of the credit exposure upon initial recognition of that exposure. The expected credit losses consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. Exposures with similar risk characteristics are required to be grouped together when estimating expected credit losses. The initial estimate and subsequent changes to the estimated credit losses are required to be reported in current earnings in the income statement and through an allowance in the balance sheet.

ASU 2016-13 is applicable to financial assets subject to credit losses and measured at amortized cost and certain off-balance-sheet credit exposures. The Standard will modify the way the Company estimates its allowance for risk-sharing obligations and its allowance for loan losses. The effective date of the Standard for the Company is January 1, 2020, with early adoption permitted on January 1, 2019. The Company is still in the process of determining the significance of the impact the Standard will have on its financial statements and the timing of when it will adopt the standard.

There have been no material changes to the accounting policies discussed in Note 2 of the Company’s 2015 Form 10-K other than the changes made pursuant to the adoption of Accounting Standards Update 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, as disclosed in the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016.

NOTE 3—GAINS FROM MORTGAGE BANKING ACTIVITIES

Gains from mortgage banking activities consisted of the following activity for the three and six months ended June 30, 2016 and 2015:

	For the three months ended June 30,	For the six months ended June 30,

(in thousands)	2016	2015	2016	2015
Contractual loan origination related fees, net	$ 46,874	$ 37,592	$ 69,280	$ 78,995
Fair value of expected net cash flows from servicing recognized at commitment	59,580	34,558	85,007	68,250
Fair value of expected guaranty obligation recognized at commitment	(4,001)	(2,200)	(5,511)	(4,575)
Total gains from mortgage banking activities	$ 102,453	$ 69,950	$ 148,776	$ 142,670

The origination fees shown in the table are net of co-broker fees of $11.1 million and $6.4 million for the three months ended June 30, 2016 and 2015, respectively, and $16.6 million and $12.8 million for the six months ended June 30, 2016 and 2015, respectively. Additionally, included in the contractual loan origination related fees, net balance for the three months ended June 30, 2016 and 2015 are realized and unrealized gains of $2.7 million and $0, respectively, and $0.6 million and $0 for the six months ended June 30, 2016 and 2015, respectively, from the sale and mark-to-market of loans and derivative instruments related to the CMBS Program.

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NOTE 4—MORTGAGE SERVICING RIGHTS

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

The fair values of the MSRs at June 30, 2016 and December 31, 2015 were $576.4 million and $510.6 million, respectively. The Company uses a discounted static cash flow valuation approach, and the key economic assumption is the discount rate. For example, see the following sensitivities:

The impact of a 100 basis point increase in the discount rate at June 30, 2016 is a decrease in the fair value of $18.6 million.

The impact of a 200 basis point increase in the discount rate at June 30, 2016 is a decrease in the fair value of $35.8 million.

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

Activity related to capitalized MSRs for the three and six months ended June 30, 2016 and 2015 follows:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Beginning balance	$ 421,651	$ 375,159	$ 412,348	$ 375,907
Additions, following the sale of loan	29,053	43,209	64,026	67,391
Purchases	44,774	—	44,774	—
Amortization	(23,233)	(19,750)	(45,956)	(38,570)
Pre-payments and write-offs	(4,152)	(3,598)	(7,099)	(9,708)
Ending balance	$ 468,093	$ 395,020	$ 468,093	$ 395,020

As shown in the table above, during the second quarter of 2016, the Company purchased the rights to service a HUD loan portfolio from a third-party servicer for $44.8 million of cash consideration, with $43.4 million paid at closing and the remaining $1.4 million due upon the successful resolution of one defaulted loan, which is expected to occur before the end of 2016. The servicing portfolio consisted of approximately $3.8 billion of unpaid principal balance and had a weighted average estimated remaining life of 10.8 years.

The following summarizes the components of the net carrying value of the Company's acquired and originated MSRs as of June 30, 2016:

	As of June 30, 2016		
(in thousands)	Gross carrying value	Accumulated amortization	Net carrying value
Acquired MSRs	$ 177,611	$ (100,013)	$ 77,598
Originated MSRs	556,528	(166,033)	390,495
Total	$ 734,139	$ (266,046)	$ 468,093

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The expected amortization of MSRs recorded as of June 30, 2016 is shown in the table below. Actual amortization may vary from these estimates.

