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Velocity Financial, Inc. Announces Fourth Quarter and Full Year 2019 Results

Apr 08 2020

Fourth Quarter Highlights:

- Record total production of $321 million in UPB
- Net interest income of $17.1 million
- Net income of $5.2 million and pro forma diluted earnings per share of $0.44(1)
- Net operating income of $12.2 million(2)
- Total loan portfolio of $2.1 billion(3)
- Completed third securitization of 2019 for $154 million

Full-year Highlights:

- Record total production of $1.01 billion in UPB
- Net interest income of $57.9 million
- Net income of $17.3 million
- Completed three securitizations totaling $597 million

WESTLAKE VILLAGE, Calif.--(BUSINESS WIRE)--Velocity Financial, Inc. (NYSE:VEL) ("Velocity") reported net interest income of $17.1 million, an increase of 40 percent from the fourth quarter of 2018. Net income for the fourth quarter of 2019 was $5.2 million, or $0.44 per diluted share on a pro forma basis[1], an increase of 167 percent from the fourth quarter of the prior year. Net operating income was $12.2 million, an 81 percent increase from the fourth quarter of 2018 and pro forma book value at December 31, 2019 was $13.01 per share.

President and CEO, Chris Farrar commented, "We are very pleased with the company's performance in the fourth quarter and for the full year 2019, with results largely at the mid-points of the ranges we provided in our IPO prospectus filed on January 17th."

Mr. Farrar continued, "Over the past two weeks, the Capital Markets have become increasingly volatile. In particular, prices for mortgage assets across the industry have been adversely impacted by the expected economic ramifications stemming from the COVID-19 pandemic. To proactively address these unprecedented events, we have entered into an agreement with our original sponsors, Snow Phipps and PIMCO to issue $45 million of convertible preferred stock and warrants. We have also temporarily suspended our loan origination operations until the current market volatility subsides, and entered into an agreement with our warehouse repurchase lending partners to provide a more flexible and stable financing solution for our recently originated whole loans. Together, these measures have significantly enhanced the strength of the company's balance sheet and liquidity profile. Furthermore, it is our expectation that delinquencies in our loan portfolio will increase and we are implementing strategies to address this challenge, including redeployment of production staff to our internal Special Servicing department, enhanced portfolio monitoring and expanded borrower outreach. While it is still too early to predict how loan performance will be impacted, we expect that our large in-place loan portfolio will continue to generate significant cash flow and earnings for Velocity."

Fourth Quarter Operating Results

LOAN PRODUCTION VOLUMES

($ in millions)	4Q 2019	Q4 2018	$ Variance	% Variance

Investor 1-4 Perm.	$ 95	$ 69	$ 26	37 %
Traditional Perm.	103	82	22	27 %
Short-term loans	123	61	63	103 %
Total loan production	**$ 321**	**$ 211**	**$ 110**	**52 %**
Broker relationships	3,256	2,530	726	29 %

Discussion of results:

We experienced strong demand for financing from property investors during the quarter, supported by strong rental markets and continued real estate price appreciation for both commercial and residential real estate

Loan origination volume in the fourth quarter of 2019 totaled $321 million, a 52 percent increase from $211 million in the fourth quarter of 2018

Loan origination volume growth was primarily driven by a 103 percent year-over-year growth in short-term loans. These loans typically serve as an interim solution for borrowers and/or properties that do not meet the investment criteria of our primary 30-year product

Investor 1-4 Permanent loans provide a long-term debt financing solution for investors in residential rental properties. Fourth quarter origination volumes rose 37 percent from the fourth quarter of 2018

Traditional Permanent loans are secured by traditional commercial and multi-family real estate. Fourth quarter origination volumes rose 27 percent from the fourth quarter of 2018

Broker relationships reached 3,256 at December 31, 2019, up from 2,530 at December 31, 2018

TOTAL LOAN PORTFOLIO

($ in millions)	**4Q 2019**	**Q4 2018**	**$ Variance**	**% Varianc**
Held for Investment				
Investor 1-4 Perm	$ 859	$ 732	$ 128	17 (
Mixed Use	251	203	48	24 (
Multi-Family	198	179	19	11 (
Retail	180	151	29	19 (
All Other	355	288	67	23 (

