

Investor 1-4

Mixed-Use

Commercial

Multi-Family



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1Q20 Earnings Presentation  
May 13, 2020



# Forward-looking statements

Some of the statements contained in this presentation 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 presentation 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.

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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" the Company previously disclosed in its 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](http://www.velfinance.com).



# 1Q20 Update

## Earnings

- 1Q20 GAAP earnings per share (EPS) of \$0.13 and “Core” Earnings per share of \$0.29<sup>(1)</sup>
- Book value growth to \$250.4 million at March 31, 2020, from \$152.8 million at December 31, 2019 from new IPO capital and retained earnings; no distressed loan sales or significant impairments to loans
- 1Q20 EPS and BVPS impacted primarily by one-time debt amortization and loan loss provisioning for COVID-19 impacts

## Portfolio

- Total loan portfolio of \$2.1 billion in UPB at March 31, 2020, a 3% increase from December 31, 2019
- Loan production of \$248 million in Unpaid Principal Balance (UPB); loan production temporarily suspended due to COVID-19
- Net interest income of \$21.7 million, an increase of 28% from 1Q19

## Financing & Capital

- On April 7, 2020, issued and sold Series A Convertible Preferred Stock and warrants totaling \$45 million and amended warehouse repurchase agreements to stabilize liquidity and capital
- Completed our VCC 2020-1 securitization totaling \$249 million of securities issued in February
- Reduced long-term corporate debt by \$75 million from IPO proceeds

<sup>(1)</sup> Adjusted “core” earnings per share is a non-GAAP measure. Please see the reconciliation to GAAP net income on page 4.

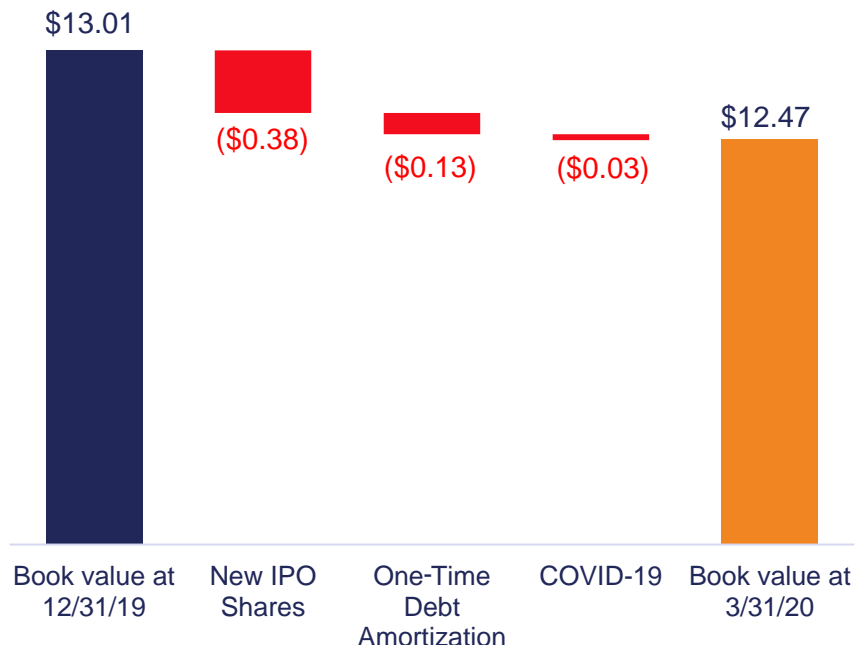
# Earnings and Book Value

- “Core” earnings per share reflect adjustments for unique 1Q20 impacts, including one-time debt amortization expense and COVID-19 impacts on loan loss reserve
- Current and Expected Credit Loss (“CECL”) Loan Loss reserve primarily reflects macroeconomic effects of the COVID-19 pandemic on the real estate markets

## Adjusted “Core” Earnings Per Share

GAAP Net Income	\$0.13
One-Time Debt Amortization	\$0.13
COVID-19	\$0.03
<b>“Core” Earnings Per Share</b>	<b>\$0.29</b>

