THE HOLLEMAN COMPANIES

Four Generations of Financial Security Leadership

Holleman Business Succession Forum

MALLORY WALKER

Chairman

Walker & Dunlop LLC

Interviewed by Vernon W. Holleman, III

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THE HOLLEMAN COMPANIES

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INTRODUCTION

<u>Mr. Vernon Holleman:</u> This is Vernon Holleman. Welcome to another edition of the Holleman Business Succession Forum, and I am excited to have the ability to present this interview with Mallory Walker. Mallory is somebody I have known most of my life, and was a terrific friend of my father's. He is now chairman, his son is now CEO, of Walker & Dunlop, a company that his father started. When my father died in 1999, Mallory was tremendously helpful to me in really helping me think through the issues I had in front of me, the options I had in front of me, that nobody else really presented. There were only a handful of men who came with real true sage advice and thinking during that trying time, and I think what you will hear in this interview, perhaps most notably, is that, although there wasn't a trying circumstance in Mallory's case, somebody during a business transaction while Mallory was in business with his father did challenge him to make sure that certain things in fact happened in that continuity or transition plan. So, that really goes to the heart of what we are trying to achieve with this Forum, is to make sure that terrific ideas and events that occurred that were successful get out there. I do not think that a lot of times they do, and so you will hear that. You will also hear a couple of things I think are notable, one of which is he had two sisters and how he handled that situation. Also, the specifics of that situation, I think, are important. He also talks about decision making and the importance of having a primary decision maker. He talks about the importance of being able to pay people that work for you out when they want to get out, not when you want them to get out. He also talks about relevance in age, and how people misjudge that. He talks a bit about fathers and sons and the differences, and those issues. Also, you will hear him discuss how he found what drove

his real interest in the business, which was quite diversified when he started it. He found an area that resonated with him, and that is where he drove the focus of the firm. So, among other things, listen for those, and enjoy this interview. Thank you.

INTERVIEW

Mr. Mallory Walker interviewed by Mr. Vernon W. Holleman, III, July 17, 2010.

Mr. Vernon Holleman: Mallory Walker is with me. We are recording another session of the Holleman Succession Forum. Mallory, welcome. Glad to have you here.

Mr. Mallory Walker: Nice to be here, Vernon.

Holleman: And, let's start with the history of Walker & Dunlop, from the earliest time you remember it.

Walker: Well, I remember it shortly after I was born because it was wartime. Gas was rationed. The only way you could get gas was to have a business, and so in order to go out and get the groceries or do anything else we had to make an excuse to go do an inspection or do something. So, all during the war we had a car that had the company name on the side of it. We had red coupons, little cardboard coupons, where everybody else had green, because we had a commercial right to use the vehicle. So, that was very much a part of it. Then, my father had just started the business in 1937. I was born in '39. So, he was working all the time trying to make a success of it. Ideas of going out on Saturday or Sunday to look at property and do business, and just be riding in the car, was the lay of the land, so to speak. So, the early part of my life.

Holleman: Sure. And was Dunlop a part of the roots in 1937?

Walker: In '37 he was the partner. He was my mother's brother.

Holleman: Okay.

<u>Walker:</u> So, there were two brothers-in-law starting the business. But, Dunlop had gone to war, not by choice but by draft. So, by 1942 or so Dunlop was off in the Far East.

<u>Holleman:</u> The first involvement you had beyond the car rides, in a more business form?

<u>Walker:</u> I worked for the company in the summer of ’51 or ’52, when I was not even in high school, just -- yes, I was in the lower school at Landon. I would go in and work in the summer and get paid to strip wet processed photocopies. You make a copy, you had to peel them apart, and I peeled them apart. So, I did that. But, then, I worked for the Devlin Lumber Company in the summer of ’55. I think the Army-McCarthy hearings are the summer of ’55 -- I remember seeing it on television at the Wagon Wheel Diner in Bethesda, which is right caddy corner from Ourisman Honda. I watched it and unloaded lumber cars. The next year I went to work for Walker & Dunlop, and I was close to being on my way to college. So, I may have been either a junior or a senior, just graduating to college.

I had a job inspecting construction loans that we were lending on. I just gave a talk the other day about this part of the life I -- that summer, I had an assignment to do Pimmit Hills, which is a subdivision out in Virginia which is now a little triangle of land between I-66 and Tysons Corner shopping center, little tiny crackerbox houses but the land is worth about twenty times what the houses are worth, and they have all been McMansioned, and then another wonderful subdivision down in Alexandria, which is right next to a NOVA hospital now, which is called Holland Hills. And it was kind of the most forward looking planned, lots of covenants, you could not do this, you could not do that, and so my summer job was doing weekly inspections of the houses as they went up. If they put drywall in we could give them more money because they put the drywall in. Or, if they basically put the roof on we could give them more money for the roof. So, I made the inspection to make sure that we were not lending against no collateral. So, that was my next involvement.

Holleman: Had your father had any prerequisites for you coming into the business? Had he sent you off to get -- the lumber company, was that a specific sort of training he thought you would need or want?