Total	$	1,843		$	1,552		$	291	19	%
Held for Sale										
Short-term loans	$	216		$	79		$	137	172	%
Total Managed Loan Portfolio	**$**	**2,059**		**$**	**1,631**		**$**	**428**	**26**	%
Key loan portfolio metrics:										
Total loan count		6,373			5,171					
Weighted average loan to value		66	%		63	%				
Weighted average total portfolio yield		8.89	%		8.62	%				
Weighted average total debt cost		5.44	%		5.68	%				

Discussion of results:

Our total loan portfolio continued its steady growth during 2019, driven by strong loan production growth sourced through our nationwide production platform

Loans held for investment totaled $1.84 billion at December 31, 2019, a 19 percent year-over-year increase. Loans held for investment have grown at a 36 percent compounded annual growth rate over the last five years

Loans held for sale totaled $216 million, a 172 percent increase from the same period a year ago

During the fourth quarter, net loan additions to the portfolio totaled $131 million in UPB. For the full year 2019, net loan additions were $428 million in UPB.

We introduced a 30-year fixed rate loan product in the second quarter that has been met with strong borrower demand and comprised 17 percent of our held for investment portfolio at December 31, 2019. As production increases, we expect that this product will gradually increase the duration of our portfolio.

We have maintained our underwriting discipline as the portfolio has grown. The weighted average loan-to-value ratio of the total portfolio was 66 percent at December 31, 2019, compared to 63 percent at December 31, 2018.

The weighted average total portfolio yield increased to 8.89 percent in the fourth quarter, an increase of 27 basis point from the fourth quarter of 2018, primarily driven by the growth in short-terms loans, which carry a higher coupon than our 30-year product.

The decrease in the weighted average debt cost resulted from the ongoing pay-down of our older, higher cost sequential structure securitizations and the addition of lower cost pro-rata structure securitizations

REVENUES

($ in millions)	4Q 2019	Q4 2018	$ Variance	% Variance
Interest income	$ 44,124	$ 33,560	$ 10,565	31 %
Interest expense - portfolio related	(22,690)	(17,807)	(4,883)	27 %
Interest expense - corporate debt	(4,069)	(3,337)	(733)	22 %
Provision for loan losses	(242)	(221)	(21)	9 %
Net Interest Income	**$ 17,123**	**$ 12,195**	**$ 4,928**	**40 %**
Gain on loan sales	1,496	27	1,469	22 %
Other Operating (loss) income	(665)	63	(728)	(1158)%
Total Revenues	**$ 17,955**	**$ 12,285**	**$ 5,670**	**46 %**

Discussion of results:

The increase in interest income in the fourth quarter was the result of portfolio growth from strong organic loan production volumes and a higher weighted average coupon

The increase in portfolio-related interest expense resulted from the addition of three securitizations in 2019 to finance our portfolio growth, partially offset by improved financing costs

The provision for loan losses increased modestly, reflecting the continued strong credit performance of the held for investment loan portfolio

During the quarter we completed sales of short-terms loans totaling $41 million in UPB and $190 million in UPB for the full year 2019

Other operating loss in the fourth quarter of 2019 was mainly driven by fair value losses on our interest-only securities received as proceeds from our loan sales, which was largely offset by the interest income earned on these securities

EXPENSES

($ in millions)	4Q 2019	Q4 2018	$ Variance	% Variance
Compensation and employee benefits	$ 3,992	$ 3,827	$ 165	4 %

Rent and occupancy	426	336	90	27 %
Loan servicing	1,939	1,818	121	7 %
Professional fees	468	1,235	(767)	(62)%
Real estate owned, net	1,300	285	1,016	357 %
Other expenses	1,680	1,370	310	23 %
Total expenses	**$ 9,806**	**$ 8,870**	**$ 935**	**11 %**

Discussion of results:

The modest growth in compensation and employee benefits prudent expense management and realization of technology-driven efficiencies

Rent and occupancy increases were driven by the addition of an additional sales office in Austin, Texas and the expansion of our Westlake Village, California headquarters

Growth in expenses related to Real Estate Owned resolutions during the quarter were primarily driven by growth in the portfolio to 24 properties at December 31, 2019, up from 12 properties at December 31, 2018

The primary drivers of other expenses include office equipment, data processing, and marketing