## Book Value Per Share



Numbers may not sum exactly due to the effects of rounding

# Loan Loss Reserve and CECL Adoption

## Loan Loss Reserve Roll Forward

Description	Amount
<b>ALLL Balance as of 12/31/19</b>	<b>\$ 2,240</b>
CECL implementation impact	137
1/1/2020 Loan Loss Reserve (CECL Methodology)	2,377
<b>1Q20 CECL loan loss provision components:</b>	
COVID-19 macroeconomic adjustment	888
1Q20 "Standard" Loan Loss Provision	402
<b>Total 1Q20 CECL loan loss provision</b>	<b>1,290</b>
Charge-offs	(171)
<b>CECL Loan Loss Reserve at March 31, 2020</b>	<b>\$ 3,496</b>
<b><u>March 31, 2020 Loan Loss Components:</u></b>	
Individually Assessed reserve	842
Baseline reserve	2,654
<b>CECL Loan Loss Reserve at March 31, 2020</b>	<b>\$ 3,496</b>
<b>Loan Loss Reserve as a % of ending loans HFI</b>	<b>0.18%</b>

- Velocity adopted ASC 326 ("CECL methodology"), effective January 1, 2020
- Impact of the CECL methodology implementation from the prior GAAP loan loss methodology (Incurred Loss) was \$0.1 million
- The 1Q20 CECL loan loss provision of \$1.3 million was driven by a \$0.9 million macroeconomic adjustment for the COVID-19 pandemic
- Velocity's CECL Loan Loss reserve of \$3.5 million<sup>(1)</sup> is comprised of two parts:
  - Individually Assessed reserve comprised of nonaccrual loans
  - Baseline reserve comprised of performing loans collectively evaluated through our CELC model, and includes the macroeconomic adjustment

<sup>(1)</sup> At March 31, 2020

Numbers may not sum exactly due to the effects of rounding



# Business Update

## Financing / Securitization

- Outstanding warehouse repurchase facility (“warehouse lines”) advances totaled \$265 million, collateralized by loans with an unpaid principal balance of \$407 million<sup>(1)</sup>
- Pursuing securitization of long-term loans currently financed on warehouse lines
  - Market has improved since mid-March and high-quality issuers with established track records like Velocity are expected to be able to complete a successful transaction
- Assessing opportunities to sell or finance short-term loans as whole-loan markets continues to evolve

## Production

- Loan production activities were suspended in late March
- Majority of account executives and loan production operations staff have been placed on 60-day temporary furlough effective May 1, 2020

## Special Loan Servicing / Loss Mitigation

- Implemented short-term forbearance plans to help our borrowers manage through the pandemic<sup>(2)</sup>
- Advances to Velocity’s securitization trusts are the responsibility of the primary servicer, Mr. Cooper (f.k.a., Nationstar)<sup>(3)</sup>

<sup>(1)</sup> At April 30, 2020

<sup>(2)</sup> See additional information on slide 9

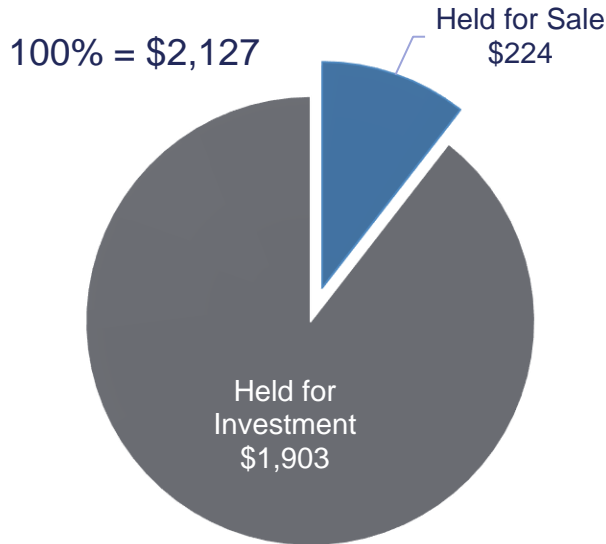
<sup>(3)</sup> Unless advances are classified as “unrecoverable” by the primary servicer.

# Loan Portfolio – HFS and HFI

- Net portfolio growth of \$68 million in 1Q20
- Loan origination volume was lower than originally forecast, driven by the suspension of loan production activities at the end of March as a result of the COVID-19 pandemic

