August 9, 2021

Sandra Thompson
Acting Director
Federal Housing Finance Agency
Tenth Floor
400 Seventh Street, SW
Washington, DC 20219

Subject: Response to Request for Information on Executive Compensation at the Regulated Entities

Dear Ms. Thompson:

In June 2021, FHFA requested information on executive compensation at the regulated entities, Fannie Mae and Freddie Mac ("the Enterprises"). As one of the Enterprises top lending partners, Walker & Dunlop, Inc. welcomes the opportunity to respond to FHFA's request regarding executive compensation. For the purposes of this response, "compensation" is all remuneration received by the executives, including base salary, incentive compensation, health and welfare payments, perquisites, and retirement compensation.

About Walker & Dunlop
Walker & Dunlop (NYSE: WD) is the largest provider of capital to the multifamily industry in the United States and the fourth largest lender on all commercial real estate including industrial, office, retail, and hospitality. Walker & Dunlop is the top provider of capital to the U.S. multifamily market, originating $31 billion in transactions and financing over $24 billion of multifamily properties in 2020. Walker & Dunlop is also a top-ranked Agency lender and was named the (#) 1 Fannie Mae DUS(R) Lender and (#) 4 Freddie Mac Optigo(R) Lender in 2020.

Walker & Dunlop enables real estate owners and operators to bring their visions of communities -- where Americans live, work, shop and play -- to life. The power of our people, premier brand, and industry-leading technology make us more insightful and valuable to our clients, providing an unmatched experience every step of the way. With over 1,000 employees across every major U.S. market, Walker & Dunlop has consistently been named one of Fortune's Great Places to Work(R) and is committed to making the commercial real estate industry more inclusive and diverse while creating meaningful social, environmental, and economic change in our communities.

Most of the comments in this letter are based off Walker & Dunlop's pay practices, which have driven phenomenal performance in the capital markets and maintained the very best credit discipline in the industry.

RFI Response

I. Compensation Philosophy

As two of the largest US financial institutions, the Enterprises compensation programs should be designed to attract, align and retain high caliber executives capable of managing their unique business models in response to America's housing finance needs, including an affordable housing crisis, while maintaining stellar credit quality. Not only are the Enterprises responsible for financing American communities but they are also responsible for protecting American taxpayers from mortgage losses that could add up to trillions of dollars. Such a mandate requires that the Enterprises be led by top tier talent. Additionally, the Enterprises are hybrid organizations, and as such, must maintain the flexibility to either be spun back out of the government as private enterprises, or made part of the government. But, until that path is determined, they must maintain the necessary human capital to support the housing market and protect taxpayers from any future liabilities/losses. In recent years, a high volume of talented human capital has flowed from the Enterprises to the private sector, making retention a pressing priority for both Enterprises.

As such, the executive compensation programs of the Enterprises warrant updates to better serve the short-term and long-term interests of the Enterprises, their mission, their key stakeholders, including US taxpayers, and FHFA. The primary objectives of their executive compensation programs ("Pay Objectives") should:

- align with key stakeholders' interests and drive long-term value creation;
- support their business strategies and objectives, including operational, financial, and ESG priorities;
- pay for performance;
- be market competitive (i.e., median pay or better);
- maintain effective governance and risk oversight; and
- encourage short- and long-term retention.

Current Enterprise pay practices limit the pay opportunity and alignment for Enterprise executives. More leverage should exist in the current at-risk deferred salary, both in terms of pay opportunity and structure. The program could be re-structured into both short- and long-term incentives that are tied to both time (notably longer than the current 1-2 years) and performance. A proposed summary of Executive compensation structure for consideration follows, where "TDC" means "Total Direct Compensation":

Compensation Element	Objectives	Notes
Base Salary (50% of TDC)	• Provide a stable annual income at a level consistent with individual contributions.	
Annual Cash Incentive Award (20% of TDC)	• Reward Enterprise and individual performance. • Align executives' interests with those of our key stakeholders by promoting the achievement of targeted annual results (primarily financial). • Retain executives by providing competitive compensation opportunity.	
Long-Term Annual Cash Incentive Award (Time Based) (15% of TDC)	• Retain executives through multi-year vesting and provide market-competitive compensation.	• Suggested to vest ratably over three years. • Could be converted to restricted stock or non-qualified stock options when Enterprises exit conservatorship.
Long-Term Annual Cash Incentive Award (Time and Performance Based) (15% of TDC)	• In addition to long-term cash incentive time-based awards, performance-based awards directly link long-term compensation earned by the executives to performance of certain key financial metrics and long-term creation of value.	• Suggested to cliff vest after three-year performance period. • Could be converted to performance stock when Enterprises exit conservatorship.

II. Peer Group Benchmark

The Enterprises do not have direct peers. The most appropriate financial institution comparators should be determined based on an assessment of industry relevance; business operations; comparability of size in terms of total revenue, market capitalization, assets under management, and number of employees; business competitors; and input from management. Top lending partners could serve as a foundation of a future peer set.

Comparative market data should not be used to "benchmark" the amount of total compensation or any specific element of compensation for the executives. Instead, the information should inform the total pay opportunities to executives based on consideration of a number of factors, including pay levels for executives in similar positions, the nature and scope of each executive's duties (e.g., scope of budgetary responsibilities, number of employees supervised, extent of travel), individual performance, and internal pay positioning, taking into account each executive's pay components and levels relative to other executives internally and externally.

