Walker & Dunlop, Inc.
Form 10-Q
November 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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, including zip code, and telephone number, including

area code, of registrant s principal executive offices)

Not Applicable

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

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

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

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 x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

As of November 5, 2013 there were 34,878,568 total shares of common stock outstanding.

Walker & Dunlop, Inc.

Form 10-Q

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

September 30, 2013 and December 31, 2012

(In thousands, except share and per share data)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$ 60,968	$ 65,027
Restricted cash	7,035	7,130
Pledged securities, at fair value	45,449	33,481
Loans held for sale, at fair value	365,210	1,101,561
Loans held for investment	118,864	9,468
Servicing fees and other receivables, net	26,638	40,933
Derivative assets	13,357	21,258
Mortgage servicing rights	344,899	315,524
Goodwill	60,212	59,735
Intangible assets	1,828	4,644
Other assets	23,256	29,872
Total assets	$ 1,067,716	$ 1,688,633
Liabilities and Stockholders Equity		
Liabilities		
Accounts payable and other liabilities	$ 124,940	$ 122,798
Performance deposits from borrowers	7,995	9,503
Derivative liabilities	8,444	867
Guaranty obligation, net of accumulated amortization	22,762	21,155
Allowance for risk-sharing obligations	8,461	15,670
Warehouse notes payable	429,944	1,084,539
Notes payable	74,700	80,925
Total liabilities	$ 677,246	$ 1,335,457
Stockholders Equity		
Stockholders equity:		
Preferred shares, Authorized 50,000,000, none issued.	$	$
	339	336

Common stock, $0.01 par value. Authorized 200,000,000; issued and outstanding 33,905,552 shares in 2013 and 33,567,730 shares in 2012.				
Additional paid-in capital		243,790		236,823
Retained earnings		146,341		116,017
Total stockholders equity	$	390,470	$	353,176
Commitments and contingencies				
Total liabilities and stockholders equity	$	1,067,716	$	1,688,633

See accompanying notes to condensed consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Income

(In thousands, except share and per share data)

(Unaudited)

	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Revenues				
Gains from mortgage banking activities	$ 45,278	$ 53,400	$ 151,285	$ 107,136
Servicing fees	22,954	13,307	66,465	32,513
Net warehouse interest income	1,783	1,248	5,166	3,259
Escrow earnings and other interest income	1,037	708	2,895	1,772
Other	2,598	1,463	7,758	6,568
Total revenues	$ 73,650	$ 70,126	$ 233,569	$ 151,248
Expenses				
Personnel	$ 31,091	$ 32,173	$ 96,682	$ 61,177
Amortization and depreciation	19,441	9,629	54,425	23,596
Amortization of intangible assets	1,072	7,371	2,816	7,406
Provision for risk-sharing obligations	(155)	(848)	997	1,126
Interest expense on corporate debt	854	388	2,692	719
Other operating expenses	8,643	9,635	27,121	20,843
Total expenses	$ 60,946	$ 58,348	$ 184,733	$ 114,867
Income from operations	$ 12,704	$ 11,778	$ 48,836	$ 36,381
Income tax expense	4,649	4,680	18,512	14,152
Net income	$ 8,055	$ 7,098	$ 30,324	$ 22,229
Basic earnings per share	$ 0.24	$ 0.28	$ 0.90	$ 0.97
Diluted earnings per share	$ 0.23	$ 0.28	$ 0.88	$ 0.96
Basic weighted average shares outstanding	33,859,453	25,091,153	33,710,837	22,881,795
Diluted weighted average shares outstanding	34,382,975	25,443,601	34,315,514	23,101,832

See accompanying notes to condensed consolidated financial statements.