(in thousands)	Originated MSRs Amortization	Acquired MSRs Amortization	Total MSRs Amortization
Six Months Ending December 31, 2016	$ 40,564	$ 7,443	$ 48,007
Year Ending December 31,			
2017	72,809	13,910	86,719
2018	61,874	11,428	73,302
2019	55,295	10,081	65,376
2020	47,615	8,359	55,974
2021	38,521	6,452	44,973
Thereafter	73,817	19,925	93,742
Total	$ 390,495	$ 77,598	$ 468,093

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

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

Activity related to the guaranty obligation for the three and six months ended June 30, 2016 and 2015 was as follows:

(in thousands)	For the three months ended June 30, 2016	2015	For the six months ended June 30, 2016	2015
Beginning balance	$ 28,552	$ 25,333	$ 27,570	$ 24,975
Additions, following the sale of loan	1,777	3,115	3,689	4,870
Amortization	(1,537)	(1,308)	(2,750)	(2,705)
Other	(386)	—	(103)	—
Ending balance	$ 28,406	$ 27,140	$ 28,406	$ 27,140

The Company evaluates the allowance for risk-sharing obligations by monitoring the performance of each loan for triggering events or conditions that may signal a potential default. In situations where payment under the guaranty is probable and estimable on a specific loan, the Company records an allowance for the estimated risk-sharing loss through a charge to the provision for risk-sharing obligations, which is a component of Provision (benefit) for credit losses in the Condensed Consolidated Statements of Income, along with a write-off of the loan-specific MSR and guaranty obligation. 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 becomes 60 days delinquent. Activity related to the allowance for risk-sharing obligations for the three and six months ended June 30, 2016 and 2015 follows:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Beginning balance	$ 5,149	$ 4,054	$ 5,586	$ 3,904
Provision for risk-sharing obligations	275	58	121	208
Write-offs	—	(808)	—	(808)
Other	386	—	103	—
Ending balance	$ 5,810	$ 3,304	$ 5,810	$ 3,304

When the Company places a loan for which it has a risk-sharing obligation on its watch list, the Company ceases to amortize the guaranty obligation and transfers the remaining unamortized balance of the guaranty obligation to the allowance for risk-sharing obligations. When a loan for which the Company has a risk-sharing obligation is removed from the watch list, the loan is transferred from the allowance

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for risk-sharing obligations to the guaranty obligation, and the amortization of the remaining balance over the remaining estimated life is resumed. This net transfer of the unamortized balance of the guaranty obligation from a noncontingent classification to a contingent classification (and vice versa) is presented in the guaranty obligation and allowance for risk-sharing obligations tables above as 'Other.'

As of June 30, 2016, the maximum quantifiable contingent liability associated with the Company's guarantees under the Fannie Mae DUS agreement was $4.3 billion. The maximum quantifiable contingent liability is not representative of the actual loss the Company would incur. The Company would be liable for this amount only if all of the loans it services for Fannie Mae, for which the Company retains some risk of loss, were to default and all of the collateral underlying these loans was determined to be without value at the time of settlement.

NOTE 6—SERVICING

The total unpaid principal balance of the Company's servicing portfolio was $57.3 billion as of June 30, 2016 compared to $50.2 billion as of December 31, 2015. The June 30, 2016 balance includes the addition of $3.8 billion related to purchase activity as more fully discussed in Note 4.

NOTE 7—WAREHOUSE NOTES PAYABLE

At June 30, 2016, to provide financing to borrowers under the GSE and HUD programs and the Company's CMBS and Interim Programs, the Company has arranged for warehouse lines of credit. In support of the GSE and HUD programs, the Company has warehouse lines of credit in the amount of $2.4 billion with certain national banks and a $0.8 billion uncommitted facility with Fannie Mae (collectively, the "Agency Warehouse Facilities"). In support of the CMBS Program, the Company has warehouse lines of credit in the amount of $0.3 billion with certain national banks (the "CMBS Warehouse Facilities"). The Company has pledged substantially all of its loans held for sale against the Agency Warehouse Facilities and the CMBS Warehouse Facilities. The Company has arranged for warehouse lines of credit in the amount of $0.4 billion with certain national banks to assist in funding loans held for investment under the Interim Program ("Interim Warehouse Facilities"). The Company has pledged substantially all of its loans held for investment against these Interim Warehouse Facilities. The maximum amount and outstanding borrowings under the warehouse notes payable at June 30, 2016 follow:

(dollars in thousands)	June 30, 2016			
Facility	Maximum Amount	Outstanding Balance	Loan Type Funded (1)	Interest rate
Agency warehouse facility #1	$ 425,000	$ 336,126	LHFS	30-day LIBOR plus 1.40%
Agency warehouse facility #2	1,150,000	1,096,996	LHFS	30-day LIBOR plus 1.40%
Agency warehouse facility #3	480,000	291,323	LHFS	30-day LIBOR plus 1.35%
Agency warehouse facility #4	450,000	318,095	LHFS	30-day LIBOR plus 1.40%
Fannie Mae repurchase agreement, uncommitted line and open maturity	750,000	91,373	LHFS	30-day LIBOR plus 1.15%
Total agency warehouse facilities	$ 3,255,000	$ 2,133,913		

CMBS warehouse facility #1	$ 100,000	$ 17,856	LHFS	30-day LIBOR plus 2.25%
CMBS warehouse facility #2	100,000	—	LHFS	30-day LIBOR plus 2.25%
CMBS warehouse facility #3	100,000	13,455	LHFS	30-day LIBOR plus 2.75%
Total CMBS warehouse facilities	$ 300,000	$ 31,311		
Interim warehouse facility #1	$ 85,000	$ 36,916	LHFI	30-day LIBOR plus 1.90%
Interim warehouse facility #2	200,000	101,096	LHFI	30-day LIBOR plus 2.00%
Interim warehouse facility #3	75,000	36,005	LHFI	30-day LIBOR plus 2.00% to 2.50%
Total interim warehouse facilities	$ 360,000	$ 174,017		
Debt issuance costs	—	(2,316)		
Total warehouse facilities	$ 3,915,000	$ 2,336,925		

(1) Type of loan the borrowing facility is used to fully or partially fund – loans held for sale (“LHFS”) or loans held for investment (“LHFI”).

During the second quarter of 2016, the Company executed the eighth amendment to the amended and restated credit and security agreement related to Agency Warehouse Facility #2 that extended the maturity date to June 21, 2017. Additionally, the Company executed

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an agreement to provide a temporary increase of $500.0 million to the maximum borrowing capacity, which expires in August 2016. No other material modifications have been made to the agreement during 2016.

During the second quarter of 2016, the Company executed the fourth amendment to the credit and security agreement related to Agency Warehouse Facility #3. The amendment increased the committed amount to $280.0 million, reduced the interest rate to the 30-day London Interbank Offered Rate ("LIBOR") plus 135 basis points, and extended the maturity date to April 30, 2017. Additionally, the Company executed an agreement to provide a temporary increase of $200.0 million to the maximum borrowing capacity, which expires in September 2016. No other material modifications have been made to the agreement during 2016.

During the second quarter of 2016, the Company executed an agreement to provide a temporary increase of $200.0 million to the maximum borrowing capacity of Agency Warehouse Facility #4, which expires in August 2016. No other material modifications have been made to the agreement during 2016.

During the second quarter of 2016, Fannie Mae provided a temporary increase of $300.0 million to the maximum borrowing capacity of the Fannie Mae uncommitted facility. The temporary increase was made permanent in July 2016. No other material modifications have been made to the Fannie Mae facility during 2016.

During the third quarter of 2016, the Company executed a warehousing credit and security agreement to establish Agency Warehouse Facility #5. The committed warehouse facility provides the Company with the ability to fund defaulted HUD and FHA loans. The warehouse agreement provides for a maximum borrowing amount of $30.0 million and is scheduled to mature in 18 months. The borrowings under the warehouse agreement bear interest at a rate of 30-day LIBOR plus 180 basis points.

During the second quarter of 2016, the Company executed a repurchase agreement to establish CMBS Warehouse Facility #3. The new warehouse facility has a maximum borrowing capacity of $100.0 million and matures in one year. The agreement provides the Company with the ability to fund first mortgage loans on various real estate property types for a short-term period, using available cash in combination with advances under the facility. All borrowings bear interest at 30-day LIBOR plus 275 basis points. The lender retains a first priority security interest in all mortgages funded by such advances on a cross-collateralized basis. Repayments under the credit agreement mirror the underlying mortgage loan, with each advance repaid upon sale of the underlying mortgage loan.