SECURITIZATIONS

Trusts	Securities Issued	Balance at 12/31/2019	W.A. Rate	Trusts	Securities Issued	Balance a 12/31/2018
2011-1 Trust	$ 61,042	$ -	-	2011-1 Trust	$ 61,042	$ 3,59
2014-1 Trust	161,076	31,139	8.33 %	2014-1 Trust	161,076	36,75
2015-1 Trust	285,457	50,631	6.37 %	2015-1 Trust	285,457	91,24
2016-1 Trust	319,809	86,901	6.75 %	2016-1 Trust	319,809	164,7
2016-2 Trust	166,853	63,983	5.59 %	2016-2 Trust	166,853	114,14

2017-1 Trust	211,910	113,540	4.56	%	2017-1 Trust	211,910	147,32
2017-2 Trust	245,601	163,295	3.50	%	2017-2 Trust	245,601	205,38
2018-1 Trust	176,816	134,700	3.95	%	2018-1 Trust	176,816	159,11
2018-2 Trust	307,988	247,580	4.44	%	2018-2 Trust	307,988	298,5
2019-1 Trust	235,580	214,709	4.00	%	-	-	-
2019-2 Trust	207,020	200,345	3.44	%	-	-	-
2019-3 Trust	154,419	150,725	3.27	%	-	-	-
	$ 2,533,571	**$ 1,457,547**				**$ 1,936,552**	**$ 1,220,8**

Discussion of results:

During the fourth quarter, we issued our third securitization of the year (VCC 2019-3), and our twelfth securitization overall, for $154.4 million and a weighted average rate of 3.27 percent.

We have developed a strong track record with ABS investors as a consistent issuer with strong collateral performance

CREDIT PERFORMANCE INDICATORS

($ in thousands)	**4Q 2019**	**Q4 2018**	**$ Variance**	**% Variance**
Nonperforming loans	$ 141,607	$ 95,259	$ 46,348	49 %
Nonperforming loans as a % total	6.88 %	5.84 %	1.04 %	18 %
Total Charge Offs	$ 113	$ 60	$ 53	89 %
Charge-offs as a % of average HFI loans	0.006 %	0.004 %	0.002 %	59 %

Discussion of results:

Nonperforming loans as a percentage of total loans (including short-term held for sale loans) was 6.88%. Our in-house special servicing operations assumes the servicing responsibilities for Velocity's nonperforming loans and has a successful track record avoiding foreclosure in 93 percent of loan resolutions since 2013.

Charge-offs as a percentage of average HFI loans was 6 basis points at quarter end, a modest increase of two basis points from December 31, 2018, driven by seasoning of our held for investment portfolio

KEY PERFORMANCE INDICATORS

($ in thousands)	4Q 2019	Q4 2018	$ Variance	% Variance
Pretax income	$ 8,142	$ 3,414	$ 4,727	138 %
Net income	5,182	1,939	3,243	167 %
Net operating income	12,211	6,751	5,460	81 %
Diluted EPS[(1)]	$ 0.44	$ 0.17	$ 0.27	159 %
Operating margin	68 %	55 %	-	24 %
Pretax return on equity	22 %	10 %	-	116 %
Net interest margin	4.3 %	4.0 %	-	7 %
Average equity	$ 150,388	$ 136,340	$ 14,048	10 %

[(1)] Pro forma for post IPO equivalent shares purchased by existing stockholders at 12/31/2019.

Discussion of results:

Growth in net income was driven by loan portfolio growth and improved funding costs

Pro forma diluted EPS[(1)] was $0.44 per share compared to $0.17 per share in the fourth quarter of 2018

Net operating income in the fourth quarter of 2019 was $12.2 million, an increase of 81 percent from the fourth quarter of 2018. The company's operating margin in the fourth quarter was 68 percent compared to 55 percent in the prior quarter. The improvement in these metrics reflects the continued realization of scale efficiencies as the company grows.

The increase in net interest margin reflects structural improvements in portfolio-related financing costs as older, higher-cost securitizations continue to pay down and replaced by new, lower-cost securitizations

The growth in average equity was driven by retained earnings from Velocity's strong profitability in 2019

Full Year 2019 Operating Results

Total loan production for the year ended December 31, 2019 was $1.01 billion, a 37 percent increase from 2018.

Total net interest income for the year ended December 31, 2019 was $60.5 million, an 18 percent increase from $51.4 million in the prior year. The increase in net interest income was driven by a 26 percent year-over-year increase in interest income to $157.5 million, mainly as a result of an increase in the portfolio's weighted average yield. The increase in interest income was partially offset by a 30 percent year-over-year increase in interest expense to $98.5 million. The increase was the result of the older, higher-cost sequential securitizations becoming more costly as they paid down. The higher financing cost reached its peak in the fourth quarter as the newer, lower-cost post 2017 pro rata structure securitizations have now begun to reduce our ongoing financing costs. Other operating income of $2.6 million was primarily driven by sales of short-term loans.