Walker & Dunlop, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 30,324	$ 22,229
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gains attributable to fair value of future servicing rights, net of guaranty obligation	(70,616)	(52,091)
Gains attributable to fair value of premium and origination fees	11,535	(10,000)
Provision for risk-sharing obligations	997	1,126
Amortization and depreciation	57,241	31,002
Originations of loans held for sale	(4,342,343)	(2,594,190)
Sales of loans to third parties	5,072,536	1,691,226
Amortization of deferred loan fees and costs	(67)	(58)
Origination fees received from loans held for investment	591	
Stock compensation	6,846	3,384
Tax (benefit) expense from vesting of equity awards	(1,253)	7
Cash paid to settle risk-sharing obligations	(4,935)	(2,030)
Cash allowance received from landlord		1,301
Cash received from sale of assets acquired		2,244
Changes in:		
Restricted cash and pledged securities	(11,873)	(3,291)
Servicing fees and other receivables	11,109	498
Derivative fair value adjustments		299
Other assets	9,394	(5,545)
Accounts payable and other liabilities	(16,927)	9,850
Performance deposits from borrowers	(1,508)	1,763
Net cash provided by (used in) operating activities	$ 751,051	$ (902,276)
Cash flows from investing activities:		
Capital expenditures	$ (4,339)	$ (4,668)
Acquisition of CWCapital LLC, net of cash acquired and other assets		(208,109)
Originations of loans held for investment	(131,620)	(16,368)
Principal collected on loans held for investment	21,700	
Net cash used in investing activities	$ (114,259)	$ (229,145)
Cash flows from financing activities:		

(Repayments) borrowings of short-term warehouse notes payable, net	$	(729,964)	$	939,295
Borrowings of interim warehouse notes payable		92,281		12,375
Repayments of interim warehouse notes payable		(16,912)		
Borrowings of notes payable				83,000
Repayments of notes payable		(6,225)		(23,869)
Secured borrowings		19,845		
Debt issuance costs				(1,108)
Proceeds from issuance of common stock		1,189		150,698
Repurchase of common stock		(2,318)		(167)
Tax benefit (expense) from vesting of equity awards		1,253		(7)
Net cash (used in) provided by financing activities	$	(640,851)	$	1,160,217
Net (decrease) increase in cash and cash equivalents	$	(4,059)	$	28,796
Cash and cash equivalents at beginning of period		65,027		53,817
Cash and cash equivalents at end of period	$	60,968	$	82,613

Supplemental Disclosure of Cash Flow Information:				
Cash paid to third parties for interest	$	11,317	$	4,296
Cash paid for taxes	$	647	$	8,256

See accompanying notes to condensed consolidated financial statements.

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 accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Because the accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP, they should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012 (2012 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 nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, or thereafter.

Walker & Dunlop is one of the leading commercial real estate finance companies in the United States, with a primary focus on multifamily lending. The Company originates, sells and services a range of multifamily and other commercial real estate financing products. The Company s clients are owners and developers of commercial real estate across the country. The Company originates and sells loans pursuant to the programs of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac, and together with Fannie Mae, the government-sponsored enterprises, or the GSEs), the Government National Mortgage Association (Ginnie Mae) and the Federal Housing Administration, a division of the U.S. Department of Housing and Urban Development (together with Ginnie Mae, HUD), with which Walker & Dunlop has long-established relationships. The Company retains servicing rights and asset management responsibilities on nearly all loans that it sells to the GSEs and HUD. Walker & Dunlop is approved as a Fannie Mae Delegated Underwriting and Servicing (DUS[SM]) lender nationally, a Freddie Mac Program Plus lender in 22 states and the District of Columbia, a HUD Multifamily Accelerated Processing (MAP) lender nationally, a HUD Section 232 LEAN lender nationally, and a Ginnie Mae issuer. The Company also brokers and services loans for a number of life insurance companies and other institutional investors, in which cases it does not fund the loan but rather acts as a loan broker. Additionally, through our subsidiary entities, we provide institutional advisory, asset management, and investment management services specializing in debt, structured debt, and equity financing for commercial real estate.