During the second quarter of 2016, the Company executed the sixth amendment to the credit and security agreement related to Interim Warehouse Facility #1 that extended the maturity date to April 30, 2017. No other material modifications have been made to the agreement during 2016.

During the second quarter of 2016, the Company exercised its option to extend the maturity date of Interim Warehouse Facility #3 to May 19, 2017. Additionally, the Company executed the second amendment to the repurchase agreement related to Interim Warehouse Facility #3. The amendment provides the Company with an additional unilateral option to extend the maturity date one year. As a result of the amendment, the Company now has three remaining one-year options that, if exercised, extend the maturity date through May 19, 2020. No other material modifications have been made to the agreement during 2016.

During the third quarter of 2016, the repurchase agreement related to CMBS Warehouse Facility #2 expired according to its terms, and the Company determined not to renew the facility.

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

NOTE 8—FAIR VALUE MEASUREMENTS

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

inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

- Derivative Instruments—The derivative instruments used by the Company consist of interest rate lock commitments (“IRLC”), forward sale agreements (“forwards”), interest rate swaps “(IRS”), and, on occasion, synthetic credit default swap index contracts (“CMBX”). The IRLCs and forwards are valued using a discounted cash flow model developed based on changes in the U.S. Treasury rate and other observable market data. The value was determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company, and are classified within Level 3 of the valuation hierarchy. CMBX are traded on an active market with prices determined based on observable inputs such as credit curves, recovery rates, and current credit spreads obtained from market participants. IRS trade in the over-the-counter market where quoted prices are not available. Therefore, the Company uses internal valuation techniques with observable inputs from a liquid market, the most significant of which is the related yield curve, to estimate the fair value of interest rate swaps. There were no CMBX outstanding as of June 30, 2016 as the positions were closed just prior to the end of the first quarter of 2016. During the rest of the first quarter of 2016, the Company had CMBX with a $25.0 million notional amount outstanding. The Company classifies IRS and CMBX as Level 2.
- Loans Held for Sale—The loans held for sale are reported at fair value as the Company has elected the fair value option for all loans held for sale. The Company determines the fair value of the loans held for sale intended to be sold to the GSEs and HUD using discounted cash flow models that incorporate quoted observable prices from market participants. The Company determines the fair value of the loans held for sale intended to be sold under a CMBS execution using a hypothetical securitization model utilizing market data from recent securitization spreads and pricing of loans with similar characteristics. As necessary, these fair values are adjusted for typical securitization

activities, including portfolio composition, market conditions, and liquidity. The Company classifies all loans held for sale as Level 2.

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

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of June 30, 2016, and December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy used to measure fair value:

(in thousands)	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Balance as of Period End
June 30, 2016				
Assets				
Loans held for sale	$ —	$ 2,244,329	$ —	$ 2,244,329
Pledged securities	78,491	—	—	78,491
Derivative assets	—	—	28,358	28,358
Total	$ 78,491	$ 2,244,329	$ 28,358	$ 2,351,178
Liabilities				
Derivative liabilities	$ —	$ 1,725	$ 27,758	$ 29,483
Total	$ —	$ 1,725	$ 27,758	$ 29,483
December 31, 2015				
Assets				
Loans held for sale	$ —	$ 2,499,111	$ —	$ 2,499,111
Pledged securities	72,190	—	—	72,190
Derivative assets	—	—	11,678	11,678
Total	$ 72,190	$ 2,499,111	$ 11,678	$ 2,582,979
Liabilities				
Derivative liabilities	$ —	$ —	$ 1,333	$ 1,333
Total	$ —	$ —	$ 1,333	$ 1,333

There were no transfers between any of the levels within the fair value hierarchy during the six months ended June 30, 2016.