Total operating expenses for the year ended December 31, 2019 totaled $35.1 million, a 9 percent year-over-year increase from $32.2 million in the prior year. The growth in expenses was primarily driven by (i) a $1.3 million increase in serving expenses related to portfolio growth, and (ii) REO expenses which grew by $1.3 million from the prior year, driven by higher maintenance and rehabilitation costs.

Total charge-offs for the year ended December 31, 2019 totaled $579 thousand, a 42 percent increase from $407 thousand in 2018. This increase was the result of portfolio growth over the past few years and in-line with our expectations for higher delinquencies as the loan portfolio seasons.

Net income for the year ended December 31, 2019 totaled $17.3 million, a 127 percent year-over-year increase from $7.6 million in the prior year, primarily driven by a 21 percent year-over-year increase in net interest income.

Net operating income increased to $40.0 million, a 23 percent increase from $32.6 million in the prior year. The company's net operating margin in 2019 was 66 percent compared to 63 percent in 2018.

For the year ended December 31, 2019 and 2018, pretax return on equity was 18 percent and 15 percent, respectively, and reflects our consistent portfolio growth and unwavering focus on expense management.

Management's slide presentation will be available on the Company's investor relations website at www.velfinance.com (https://cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Fwww.velfinance.com&esheet=52200529&newsitemid=20200408005171&lan=en-US&anchor=www.velfinance.com&index=1&md5=6d28143ad9ceee5d46389c8d2797d612) beginning at 8:30 a.m. (Eastern Time) on Wednesday, April 8, 2020.

About Velocity Financial, Inc.

Based in Westlake Village, California, Velocity is a vertically integrated real estate finance company that primarily originates and manages investor loans secured by 1-4 unit residential rental and small commercial properties. Velocity originates loans nationwide across an extensive network of independent mortgage brokers it has built and refined over 15 years.

(1)	Pro forma for post IPO equivalent shares purchased by existing stockholders at 12/31/2019.
(2)	Operating income is a non-GAAP financial measure the Company presents to help investors better understand our operating performance. For a reconciliation of operating income to net income, refer to the sections of this press release below titled "Non-GAAP Financial Measures" and "Adjusted Financial Metric Reconciliation to GAAP."

(3)	The total loan portfolio at December 31, 2019 was comprised of $1.84 billion in UPB of held for investment loans and $0.22 billion of held for sale loans

Non GAAP Financial Measures

To supplement our financial statements presented in accordance with United States generally accepted accounting principles ("GAAP"), the Company uses operating income and operating margin, which are non-GAAP financial measures. The presentation of operating income and operating margin is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. When analyzing our operating performance, readers should use operating income and operating margin in addition to, and not as an alternative for, net income. Operating income represents net income before income taxes, interest expense on our corporate debt, and the amortization of deal costs related to corporate debt issuance. Additionally, operating margin is the ratio of operating income total revenues. Because not all companies use identical calculations, our presentation of net operating income and net operating margin may not be comparable to similarly titled measures of other companies. Furthermore, net operating income is not intended to be a measure of free cash flow for our management's discretionary use, as it does not reflect certain cash requirements such as tax and portfolio-related debt service payments. The amounts shown for Operating income may also differ from the amounts calculated under similarly titled definitions in our debt instruments, which are further adjusted to reflect certain other cash and non-cash charges that are used to determine compliance with financial covenants.

We use operating income to evaluate the operating performance of our business, for comparison with forecasts and strategic plans and for benchmarking performance externally against competitors. We believe that this non-GAAP measure, when read in conjunction with the Company's GAAP financials, provides useful information to investors by offering:

The ability to make more meaningful period-to-period comparisons of the Company's on-going operating results;
The ability to better identify trends in the Company's underlying business and perform related trend analyses; and
A better understanding of how management plans and measures the Company's underlying business.

We believe that operating income has limitations in that it does not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and that operating income should only be used to evaluate the Company's results of operations in conjunction with net income. For more information on operating income, refer to the section of this press release below titled "Adjusted Financial Metric Reconciliation to GAAP."