Walker: No, that's a good question. I do not recall that. But I do remember I wanted this job because I thought all big strapping young boys needed to have a job that showed that they were a man. Lumber yards were considered to be really where men worked, and --

Holleman: I think they may still be.

Walker: Yes. So, I remember wanting the job. I did not know how to go about getting it, and Laird Dunlop, my uncle, introduced me to the England brothers, and who was the Hechinger family, but one of the brothers owned Devlin Lumber along with the Devlins. So, that is how I got it. But, no, there was no -- I think my father thought he was giving me a career education just by being around him doing all these things that we did every weekend.

Holleman: And your uncle made it back from the war and continued to work in the business, or not?

Walker: He came back after the war, and was a changed man.

Holleman: So, that summer you worked. You are then off to college.

Walker: Right.

Holleman: Did you work in the company throughout college?

Walker: I worked a couple of years and did not work a couple of years. I do not remember now which years I worked.

Holleman: While you were studying, did you think about that that was a career path you were going to take, or --

Walker: I thought it probably was not. It was not something I had a particular attraction for, nor did I dislike it. I think I thought I wanted to be something different. I wanted at one point in time to be an architect. I wanted at one time to go into the military. You know, I had lots of different ideas. My father kept saying I want you to come in the business. It was never a formal conversation. It was always just hints dropped. But his idea -- he thought having a family business was a great idea. He thought it was wonderful for me to come into it, and he was coming to it from the perspective that he had grown up in an environment where getting a job was very difficult. So, he thought that a family company gave me access to a job, that by that time there were lots of jobs around.

Holleman: Did you feel pressure from that?

Walker: Yes, I did feel pressure.

Holleman: Okay.

Walker: Yes. Absolutely I did. I never resented it, so it was not that big of a pressure. But, I do very much remember it was pressure.

Holleman: And where there other siblings or cousins that would have been potential peers in the business or was the weight on you?

Walker: Well, the siblings were two girls and the assumption was that they were not going to work. So, that was not direct competition. Laird Dunlop had a son and two daughters, but they were considerably younger than I. At the time I was ready to come into the business no one was thinking about them. We had control of the business. Dunlop did not.

Holleman: Okay. So, take me through the decision or the options you explored. You mentioned a few, when the -- sort of if --

Walker: Oh, I think when I met trigonometry I decided I could not be an architect.

Holleman: All right.

Walker: That was for sure. You know, I think the real answer was that he wanted me to come to work for him, and when I got out of college and had decided I was not going to go into architecture school or something of that nature I said let me come back and try it and see whether I liked it. I think that was the kind of presumption.

Holleman: Sure. So, what were the things you were doing when you started at the firm? Talk about your working relationship with your dad, as far as responsibilities. Do you think he had sort of a set schedule for you to do this role, this role and this role, or was it a little more scattered than that?

Walker: He had not really thought it through, so he did not have a plan. He turned to Roger Hatch, who was then senior vice president and treasurer, and said get Mallory exposed all the various aspects of the business and kind of turned me over to Roger to move me around in the company and get a smattering. I had no timeframe for any of this. There was -- you know, in hindsight, and especially relating it to my son, who came in a few years ago to the business but from a totally different background, where he had been out for ten years making his own career, he had been to business school, he had already demonstrated that he knew how to manage, and so forth, I came in and just kind of wandered around through various departments. The assumption by everybody was that someday I would run the company. There was no kind of career pattern to that. So, I worked in the accounting department for the first couple of years. I then did a little bit of work in loan servicing. I then went over and did a stint in the commercial mortgage department, which I liked a lot and kind of wanted to stay. Then, people tried to get me to do a series of other things, all of which I would look at and do for a short time and then say I did not like it, and always come back. So, at those times we were in the office leasing business. We were in the property management business. We were in the insurance business. We were in a lot of different businesses. So, I tried my hand at a few of those. But none of those were things that particularly interested me. I did love the commercial mortgage business.

<u>Holleman:</u> Tell me what year are you? Where are we abouts now?

<u>Walker:</u> 1963, and my father is turning 65 in 1963. So, his 65th birthday was September and I had joined the firm on February the 1st or 2nd.

<u>Holleman:</u> Had he had any discussion about retirement or specific discussion about transition?

<u>Walker:</u> Did not want to do that, leaving it loosey goosey was the way in which he wanted it. He had always been a very micromanager. It was kind of his company, and he did not want -- he wanted to know -- he wanted to be on top of everything, and he worked huge hours and never really took off much time. But, then, in 1963 when I started with the company he started to take off some time and take some nice trips around the world

and other places. I distinctly remember him going off for a month, two months, and leaving somebody in charge. But no big decision got made without him coming back. So, basically you could do all the work in the world but the decision of whether to do something was not going to happen until he came back.

Holleman: Sure. Did you find while he was gone on that particular trip that anybody came to you, almost through osmosis, for decision making?

Walker: People came to me from the moment I walked in the office. People came to me as a way of either testing how they thought my father might react to something or testing how Roger Hatch or somebody else might, or how I thought of it. But, the assumption was that it was not going to be long before I took over the business and that basically I was more approachable than either my father or Roger Hatch or anybody else, with regard to sounding out an idea.