The Company has an interim loan program offering floating-rate loans with original principal balances of generally up to $30.0 million, for terms of up to two years, to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing (the Program). The Company underwrites all loans originated through the Program using similar underwriting standards used to underwrite loans it originates and sells. During the time they are outstanding, the Company assumes the full risk of loss on the loans. In addition, the Company services and asset-manages loans originated through the Program, with the ultimate goal of providing permanent financing on the properties. These loans are classified as held for investment on the Company s balance sheet during such time that they are outstanding. $109.9 million of the loans outstanding as of September 30, 2013 were originated in 2013, and all of the loans outstanding as of September 30, 2013 were originated within the past 18 months. As of September 30, 2013, none of the loans under the Program is delinquent. Additionally, we have not incurred a loss on any loans originated under the Program.

On September 4, 2012, the Company closed its acquisition of CWCapital, LLC (CWCapital), at which time the total consideration transferred was valued at approximately $231.1 million, consisting of $80.0 million in cash and the Company s issuance in a private placement to CW Financial Services, LLC (CW Financial) of approximately 11.6 million shares of common stock valued at approximately $151.1 million (the Acquisition). Upon closing of the

Acquisition, CWCapital became an indirect wholly owned subsidiary of the Company and was renamed Walker & Dunlop Capital, LLC. By virtue of the Company s ownership of CWCapital, the Company also acquired a 50% ownership in ARA Finance LLC, a joint venture with ARA Finco LLC, one of the largest investment sales brokers in the United States, in which ARA Finco LLC owns the remaining 50% of ARA Finance LLC. The Company does not have the ability to direct the activities of ARA Finance LLC; therefore, the Company accounts for its investment in ARA Finance LLC under the equity method of accounting.

The results of operations for the three and nine months ended September 30, 2013 reflect the impact of the Acquisition, which materially affects the comparability to the prior year.

During the third quarter of 2013, the Company launched a large loan bridge program (the Bridge Program). Similar to the Program, the Bridge Program offers floating-rate loans to experienced borrowers seeking to acquire or reposition multifamily properties that do not currently qualify for permanent financing but are good candidates for future permanent financing. The Bridge Program is offered for loans of $30.0 million or more and for terms of up to three years. As of September 30, 2013, there have been no loans originated under the Bridge Program.

The Bridge Program was established through a partnership with third-party investors. The loans in the Bridge Program are approved for funding by unanimous consent of the limited partners, funded by the partnership, and underwritten by the Company pursuant to service agreements. The Company accounts for its five-percent ownership interest as an equity-method investment. The operations of the Bridge Program were immaterial for the three and nine months ended September 30, 2013.

In the third quarter of 2013, the Company transferred a participating interest in a financial asset to a third party. The Company accounted for the transfer as a secured borrowing. The entire financial asset is presented as loans held for investment, and the secured borrowing of $19.8 million is included within the Accounts payable and other liabilities line item in the Condensed Consolidated Balance Sheets.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The condensed consolidated financial statements include the accounts of the Company and all of its consolidated entities. All material intercompany transactions have been eliminated. The Company has evaluated all subsequent events.

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

Comprehensive Income For the three and nine months ended September 30, 2013 and 2012, 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 Loans held for investment are interim loans originated by the Company through the Program. The loans are carried at their unpaid principal balances adjusted for net unamortized loan fees and costs, and net of any allowance for loan losses. Interest income is accrued based on the actual coupon rate and is recognized as revenue when earned and deemed collectible.

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

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

The Company monitors the financial condition of the borrower and the financial trends of the underlying property for each of its loans held for investment to assess the credit quality of the loan. None of the loans held for investment was delinquent as of September 30, 2013 or December 31, 2012. Additionally, we have not experienced any losses or delinquencies of 15 days or more related to these loans since the inception of the Program. No allowance for loan losses related to these loans was recorded as of September 30, 2013 or December 31, 2012.