Forward-Looking Statements

Some of the statements contained in this press release may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, projections, plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," or "potential" or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

The forward-looking statements contained in this press release reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause actual results to differ significantly from those expressed or contemplated in any forward-looking statement. While forward-looking statements reflect our good faith projections, assumptions and expectations, they are not guarantees of future results. Furthermore, we disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes, except as required by applicable law. Factors that could cause our results to differ materially include, but are not limited to(1) the course and severity of the COVID-19 pandemic, and its direct and indirect impacts (2) general economic conditions and real estate market conditions, (3) regulatory and/or legislative

changes, (4) our ability to retain and attract loan originators and other professionals, and (5) changes in federal government fiscal and monetary policies.

For a further discussion of these and other factors that could cause future results to differ materially from those expressed or contemplated in any forward-looking statements, see the section titled "Risk Factors" in the Company's Form 10-K filed with the SEC on April 7, 2020, as such risk factors may be updated from time to time in the Company's periodic filings with the SEC. Such filings are available publicly on our Investor Relations web page at www.velfinance.com (https://cts.businesswire.com/ct/CT?id=smartlink&url=http%3A%2F%2Fwww.velfinance.com&esheet=52200529&newsitemid=20200408005171&lan=en-US&anchor=www.velfinance.com&index=2&md5=cd22a4179ee2982281542b610683dfae).

Velocity Financial, Inc.

Consolidated Statements of Financial Condition

(Unaudited)

	Quarter Ending		
	12/31/2019	**09/30/2019**	**06/30/2019**
(In thousands)			
Assets			
Cash and cash equivalents	$ 21,465	$ 8,849	$ 14,105
Restricted Cash	6,087	3,152	1,542
Loans held for sale, net	214,467	170,440	82,308
Loans held for investment, at fair value	2,960	2,936	2,974
Loans held for investment			
Unpaid principal balance	1,839,886	1,753,289	1,662,483
Allowance for loan losses	(1,680)	(1,680)	(1,680)
Provision for loan losses	(1,139)	(897)	(559)

Charge-offs	579	466	143	
Loans held for investment	1,837,646	1,751,178	1,660,387	
Net deferred loan costs	25,714	24,757	23,346	
Total loans, net	2,080,787	1,949,311	1,769,015	
Accrued interest receivables	13,295	12,450	11,326	
Receivables due from servicers	49,659	38,349	33,618	
Other receivables	4,778	7,585	3,321	
Real estate owned, net	13,068	15,806	14,221	
Property and equipment, net	4,680	4,903	5,045	
Deferred tax asset	8,280	4,127	3,228	
Other assets	12,667	17,219	15,383	
Total Assets	**$ 2,214,766**	**$ 2,061,751**	**$ 1,870,804**	**$**
Liabilities and members' equity				
Accounts payable and accrued expenses	$ 56,146	$ 41,957	$ 30,832	$
Secured financing, net	145,599	145,285	127,061	

Securitizations, net	1,438,629	1,377,733	1,261,456
Warehouse and repurchase facilities	422,688	349,859	280,710
Debt issuance costs	(1,140)	(744)	(750)
Total Liabilities	2,061,922	1,914,090	1,699,309
Class C preferred units	-	-	27,399
Members' equity	152,844	147,661	144,096
Total Liabilities and members' equity	**$ 2,214,766**	**$ 2,061,751**	**$ 1,870,804**	**$**

Velocity Financial, Inc.

Consolidated Statements of Income

(Unaudited)

	Quarter Ending			
($ in thousands)	**12/31/2019**	**09/30/2019**	**06/30/2019**	**03/31/2019**
Revenues				
Interest income	$ 44,124	$ 40,379	$ 36,884	$ 36,143

Interest expense - portfolio related	22,689	21,827	20,324	19,062
Net interest income - portfolio related	21,435	18,552	16,560	17,081
Interest expense - corporate debt	4,070	3,842	3,353	3,353
Net interest income	17,365	14,710	13,207	13,728
Provision for loan losses	242	338	212	348
Net interest income after provision for loan losses	17,123	14,372	12,995	13,380
Other operating income				
Gain on disposition of loans	1,497	56	863	1,995
Unrealized gain/(loss) on fair value loans	42	(17)	(25)	(8
Other income (expense)	(706)	(251)	(530)	(266
Total other operating income (expense)	833	(212)	308	1,721
Total revenues	17,956	14,160	13,303	15,101
Operating expenses				
Compensation and employee benefits	3,992	3,712	3,801	4,006