Holleman: How was your working relationship with Roger?

Walker: Excellent. Fabulous. He just died in September and I was one of the few people -- he was a very private quiet man, and I was honored that his daughter called me and said that he had asked only five people to be notified. He did not want an obit in the paper or anything else, and did not want a funeral service. But, he wanted me to know. We got along extremely well. He stayed on the board for many, many years after I took over the company.

Holleman: So, fast forward and take me to the time where -- during which you officially took the reins, and what was going on then.

Walker: I will do that. Let me say that there is one very important piece which is that it did become clear to me between the period of '63 to '73 that a way to run a business was not to continue to hold all the strings of power but not be around on a daily basis to manage the business. So, I came to the subject very early, before I really had taken over the company, that, one, only one person runs a small business and that, two, for a business to be dynamic and viable and so forth you cannot put off the decisions until the semi-retired president comes back from vacations and that I would never do something like that. If, basically, one of my children ever came in the company, which is not something that I was looking for, I would have a much more clear understanding of who had power, who did not have power, how decisions got made and so forth and so on. That all came from that period of watching it between '63 and '73.

So, in '73 a number of things had happened in the marketplace that had made me look at the business model that we had and start to move it to kind of a different space. Single family mortgage originators were flirting with the early vestiges of mortgage backed securities, and the way you did that was you warehoused millions of dollars worth of residential mortgages and then you sold them off in blocks. Of course, you had the interest rate volatility that came along with that. If you made a loan at 6 percent and interest rates went to 7 or 8 you had a discounted mortgage, on face value; conversely if the interest rates dropped to 4. But, that put a whole different perspective on the residential lending business than we had had historically, which is that, one, you needed large capital lines, there was a lot of risk in that business, and they had not learned how to hedge the risk yet. I remember flying to Los Angeles with Marty West of Weaver Brothers on an airplane once and told him that -- because they owned a savings and loan and did not have any problems funding their warehouse lines, that he ought to meet this friend of mine. He had figured out a way to hedge the risk, interest rate risk. And

Weaver Brothers and Marty West did that. But, I had a made a decision at that point in time to get us out of that business. We did not own a savings and loan. We did not have the capacity to have these large warehoused lines. I was more interested in the commercial business, and also I thought there was more money in it. I thought the residential lending business was becoming commoditized, and it was going to be very hard to make reasonable profit. So, in '73 we began the move out of residential lending.

Holleman: At the time, did you consider Weaver Brothers a competitor?

Walker: Huge.

Holleman: Okay.

Walker: The biggest.

Holleman: Okay.

Walker: But, so was B.F. Saul, so was Terry Winston, so was F.W. Barron's, a number of other people, lots of different people around town, all of whom have pretty much gone, except for B.F. Saul. So, I decided I would exit it and get out of the business and try and focus the company on business that dealt with not a consumer but dealt with a business entity. So, when you do any of the types of things in the commercial area you are dealing with a man who is the general partner of a partnership or who owns a business. I was driven by the fact that I thought consumer protection was going to be a really big issue and I was focused on, one, not being subject to a Bureau of Labor decree about all that, and also the question of how large the company was going to grow. I had this idea in my head that the company could not grow beyond 100 people.

Holleman: How many at the time did you have?

Walker: My memory is that it was about the high eighties. And by getting out of the consumer businesses, which was individual insurance policies on people's houses, getting out of the residential lending business, getting out of the property management business as it related to people renting their houses, things like that, all the things that were consumer protected, I was basically managing the cap on my personnel. Because as we grew in the areas I wanted to stay in it was just filling the spaces of people who had been terminated because we were getting out of certain businesses. There was some period of time -- I think probably by about 1981 we got up to 125 people and then we got down a little bit less than that in the mid-eighties, after the '84 debacle of high interest rates and one thing and another. And then '91 comes and we've gotten up to 125, and I thought to myself I should have never gotten that big, for a variety of reasons, overhead as well as this whole issue of whether we would be regulated. But, the real estate debacle of the 1990s solved that problem all by itself. We shed lots of employees at that period of time.

Holleman: So, in that '73 timeframe, which you began that dialogue with, at that point is that when you had officially formally taken over?

Walker: I was executive vice president, not in charge of the company but I was making most of the decisions and I had a willing partner in Roger Hatch, who was the chief executive officer, and Dad was spending less and less time at the business.

Holleman: When did your dad formally exit?

Walker: Something tells me that it was -- I need to look that up, but I want to say in the '82 or '83 period. But, he had an office up until 1990, 1989, at the office, and he used to come in the office. But, he was not then -- he had really turned the responsibility over to me by that time. So, it was really basically a decision coming where I think I had become maybe executive vice president and chief operating officer -- that is exactly what happened somewhere in the earlier eighties, and everybody stepped up. My father went to chairman and did not have a chief operating officer position. Roger Hatch became -- no, Dad stepped down from being chairman, gave Roger chairman and Roger then became chief executive officer. I became executive vice president and chief operating officer, and then shortly thereafter I became the chief executive officer and president, and Roger just stayed as chairman. That was a fairly tight timeframe, maybe six or seven years.