Net Warehouse Interest Income The Company presents warehouse interest income net of warehouse interest expense. Warehouse interest income is the interest earned from loans that are held for sale and those held for investment. Substantially all loans that are held for sale are financed with matched borrowings under our warehouse facilities incurred to fund a specific loan held for sale. Additionally, a substantial portion of loans held for investment is match funded. 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 nine months ended September 30, 2013 and 2012 are the following components (in thousands):

	For the three months ended September 30,				For the nine months ended September 30,			
	2013		2012		2013		2012	
Warehouse interest income	$	4,877	$	4,169	$	15,083	$	9,722
Warehouse interest expense		(3,094)		(2,921)		(9,917)		(6,463)
Net warehouse interest income	$	1,783	$	1,248	$	5,166	$	3,259

Recently Issued Accounting Pronouncements There were no accounting pronouncements issued during the third quarter of 2013 that have the potential to impact the Company. All other recently issued accounting pronouncements and their expected impact to the Company have been disclosed previously.

There have been no material changes to the accounting policies discussed in Note 2 of the Company s 2012 Form 10-K.

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

NOTE 3 ACQUISITION OF CWCAPITAL LLC

On September 4, 2012 (the Acquisition Date), the Company closed its acquisition of CWCapital, at which time the total consideration transferred was valued at approximately $231.1 million, consisting of $80.0 million in cash and the Company s issuance in a private placement to CW Financial of approximately 11.6 million shares of common stock valued at approximately $151.1 million. Upon closing of the Acquisition, CWCapital became an indirect wholly owned subsidiary of the Company and was renamed Walker & Dunlop Capital, LLC.

The Company recorded the fair value of the assets acquired and liabilities assumed as of the Acquisition Date. The Company also included CWCapital s results of operations and cash flows in its financial statements from the Acquisition Date forward.

The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the Acquisition Date, with the remaining unallocated amount recognized as goodwill.

The recognized goodwill of $60.2 million, all of which is tax deductible over 15 years, is attributed to the value of the assembled workforce, the broader scale of operations of the combined company s national platform, and the long-term expected synergies associated with the combination.

NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS

The following summarizes the changes in the carrying amount of the Company s goodwill for the nine months ended September 30, 2013 (in thousands):

	For the nine months ended, September 30, 2013	
Beginning balance	$	59,735
Goodwill related to the Acquisition		
Retrospective adjustments		477
Impairment		
Ending balance	$	60,212

The Company provisionally allocated the purchase price to the assets acquired, separately identifiable intangible assets, and liabilities assumed related to the Acquisition based on their estimated Acquisition Date fair values. A change to the provisional amounts recorded for assets acquired, identifiable intangible assets, and liabilities assumed during the measurement period affects the amount of the purchase price allocated to goodwill. Such changes to the purchase price allocation during the measurement period are recorded as retrospective adjustments to the consolidated financial statements. During the nine months ended September 30, 2013, the Company identified immaterial adjustments to certain of the provisional amounts recorded as shown in the table above. The adjustments were recorded based on information obtained subsequent to the Acquisition Date that related to information that existed as of the Acquisition Date. The Company recorded no retrospective adjustments or impairment during the three months ended September 30, 2013.

The Company completed the accounting for the Acquisition as the Company obtained all of the information it was seeking about facts and circumstances that existed as of the Acquisition Date.

The following summarizes the Company s other intangible assets, including those related to the Acquisition (in thousands):

	As of September 30, 2013			As of December 31, 2012		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Mortgage pipeline intangible asset	$ 18,700	$ (17,945)	$ 755	$ 18,700	$ (15,182)	$ 3,518
Acquired mortgage servicing rights	124,629	(28,716)	95,913	124,629	(8,503)	116,126
Originated mortgage servicing rights	344,556	(95,570)	248,986	277,328	(77,930)	199,398
Total	$ 487,885	$ (142,231)	$ 345,654	$ 420,657	$ (101,615)	$ 319,042

The Company expects to amortize the remaining net carrying value of the mortgage pipeline intangible asset within the next nine months. However, the timing of the actual amortization may vary from this estimate. The expected amortization of Mortgage Servicing Rights (MSRs), which includes the MSRs acquired from CWCapital shown above, is disclosed in Note 6.