Rent and occupancy	426	369	398	338
Loan servicing	1,939	1,957	1,637	1,863
Professional fees	469	398	534	656
Real estate owned, net	1,300	485	561	301
Provision for held for sale loan losses	7	-	-	-
Other operating expenses	1,681	1,563	1,393	1,336
Total operating expenses	9,814	8,484	8,324	8,500
Income before income taxes	8,142	5,676	4,979	6,601
Income tax expense	2,960	1,796	1,444	1,906
Net income	**$ 5,182**	**$ 3,880**	**$ 3,535**	**$ 4,695**

Velocity Financial, Inc.

Net Interest Margin – Portfolio Related and Total Company

(Unaudited)

	Quarter Ended December 31, 2019			Quarter Ended December 31, 2018		
	Average	Interest Income /	Average Yield /	Average	Interest Income /	Aver Yiel

($ in thousands)	Balance	Expense	Rate[1]	Balance	Expense	Rat
Loan portfolio:						
Loans held for sale	$ 184,021			$ 45,325		
Loans held for investment	1,800,507			1,511,580		
Total loans	$ 1,984,528	$ 44,124	8.89%	$ 1,556,905	$ 33,560	8.6
Debt:						
Warehouse and repurchase facilities	$ 320,456	$ 4,223	5.27%	$ 130,255	$ 1,974	6.0
Securitizations	1,495,456	18,467	4.94%	1,230,972	15,832	5.1
Total debt - portfolio related	1,815,912	22,690	5.00%	1,361,227	17,807	5.2
Corporate debt	153,000	4,069	10.64%	127,594	3,337	10.4
Total debt	$ 1,968,912	$ 26,759	5.44%	$ 1,488,820	$ 21,143	5.6
Net interest spread - portfolio related [2]			3.90%			3.3
Net interest margin - portfolio related			4.32%			4.0
Net interest spread - total company [3]			3.46%			2.9

Net interest margin - total company	3.50%	3.19

(1) Annualized.

(2) Net interest spread - portfolio related is the difference between the rate earned on our loan portfolio and the yield on our portfolio related debt.

(3) Net interest spread - total company is the difference between the yield on our loan portfolio and the interest rates paid on o total debt.

	Year Ended December 31, 2019			Year Ended December 31, 2018		
($ in thousands)	**Average Balance**	**Interest Income / Expense**	**Average Yield / Rate**	**Average Balance**	**Interest Income / Expense**	**Ave Yie Ra**
Loan portfolio:						
Loans held for sale	$ 106,852			$ 26,306		
Loans held for investment	1,675,706			1,403,571		
Total loans	$ 1,782,558	$ 157,531	8.84%	$ 1,429,877	$ 124,722	8.7
Debt:						
Warehouse and repurchase facilities	$ 240,608	13,583	5.65%	$ 162,761	$ 9,213	5.6
Securitizations	1,362,851	70,320	5.16%	1,072,080	53,384	4.9
Total debt - portfolio related	1,603,459	83,903	5.23%	1,234,841	62,597	5.0
Corporate debt	136,294	14,617	10.72%	127,594	13,322	10.4

Total debt	$ 1,739,753	$ 98,521	5.66%	$ 1,362,435	$ 75,919	5.5
Net interest spread - portfolio related [1]			3.60%			3.6
Net interest margin - portfolio related			4.13%			4.3
Net interest spread - total company [2]			3.17%			3.1
Net interest margin - total company			3.31%			3.4

[1] Net interest spread - portfolio related is the difference between the rate earned on our loan portfolio and the yield on our portfolio related debt.

[2] Net interest spread - total company is the difference between the yield on our loan portfolio and the interest rates paid on o total debt.

Velocity Financial, Inc.

Adjusted Financial Metric Reconciliation to GAAP

	Quarter Ending		Year Ended	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Reconciliation of Velocity Financial Inc. Net Income to Net Operating Income				
GAAP Net Income	**$ 5,182**	**$ 1,939**	**$ 17,292**	**$ 7,631**
Income tax expense	2,960	1,475	8,106	11,618
Interest expense - corporate debt	3,657	3,190	13,437	12,759
Amortization expense - corporate debt deal costs	412	147	1,181	562

Net Operating Income	**$ 12,211**	**$ 6,751**	**$ 40,015**	**$ 32,570**

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