Holleman: At that point -- did that all just flow naturally, or were there --

Walker: Well, now --

Holleman: -- sessions that you were going through or advisors you had that helped with any of that, or -- the board, perhaps?

Walker: Well, yes and no. Dad's idea about -- fundamental to his way of thinking was that all children were equal. He would leave the stock in the company to all three children equally. In 1973, I am being driven to an airport by a man who had transacted a significant transaction with us and he got into a conversation about succession in the company and what was going to happen. He knew quite a bit about us. He said that he thought that the idea of leaving the company by my father to all three children was a huge mistake, and that I ought to find a way to buy out my sisters and let them go their happy way and I go and run the business. He basically said something I never will forget. I not only cannot forget what he said, I cannot forget how he said it and I cannot forget exactly the scene that happened as we were in this pickup truck. He stopped and I looked across at him. He was driving, and I looked across at him and he said money divides, money divides absolutely. There are no exceptions, and do not ever think there is.

Then he went on to tell stories about his family situation, where he and his sisters had had the same amount of money when World War II broke out and that they came out of World War II and they still all had the exact same amount of money, because they basically put it into a bank to just be invested in Treasury bills. But when he came out of World War II he became quite a successful businessman in many different ventures, and that every time he went into a new venture he offered his sister an opportunity to come into the business and she said no, no, no, it is all too risky, I am not interested in it, I do not want to do that. In the intervening period of time, he had become very wealthy. He had lots of toys, and his sister was very jealous of him, notwithstanding the fact, from his standpoint, he had given his sister every opportunity to come in on every business deal he ever did. He then went on to talk about other similar kinds of stories, where no matter how hard you try, no matter how well you think it through and engineer it, you cannot do anything about the fact that money is a divisive force in a family. There is no way to make it equal forever, because all sorts of different factors come into it that you have no control over whatsoever. So, that thought took me a year or two before it really sank in, to the level on which it did, but --

Holleman: Had you given it any thought before, or even thought about this?

Walker: No. I always thought that it was not a problem from the standpoint that I had a very good working relationship with my sisters and with their husbands, and that nobody wanted to work for the company. They all thought that I should run the company, and basically I would be the family operative member and that we would have the family block of stock to work. It never occurred to me that there could be down the road some reason to have things not work.

Holleman: So, you are a young man in a pickup truck with a client --

Walker: Just sold him -- done the second largest deal I had ever done in my life. I sold him five and a half miles of the Outer Bank of North Carolina for $2.75 million, and I thought that was a huge sum of money. I was getting 10 percent of the sale, so that was a really nice commission. He had this great advice, anyway. So, I took it and I went to my father five, seven years later, said that I thought that this man was correct and that I ought to buy my sisters out of the company, find a way to do it, and would he support me. He said I won't take any side on this. I won't not support you, but I won't support you either. I think it is something for you to work out.

At first I thought that was an act of hostility. I very quickly learned that he really meant it. He was not going to take sides either way or the other, and the girls came to him and said do you think this is a fair deal that Mallory is offering, one thing or another. He was perfectly willing to give his judgment. But, he was not going to be putting this together. He was not going to be trying to force the parties together. It was either going to happen because we wanted to do it or not, and his view would be that would then ensure that there would be peace between the family members at a later date, if circumstances had changed and somebody felt like they had gotten the short end of the straw. That was his simple idea. I thought it was genuine and from the heart, but I now know enough to know that nothing ever stays the same and that in fact it would have been a bad formula. I do not believe anyone should leave a company -- an operating business to multiple family members, with each of these family members having different interests in the company. That means different love for the business, possibly different economic interests in the company, possibly one being employed and one not being employed. There is a whole wide variety of issues of what creates a disequal situation. Obviously, if you have three people who own a family and it pays good dividends and everybody has the same amount of stock but one person works for the company and gets not only a big salary but also stock options for managing the business they are going to basically have a very different view on what is done than somebody who is only looking at the dividend stream. So, there are just a thousand different ways you can all trip up, and it should be avoided if at all possible. Sometimes it is not exactly possible, but if I ever had any advice for anybody it is to spend a huge amount of time working on the problem and assuming -- going into it with the assumption that it will never work, and that if you -- the only reason it should be made to happen is if you cannot find any way of dividing and separating out everybody's interest.

Holleman: Did you buy the girls out at that point?

Walker: So, then I bought the girls out in 1986. So, that's 12 years later, 13 years later. But it took a lot of time. We had --

Holleman: Thirteen years from the first time you said to your father you think you ought to?

Walker: Right. No, no, wrong, from the time that this man in the pickup truck --

Holleman: Oh, okay.

Walker: -- tells me I ought to do it. Probably about ten years after I first spoke to my father. But, we had gone through two economic recessions, '74 and '82/'83, and the business had had all sorts of different challenges. We just did not have the time to focus on it.

Holleman: Sure. Well, we see that a lot. It is had to focus on a succession plan when you're trying to grow the business --

Walker: Right.