Derivative instruments (Level 3) are outstanding for short periods of time (generally less than 60 days). A roll forward of derivative instruments is presented below for the three and six months ended June 30, 2016 and 2015:

	Fair Value Measurements Using Significant Unobservable Inputs: Derivative Instruments			
	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2016	2015	2016	2015

Derivative assets and liabilities, net				
Beginning balance	$ 9,578	$ 23,674	$ 10,345	$ 9,658
Settlements	(108,769)	(69,713)	(157,928)	(128,417)
Realized gains recorded in earnings (1)	99,191	46,039	147,583	118,759
Unrealized gains recorded in earnings (1)	600	23,911	600	23,911
Ending balance	$ 600	$ 23,911	$ 600	$ 23,911

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

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The following table presents information about significant unobservable inputs used in the measurement of the fair value of the Company's Level 3 assets and liabilities as of June 30, 2016:

	Quantitative Information about Level 3 Measurements			
(in thousands)	Fair Value	Valuation Technique	Unobservable Input (1)	Input Value (1)
Derivative assets	$ 28,358	Discounted cash flow	Counterparty credit risk	—
Derivative liabilities	$ 27,758	Discounted cash flow	Counterparty credit risk	—

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

The carrying amounts and the fair values of the Company's financial instruments as of June 30, 2016 and December 31, 2015 are presented below:

	June 30, 2016		December 31, 2015	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 60,993	$ 60,993	$ 136,988	$ 136,988
Restricted cash	17,611	17,611	5,306	5,306
Pledged securities	78,491	78,491	72,190	72,190
Loans held for sale	2,244,329	2,244,329	2,499,111	2,499,111
Loans held for investment, net	239,861	242,092	231,493	233,370
Derivative assets	28,358	28,358	11,678	11,678
Total financial assets	$ 2,669,643	$ 2,671,874	$ 2,956,766	$ 2,958,643
Financial liabilities:				
Derivative liabilities	$ 29,483	$ 29,483	$ 1,333	$ 1,333
Warehouse notes payable	2,336,925	2,339,241	2,649,470	2,652,011
Note payable	164,313	167,879	164,462	168,431
Total financial liabilities	$ 2,530,721	$ 2,536,603	$ 2,815,265	$ 2,821,775

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

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

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

Loans Held For Sale—Consist of originated loans that are generally transferred or sold within 60 days from the date that the mortgage loan is funded and are valued using (i) discounted cash flow models that incorporate observable prices from market participants or (ii) a hypothetical securitization model utilizing market data from recent securitization spreads and pricing of loans with similar characteristics.

Loans Held For Investment—Consist of originated interim loans which the Company expects to hold for investment for the term of the loan, which is three years or less, and are valued using discounted cash flow models that incorporate

primarily observable inputs from market participants and also credit-related adjustments, if applicable (Level 3). As of June 30, 2016 and December 31, 2015, no credit-related adjustments were required.

Derivative Instruments—Consist of IRLCs, forwards, and IRS. IRLCs and forwards are valued using discounted cash flow models developed based on changes in the U.S. Treasury rate and other observable market data. The value is determined after considering the potential impact of collateralization, adjusted to reflect nonperformance risk of both the counterparty and the Company. The fair value of IRS is based on an internal valuation model with observable inputs from an active market.

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

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

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

To mitigate the effect of the interest rate risk inherent in providing IRLCs to borrowers for GSE and HUD loans, the Company's policy is to enter into a sale commitment with the investor simultaneous with the rate lock commitment with the borrower. The sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. Forwards with the investors have an expiration date that is longer than our related IRLCs to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

With respect to the Company's loans held for sale intended to be sold under a CMBS execution, the Company is exposed to interest rate risk and credit risk (i.e., the risk that investor spreads will change due to perceived credit risk in CMBS loans). To mitigate the interest-rate risk, the Company's policy is to execute IRS with large national banks. On occasion, the Company executes CMBX with large national banks to mitigate the credit risk.

The IRLCs, forwards, and IRS are undesignated derivatives and, accordingly, are recorded at fair value through Gains on mortgage banking activities in the Condensed Consolidated Statements of Income. The fair value of the Company's IRLCs and loans held for sale and the related input levels includes, as applicable:

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

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

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon sale of the loan (Level 2). The fair value of the expected net cash flows associated with servicing the loan is calculated pursuant to the valuation techniques applicable to MSRs (Level 2).

To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date or loan origination date and the balance sheet date by the notional loan commitment amount (Level 2).

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

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

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The following table presents the components of fair value and other relevant information associated with the Company's derivative instruments and loans held for sale as of June 30, 2016 and December 31, 2015.