Significant attention should also be given to evaluating internal pay equity in pay opportunity, structure, and achievement across executives.

If the Enterprises intend to make executive compensation best in class and comparable to similarly situated executives in the financial services industry (where the Enterprises compete for talent), then the conservatorship status should be of minimal or no impact. FHFA should balance the return objectives and shareholder demands with the executive's performance against set goals and objectives while in conservatorship.

III. Mix of Total Direct Compensation

TDC pay should be structured to emphasize variable performance-based pay.

- Timing: 50% of TDC should be current through base salary and 50% of TDC should be deferred over one to three years through deferred and performance-based cash incentives.
- At Risk: 50% of TDC should be fixed through base salary and 50% should be based on time and/or company and individual performance over the short-term (1-year period) and long-term (3-years, up to five-year period).

Recognizing CEO pay has been statutorily limited for some time, such pay opportunity and composition warrants further benchmarking and reconsideration. Such a cap limits the impact that the aforementioned Pay Objectives can have on attraction, performance, and retention of elite CEO talent. Regardless of whether changes are made to the CEO limit and structure, CEO pay should not impact the TDC opportunity and structure of Enterprise CEO direct report compensation; rather, their pay should be benchmarked and paid consistent with market to attract, align, incentivize, and retain the best talent needed to run the Enterprises.

IV. Pay for Performance

Corporate performance should be evaluated through the lens of FHFA established goals (on an annual basis), Enterprise established goals with respect to financial and credit performance (on both an annual and long-term basis), and the executive's performance against his or her goals and objectives (on an

annual basis). Such goals should include mission-oriented objectives inclusive of Affordable Housing, Green Lending, and Diversity, Equity, and Inclusion ("DEI"), and goals should be directly tied to compensation in the form of short-term and/or long-term deferred incentive compensation. Consideration should be given to assure no conflicts exist in goal setting that would undermine alignment between the executive and corporate objectives.

For example, the make-up of annual incentive cash deferral could be structured as follows:

1. 50% to Conservatorship Scorecard
2. 25% to Enterprise Goals
3. 25% to Executives Goals

For example, the make-up of a three-year performance incentive cash deferral could be structured as follows:

1. 100% to Enterprise Goals

Once an updated compensation program is established, and short-term and long-term objectives are set, the Enterprise should be wholly responsible for determining achievement of performance based on pre-determined goals. Such performance should then be disclosed to FHFA, similar to a public company reporting its compensation decisions to its shareholders through its Proxy's annual Compensation Discussion and Analysis.

V. Diversity, Equity & Inclusion ("DEI")

Incentive compensation should be tied significantly to drive change and make an impact with respect to diversity, equity, and inclusion at all levels of the Enterprises, not just the Executive level (e.g., 10% valuation in total goal framework). Diversity, equity, and inclusion objectives should be included both in the executive's annual scorecard and long-term performance goals, so that evaluation of progress in both areas is viewed by key stakeholders as equivalent to other financial and operational metrics.

VI. Clawback

Recoupment and clawback policies should apply to any of the executives' incentive-based compensation. Such policies should include the right to forfeit and recover incentive-based compensation awarded or received during a look back period (for example, the five (5) year period preceding the date on which it is discovered that fraudulent behavior, willful misconduct, or gross negligence has occurred that results in an impairment of the business of FHFA or the Enterprise in any material respect). Additionally, If an Enterprise is required to prepare an accounting restatement, then compensation tied to that restatement should be subject to mandatory forfeiture if the amount earned or vesting of the award is explicitly based on the achievement of pre-established performance goals that are later determined, as a result of the accounting restatement, not to have been achieved. Finally, the Enterprises should have the right to recover awards made to executives in case of a financial restatement either with the executive's knowledge or due to the executive's gross negligence or failure to prevent misconduct.

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Of note: In the event an executive leaves the Enterprise, the executive should not be responsible for repayment or clawback of any compensation fully earned by him or her during his or her service period, provided relevant time vesting and performance vesting criteria were met prior to departure.

VII. Employment Agreements

While the RFI did not directly query employment agreements, we recommend that the FHFA and the Enterprises evaluate market employment terms beyond compensation and include those in their employment agreements. Consideration should be given to requiring that executives be held to a garden leave when exiting the Enterprises for the private sector, a common practice in both the government and private sector.

VIII. Equity

As the Enterprises exit conservatorship, the introduction of equity would best align the executives with the long-term success and value creation of the Enterprises and could replace the time-based components outlined above. A meaningful one-time grant of equity should be made to the executives at the time of exiting conservatorship to promote further alignment of interest with shareholders. Executives should subsequently be subject to stock ownership guidelines in which they are required to own shares with a value of some multiple of (e.g., three to five times) their guaranteed base salary.

As generally described in these responses, it is W&D's strong belief that the Enterprises should update their compensation practices to meet the aforementioned Pay Objectives in the near term and maintain an at-risk, variable incentive structure that pays for performance post-conservatorship.

Respectfully submitted,
WALKER & DUNLOP, INC.

William M. Walker
Chairman and Chief Executive Officer