Holleman: -- or keep it afloat, for that matter.

Walker: So, it happened in 1986. I think that worked well, and it worked well from at least two perspectives from the way I look at it today. The first is that they were pleased then and seem to be pleased now at the way in which I went about the process, how we came to value, how I dealt with them in the negotiation and paid them their money. The second and very different prospect is in 1991 the business had a terrible period where everybody defaulted on their obligations to us. Although we had done nothing wrong, we were having trouble paying our bills and did not know whether we could stay in business, simply because everybody who owed us money would not pay us back. So, the business was very close to going under in 1991. The girls, then, had they had all their money invested in it and their whole livelihood tied up in the business, would have been miserable and they would not have understood it. They would have blamed me for it. We would have just had a mess trying to work it out.

But, as it turned out I still owed them a little bit of money at that point in time but they saw what I was going through, knew that they had at that point in time gotten the better deal -- they had gotten the better half of the bargain because they had far more cash than I had at that point in time, and they were very, very helpful and supportive at helping me through that very, very tough period. Had they been equal shareholders they would not have been as good. They could not have been. They just would have had a different perspective.

<u>Holleman:</u> Sure.

<u>Walker:</u> More importantly, had the company gone under I would have had a different perspective. So, these things you just cannot predict what is going to happen. Having said that, again, the year is important, 1991, when the real estate in Washington, D.C., and all of the country hit a huge bump in the road. We made it through that period, but in 1986 I started a series of meetings within the office of my senior people. All around the -- we called them long-term strategy sessions, but they were really an effort to say to ourselves and to kind of articulate the idea that we had worked -- we worked really hard and had worked consistently hard for a number of years, and we had been very comfortable in terms of making nice salaries. But, we had no real money to show for it. We had no huge investment in stock of a publicly owned company that we could have sold at any point in time. Everybody was paying large taxes, because all of it was being taxed, whatever we made.

We started looking for ways to change from a fee for service business to a business where we invested capital and we made money because we made the right bets on the investment or the capital. We looked at a whole wide variety of things, and the first thing that came along that was of interest to us that we thought we could handle, and it was of great interest to us, was to go into a new program that Fannie Mae had called DUS, which was a risk sharing program, where we took 20 percent of the risk of the loans we made in exchange for being delegated the authority by Fannie Mae to make the loans and just sell them to -- where we had to sell them according to a certain standard, but basically we made all the decisions. That company had started in ’88, and at the time we were having financial problems in 1991 that company had not grown large enough to be a big part of the issue of the problem.

But, what clearly was happening is that my sisters had been bought out in ’86. I had started this company, De Novo, in 1988. I did not have enough money to do it, because it took -- Fannie Mae’s requirements in those days was you had to put up $5 million in Fannie Mae’s bank account in order to get this license to operate, and it had to be up there all the time. Then, every time you sold them a loan you had to put up more and more capital.

So, I went to an institutional partner to borrow, to become my partner, become a 50 percent partner to put up the capital, and I would run the business. We were just starting to grow that business, and so in 1991 when we were having some financial difficulties we did not have any real appreciation for how valuable this new company was going to become. In fact, at that point in time it was not. But, we had laid the seeds, not just starting the company but we had two or three good years of production coming out of the economic recovery of the ’84 recession. We were booking really great loans to fabulous developers, all of whom have been paid off, but also it was a great way to build a business. It was a perfect time to build a business.

So, at 1991 when they are being quite supportive of me, both morally as well as financially, allowing me to stop payments on the remaining terms of their loan and everything else, I was able and I was free to concentrate on building the business. Then this new business that I started, De Novo, which they did not have any ownership in, would not have had -- they could have, arguably, if they were still in Walker & Dunlop had an interest in it, but clearly this was not a business that we had inherited from our father. That business really began to take off, and by 1995 it was the larger more dominant company than the old family company, Walker & Dunlop.

Holleman: And how much of the genesis of that company came from, do you think, if any at all, the fact that you had in fact bought them out and kind of had more skin in the game, if you will?

Walker: Good question. Clearly, we would not have been able to do it had they still been in because they would not have wanted to take the risk that this was going to entail. It is conceivable they would have never asked to have me explain the business to them and just said sure, go ahead and do it. But, I think one should not assume that. Clearly, we needed to have an institutional partner. The institutional partner was not interested in dealing with a family. They were interested in dealing with a person they knew that was going to be their partner. So, I would never have been able to track the capital with three people, no one person having control. The fact that I had control was a significant portion of them willing to invest in the company. The fact that they knew me, had done business with me, and said we believe in betting on Mallory, that was the key test. So, I think it is fair to say that we would not have gone into that business, been able to do it, had they still been in the business.

Holleman: Help me think through what you were thinking before Willy showed any expression about continuity.

Walker: Yes.

Holleman: In other words, you had lived through a number of things, growing a business, recessions, scary times, et cetera. Did you have plans during the time before you probably were even thinking about who would be a management successor, sort of for the what-ifs and how you would take care of your family or how the business would continue on.