		Fair Value Adjustment Components			Balance Sheet Location		
(in thousands)	Notional or Principal Amount	Assumed Gain on Sale	Interest Rate Movement or Other Effect	Total Fair Value Adjustment	Derivative Assets	Derivative Liabilities	Fair Value Adjustment To Loans Held for Sale
June 30, 2016							
Rate lock commitments	$ 627,317	$ 19,144	$ 8,725	$ 27,869	$ 27,869	$ —	$ —
Forward sale contracts	2,761,496	—	(27,269)	(27,269)	489	(27,758)	—
Interest rate swaps	34,460	—	(1,725)	(1,725)	—	(1,725)	—
Loans held for sale	2,181,494	41,652	21,183	62,835	—	—	62,835
Total		$ 60,796	$ 914	$ 61,710	$ 28,358	$ (29,483)	$ 62,835
December 31, 2015							
Rate lock commitments	$ 267,710	$ 9,467	$ (1,494)	$ 7,973	$ 7,973	$ —	$ —
Forward sale contracts	2,747,590	—	2,371	2,371	3,705	(1,333)	—
Loans held for sale	2,479,880	20,108	(877)	19,231	—	—	19,231
Total		$ 29,575	$ —	$ 29,575	$ 11,678	$ (1,333)	$ 19,231

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 Company is required to secure these obligations by assigning restricted cash balances and securities to Fannie Mae. The amount of collateral required by Fannie Mae is a formulaic calculation at the loan level and considers the balance of the loan, the risk level of the loan, the age of the loan, and the level of risk-sharing. Fannie Mae requires restricted liquidity for Tier 2 loans of 75 basis points, which is funded over a 48-month period that begins upon delivery of the loan to Fannie Mae. Restricted liquidity held in the form of money market funds holding U.S. Treasuries is discounted 5% for purposes of calculating compliance with the restricted liquidity requirements. As of June 30, 2016, the Company held substantially all of its restricted liquidity in money market funds holding U.S. Treasuries. Additionally, substantially all of the loans for which the Company has risk sharing are Tier 2 loans.

The Company is in compliance with the June 30, 2016 collateral requirements as outlined above. As of June 30, 2016, reserve requirements for the DUS loan portfolio will require the Company to fund $45.9 million in additional restricted liquidity over the next 48 months, assuming no further principal paydowns, prepayments, or defaults within the at risk portfolio. Fannie Mae periodically reassesses the DUS Capital Standards and may make changes to these standards in the future. The Company generates sufficient cash flow from its operations to meet these capital standards and does not expect any future changes to have a material impact on its future operations; however, any future changes to collateral requirements may adversely impact the Company’s available cash.

Fannie Mae has established 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 obligations under the DUS agreement. The Company is required to maintain acceptable net worth as defined in the agreement, and the Company satisfied the requirements as of June 30, 2016. The net worth requirement is derived primarily from unpaid balances on Fannie Mae loans and the level of risk sharing. At June 30, 2016, the net worth requirement was $115.5 million, and the Company's net worth was $531.4 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC. As of June 30, 2016, the Company was required to maintain at least $21.2 million of liquid assets to meet operational liquidity requirements for Fannie Mae, Freddie Mac, HUD, and Ginnie Mae. As of June 30, 2016, the Company had operational liquidity of $107.9 million, as measured at our wholly owned operating subsidiary, Walker & Dunlop, LLC.

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Other Commitments—Under certain limited circumstances, the Company may make preferred equity investments in entities controlled by certain of its borrowers that will assist those borrowers to acquire and reposition properties. The terms of such investments are negotiated with each investment. As of June 30, 2016, the Company has made commitments to fund such preferred equity investments in monthly installments totaling $42.8 million, $6.4 million of which has been funded. The Company expects to fund the unfunded commitment amounts over the next 12 to 24 months.

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

NOTE 10—EARNINGS PER SHARE

The following weighted average shares and share equivalents are used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015:

	For the three months ended June 30,		For the six months ended June 30,	
(in thousands)	2016	2015	2016	2015
Weighted average number of shares outstanding used to calculate basic earnings per share	29,388	29,057	29,438	30,279
Dilutive securities				
Unvested restricted shares	963	968	1,002	913
Stock options	276	214		