NOTE 5 GAINS FROM MORTGAGE BANKING ACTIVITIES

The gains from mortgage banking activities consisted of the following activity for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Contractual loan origination related fees, net	$ 23,816	$ 27,674	$ 80,669	$ 55,045
Fair value of expected future cash flows from servicing recognized at commitment	22,671	27,237	74,488	55,404
Fair value of expected guaranty obligation	(1,209)	(1,511)	(3,872)	(3,313)

Total gains from mortgage banking activities	$ 45,278	$ 53,400	$ 151,285	$ 107,136

The origination fees shown in the table above are net of co-broker fees of $4.9 million and $5.2 million for the three months ended September 30, 2013 and 2012, respectively, and $16.8 million and $13.6 million for the nine months ended September 30, 2013 and 2012, respectively.

NOTE 6 MORTGAGE SERVICING RIGHTS

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

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

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

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

The fair value of the MSRs was $400.0 million and $350.5 million at September 30, 2013 and December 31, 2012, respectively. The Company uses a discounted static cash flow valuation approach and the key economic assumption is the discount rate. For example, see the following sensitivities:

The impact of a 100 basis point increase in the discount rate at September 30, 2013, is a decrease in the fair value of $13.2 million.

The impact of a 200 basis point increase in the discount rate at September 30, 2013, is a decrease in the fair value of $25.4 million.

Activity related to capitalized MSRs for the three and nine months ended September 30, 2013 and 2012 was as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Beginning balance	$ 341,770	$ 149,533	$ 315,524	$ 137,079
Additions, following the sale of loan	22,991	24,585	85,286	51,449
Additions, CWCapital acquisition		130,543		130,543
Amortization	(16,201)	(9,228)	(47,144)	(22,279)
Pre-payments and write-offs	(3,661)	(729)	(8,767)	(2,088)
Ending balance	$ 344,899	$ 294,704	$ 344,899	$ 294,704

The expected amortization of MSR balances recorded as of September 30, 2013 is shown in the table below (in thousands). Actual amortization may vary from these estimates.

Three Months Ending December 31,	Originated MSRs Amortization	Acquired MSRs Amortization	Total MSRs Amortization
2013	$ 11,266	$ 4,872	$ 16,138
Year Ending December 31,			
2014	42,958	18,726	61,684
2015	37,721	17,316	55,037
2016	34,556	16,026	50,582
2017	31,443	14,117	45,560
2018	27,122	10,226	37,348
Thereafter	63,920	14,630	78,550
Total	$ 248,986	$ 95,913	$ 344,899

NOTE 7 GUARANTY OBLIGATION AND ALLOWANCE FOR RISK-SHARING OBLIGATIONS

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

A summary of our guaranty obligation for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Beginning balance	$ 22,735	$ 10,746	$ 21,155	$ 9,921
Guaranty obligation recognized, following the sale of loan	1,010	1,778	4,436	3,565
Guaranty obligation recognized, CWCapital acquisition		8,254		8,254
Amortization of guaranty obligation	(983)	(664)	(2,829)	(1,626)
Ending balance	$ 22,762	$ 20,114	$ 22,762	$ 20,114

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 additional liability for the estimated allowance for risk-sharing through a charge to the provision for risk-sharing obligations in the income statement, along with a write-off of the loan-specific MSR. The amount of the provision reflects our assessment of the likelihood of payment by the borrower, the estimated disposition value of the underlying collateral and the level of risk-sharing. Historically, the loss recognition occurs at or before the loan becoming 60 days delinquent.

A summary of our allowance for risk-sharing obligations for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Beginning balance	$ 12,322	$ 13,629	$ 15,670	$ 14,917
Provision for risk sharing obligations	(155)	(848)	997	1,126
Allowance for risk-sharing obligations, CWCapital acquisition				