Walker: Yes. It consumed a certain portion of my energy all the time I was at the business. My assumption was that neither of my children would come in the business. They had both shown no interest in it. I had shown no interest in wanting them to come in the business.

Holleman: Neither of them had worked there at any point, or some summers? Any even minor --

Walker: Maybe one of the children worked there one summer. But, I was running the business as if it was not a family owned company. I was not trying to involve them in the business. They had both pretty much said to me we want to go off and do our own thing. So, I had assumed that I would either have to build management capacity in the firm to take over or that I would sell the business, one or the other. So, I started implementing stock purchase plans for existing employees, and all the problems that that entails, when you have nonpublic stock, because how do you get the valuation, how do you get them in and get them out at fair value and all that stuff.

But, I had really good advisors, and we got through that and we incented and gave a significant piece of the business to key employees. I will say I am quite proud of the fact that I made a number of people very comfortable and they feel that I have been remarkably fair in the whole way in which I have dealt with that. The biggest issue is that lots of people give phantom stock or real stock in family owned corporations, but that is always minority shares. If you do not find a way to get those people out when they want to get out, not when you want them out but when they want to get out, then you do not really have a decent incentive compensation program. So, when Merrill Yevinsky wants to retire at 65 promptly, just because he has made up his mind he wants to retire at 65, it is not acceptable in that dialogue to say, okay, great, Merrill, you can retire but I cannot retire your stock until you are 75 or some other thing, or I will retire it as soon as my ship comes in and I have a little bit more cash.

I mean, all those things just completely undermine the attractiveness of a family owned company. So, we spent lots of time making sure that people knew they would come in and buy stock on the basis of book value, they would go out on the basis of book unless there was a capital event, and we had rights to repurchase their stock on terms and conditions that varied depending on what the circumstances were. If you retired, you got out on one basis. If you quit to go work for a competitor, you got out on a different basis. If you died on the job you got out on a very different basis. So, all those things were worked through. Every one of them have happened to me since I have done it, and all of them have worked just exactly according to the plans that we set up. It put huge burdens on the company from time to time to borrow to liquidate people's interests. But, nevertheless, that is one of there -- there are a lot of good things about owning a business and not being public, especially in my particular space. One of the downsides of that is that you have to deal with people's aspirations to own a piece of the rock and all the problems that brings to you, in terms of fairness, liquidity, cashing them out, one thing or another.

Holleman: But you would say to people that giving those non-family members real skin in the game has been invaluable to you? Is that fair?

Walker: Yes, is the short answer. I am absolutely convinced that we would not have created anything like we have created had I not taken a couple of key individuals and said have a good piece of this ride and I will be fair to you, both coming in and going out. Everybody worries about the coming in and what price they pay. Very few people give a lot of worry about how do they get out when they want to get out, not when you want them out but when they want to get out. Then, what happens in the thing when they have worked for you forever and get to retirement, why is that a better event than if they basically leave you halfway through your growth cycle and go off to compete and become your greatest competitor? How do you deal with all that? So, those are things that I am very proud of and I think that the people who have been affected say it was one of the greater things that happened to them while they worked for Walker & Dunlop, much better than could have happened to them at other companies. Our industry is one filled with people coming in, learning the business, and going off and starting -- the barrier of entry is very, very low, and so giving people a stake in the business is just key to keeping good people around. So, the plan was, yes, I was building management capacity to take over if something happened to me. The thought was that I would probably get to a point in time and sell the business. We got caught in a growth cycle, which made me forget for a short period of time the exit strategy, just put on more business, more business, more business, and then I had a business transaction that I thought was not to my liking. I thought somebody had been quite unfair to us. I was unhappy with, kind of, the whole drift of what was happening in a big segment of our business, thinking to myself I have got to get out. I have got to figure a way to get out. Do I sell the company, what do I do, how do I do it, do I do an ESOP? How do I go about it? That was the time that Willy said I would like to come back and help you solve the problem, and be an employee.

Holleman: Now, for the edification of our listeners you have two boys.

Walker: I have two boys.

Holleman: Willy is the younger of the two.

Walker: That's correct.

Holleman: And if I am not mistaken, he joined your board around 2000 -- the year 2000 or so?

Walker: Exactly.

Holleman: And what year are we now, in this?

Walker: 2003.

Holleman: Okay.

Walker: Fall of 2003.

Holleman: And how much of his knowledge of the business really began during his board term, or do you think you all talked business a fair amount, sort of, on the sidelines up to that point?

Walker: Because it's a family business and I worked it about as hard as my father had, in terms of, you know, it was a seven day a week job, the children all were -- kind of understood the business, generally speaking. Did they have knowledge of real estate economics? No. Did they know how to make a good loan from a bad loan? No. But they really had an understanding of the business we were in and what were the drivers of the business. In the case of Willy, Willy had left college, gone to South America, run a nonprofit charitable foundation for a while. Then he came back to business school, did extremely well in business school. Left business school, went to South America and started an airline. But, he went from there to working for a -- running a Latin American division of an American technology firm. Then they brought him back to run technology strategic planning in Denver, for a year. Then, while he was doing the strategic plan they decided that they needed to send him to run Europe. So, he ran Europe for them, executing one of the strategies he had come up with of how to change the European business.

So, he had had ten years of experience managing much bigger companies than the family business, much bigger. So, my view today is Willy could manage lots of businesses. He's a manager, and he does not worry about conjugating verbs. He knows how to speak the language. So, he came back. The other son had decided he wanted to go into teaching. He did not want the business, and that was fine. So, that is where we are in 2003. So, he says he wants to come back and try and help me solve this one problem that we had. I said no, if you come back you can have my job, which means you can solve it and all the other problems that we have.

He said no, that is not what I want, that is not what I am headed for. I said no, it is very important that there only be one person running the business. If the Walker family has control of the business, whether you run the company or not people are going to do to you just the exact same thing they did to me when I came in years ago. They will either test an idea out on you first and see whether it flies, before they come to see me, or they will use you as a method to undermine something which they have not been able to get from me over a number of years, or whatever.

Holleman: Sure.

<u>Walker:</u> That is just not necessary. So, he was very reluctant to come back on the basis of taking over as the chief executive officer. We finally came to an agreement on that. He came to show up at the office. It was clear I was not leaving the business. I was going to sit there and help during a transition period and still be chairman of the board. All of our major customers at that point in time were people who were very allied to me, so we had not only our equity partner in the new business I started, which is an old relationship I had had. The relationships with Fannie Mae were my relationships. The relationships with our largest borrowers in Washington, two or three borrowers who were just doing a huge amount of business with us, they were all relationships that I had started in the sixties and seventies. So, there was no effort for me to just walk out and then leave the business, but to make that transition as natural as possible.

So, when he came in to the office for the first day he was ushered into my old office, which I had moved out of, and he was as shocked as basically all the other employees were. They said well, why did you do that. I said because everybody has known for 20 years that the decisions get made in this office. It is a significant statement that he is running the company now, not me. I am still around, and I have some utility. I happen to have the voting stock of the company. I will spend my time worrying about that and how to deal with basically making sure that I do not die and leave the company in some kind of terrible thing, where they have to liquidate everything everybody is working for because I have not planned correctly. But, you ought to know that the baton has been passed. It has been passed absolutely, and no one is going to put the two of us in harm's way together.

Holleman: A lot of your thinking on that move, is it fair to say, was based on the experience you had had --

Walker: Absolutely.

Holleman: -- where your father had not?

Walker: That's correct.

Holleman: Yes.

Walker: Absolutely.

Holleman: Well, let's talk a little bit about that, because you clearly have been more comfortable with that transition than a lot of folks have. You have seen from the first row as well as from the balconies, people do not hand over that baton easily. Obviously, your experience helped you decide that with some clarity. Was it also because you had other interests in life --

Walker: Sure.

Holleman: -- that you developed --

Walker: I thought that was where you were headed, when you started the question. It was somewhat accidental in my case. I do not think I thought this through. But, you know, it is very hard to wake up one morning and say I have spent my entire life doing this thing, making this widget, and then saying I am no longer relevant. That is just a very, very difficult thing for anybody to do. So, because I had been involved in a number of community related activities, community in a larger sense, some of them were not in Washington, D.C., but they were charitable in nature, I had had exposure to a lot of different things that I was very interested in, and interested in spending more time in. So, I never had the thought I do not know what I am going to do, and who is going to have lunch with me and will anybody call and ask me for my advice. I was going to stay around in the office to kind of see what was going on, to observe, to make sure that I had not made a mistake. After all, I had a big economic interest in it. But, I was going to make very clear to everybody I did not make any of the decisions. My only decision was whether to get rid of my son before I got rid of my stock. So, that means that I was going to see some things that I liked, some things I did not like, and I had to weigh all that and say is this working for me or is it not working for me, and obviously the barrier of firing your son is a pretty high hurdle to jump over. So, he would have had to make some really much more egregious mistake than some other non-family related member. So, that is a burden. But, that is the way it was playing out. Then, I had plenty to do with all these other things that I had been interested in over time, that I could spend more time in. So, that is exactly right. I think that that raises a different point, that if someone gets to be 50 thinks they will never stop working at their business and never give up any control, that is still no excuse not to go and find outside interests and spend some time in them. Because, there will be a point in time when, through health or other reasons, you cannot do it. Having nothing to do is what undermines most good succession planning. If you have something to do, there is a way to make it work.

<u>Holleman:</u> Did you have a sense of relief when you moved down the hall to the other office, that, wow, I do not have to solve that problem, or not so much?

<u>Walker:</u> Not for a couple of years. I mean, it was -- I was very clear that I would not make decisions, but it was also those first couple of years I was constantly being involved by people in could you help me do this, tell me how did this happen, who is the person there -- I was being asked all sorts of information. I found that rewarding,

interesting. I liked doing it, and it gave me a bunch of time to, as I say, lend to all these other outside activities.

<u>Holleman:</u> I have heard people refer to that as walking around wisdom.

<u>Walker:</u> Much of my wisdom today is not appropriate for the present world. Business has changed dramatically. I love discussions with people at the office where I tell them what I would do in a given situation or how I thought about it or how we did it in the past, or how we ought to hold somebody's feet to the fire. They say look, people have far more options today than they used to. Things are not the same. We should not think about it that way, or the fact that you got burned by this person or this episode or this kind of thing in the fifties is irrelevant to today. People totally misjudge their value and utility to their employer. There is hardly anyone who gives anything new to their business after they have been doing it for 30 years, maybe 25 years. I have been on a number of boards, public and not public, and I have a ten year up and out rule. No company I go on the board of -- if they do not have a ten year up and out rule I do not go on the board. It is a bright line for me. I think that is necessary, because you need new fresh ideas coming in. You need people who basically challenge the street wisdom. It makes everybody think much more intelligently. Are things like they used to be or are they different?

<u>Holleman:</u> How long did you think, going in, in the point you made earlier about keeping an eye on the new CEO? Did you think a year would be enough time to make that judgment, or was it shorter or were you just going to play it by ear?

<u>Walker:</u> I changed my view on that many times. At one point in time, when Willy first came in, I thought I will give him a year to prove to me that he knows how to win

the respect and loyalty of the personnel and gets things all moving in a good direction. Then I would think a little bit more about that and I would say, well, I would give him a year in which he has to know as much as I know about the nuts and bolts of the business. Then I would think, well, I think I will give him a year to learn something else. I never got it right. I never kind of came down on which was the right leg of the stool. But in the end, his performance just basically made it very clear that it did not make any difference what leg of the stool I wanted to sit on, he was giving them to me because he was managing a business, very differently than I. I mean, there are lots of things that are done that would not be the way I would do them. One of the hardest things to do is just to bite your lip and say, you know, so be it. We are much more touchy feely at the office today than I ever was. Willy is a real motivator, a real sales leader and a coach, all sorts of different things. The way he does budgeting is totally different than the way I did it, and he very much thinks I am wrong and that the company did not grow faster under my leadership because of the way I went about budgeting. I am not sure that I do not think the reverse of all that. But --

Holleman: How much of that is normal father son jockeying, do you think?

Walker: Small. Willy is a pro. I do not think much of it is father son, and I think we have been both very respectful of the other, so that we have not gotten our nose out of joint. That is always a fear. What it clearly shows to me is that he went to business school and I did not. That is what it shows to me.

Holleman: Well, it sounds like that was a good investment you made.

Walker: He paid for a third of it. We had a deal with all of our children. They had to pay for a third. They had to borrow a third of their graduate education, they had to pay a third of it out of their money and I paid a third of it. It was a way to basically say to both of them if you want to go to graduate school do it because you really think it is worthwhile, not just because I will pay for it and you can put off the decision of going to work. Both of them will do the same with their children. They think that was a great idea, and very proud of the fact that they basically paid for their graduate education. Taylor got a master's degree too.

<u>Holleman:</u> Well, if I could paraphrase, it sounds like the advice you would have for people, and obviously they have been able to hear it throughout the discussion, is you have to know when it is time to pass that baton and be comfortable enough to do it. What other sort of paraphrase final sage advice would you have for people grappling with these issues?

<u>Walker:</u> I think your summary is good, but I would go back to my earlier premise, because we are talking about transitioning private businesses. There is no way anyone can perfectly align the interests of family members in a business. I have never heard of a perfect story. I have heard of a lot of stories that are a lot better than others, but most of the stories I have heard are all bad, where no child works at the business but one child is really interested in it and contributes a lot to the family dynamic of it and the others are just shoppers. The family gets all tied up in whether the company is going in a direction that pays maximum dividends or minimum dividends. There are 10,000 different ways in which everybody starts going in a different direction. As you probably know, the Cargill company has a long tradition of no direct family members in the management of the business. They have people who sit at the very top, president, family members, but they do not have various family members working up through each and every department.

They have a senior officer, senior vice president, for family affairs. His only job is to basically work with the many, many heirs of the Cargill family to align the interests as best they can and realize that it is a full-time job because they can never be fully aligned. So, it is like painting fences. The minute you finish painting it you have to start all over again. The person that you just got to get married with a prenuptial agreement just gets divorced and you have got to do the prenup over again. The child who just became an alcoholic and went to Hazelton and got sober has to go back, or whatever different dynamic there is -- the person who is really jealous and mad because they did not get the recognition they wanted for something that they contributed. So, be realistic about that. The number of family businesses that have made it for three or four generations are few and far between, and most of them are by accident. It is all because of the dynamics of all this, and the way it works. I am obviously very proud that this has worked for three generations, but I think it -- you know, I count my lucky stars.

<u>Holleman:</u> Well, we thank you for sharing your experience and your wisdom.

<u>Walker:</u> Yes. Thank you.

<u>Holleman:</u> We hope that this will help people make that generational jump.

<u>Walker:</u> Vernon, it was a great pleasure.

<u>Holleman:</u> Thank you.

(Whereupon, the interview was concluded.)

CERTIFICATE

I hereby certify that the foregoing is a true and accurate transcription, to the best of my skill and ability, from a digital recording.

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Jane W. Gilliam, Transcriber