## Loan Portfolio Composition

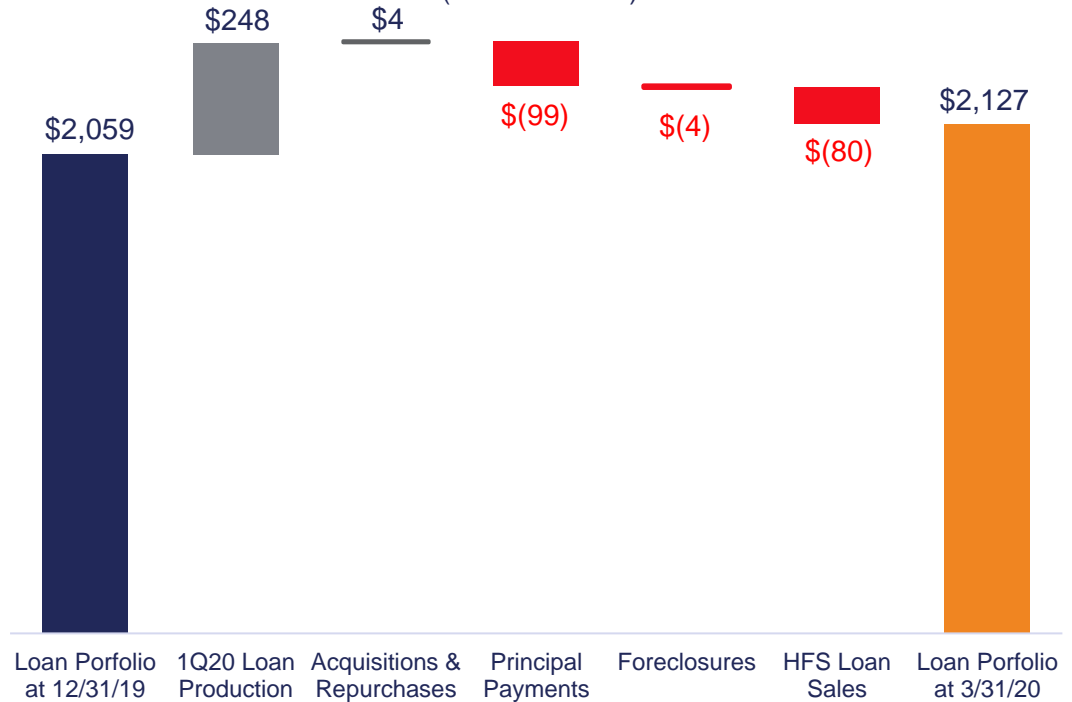
(UPB in millions)



W.A. Loan-to-Value (LTV): 66%

## Loan Portfolio Waterfall

(UPB in millions)

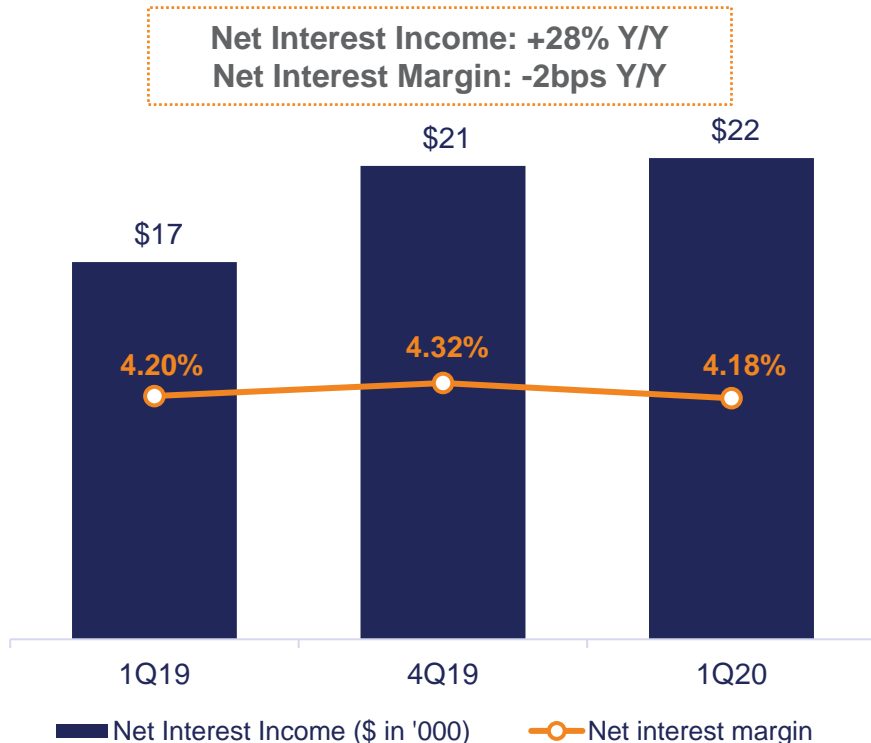


# Net Interest Margin

- Net interest income<sup>(1)</sup> increased 2% Q/Q and 28% Y/Y driven by portfolio growth and improved portfolio-related debt costs
- Net interest margin (NIM)<sup>(1)</sup> was 4.18% in 1Q20, a decrease of 14 bps Q/Q and 2 bps Y/Y
- The decrease from 4Q19 was driven by an increase in nonaccrual loans
- Partially offset by a 16 bps decrease in the weighted average cost of funds

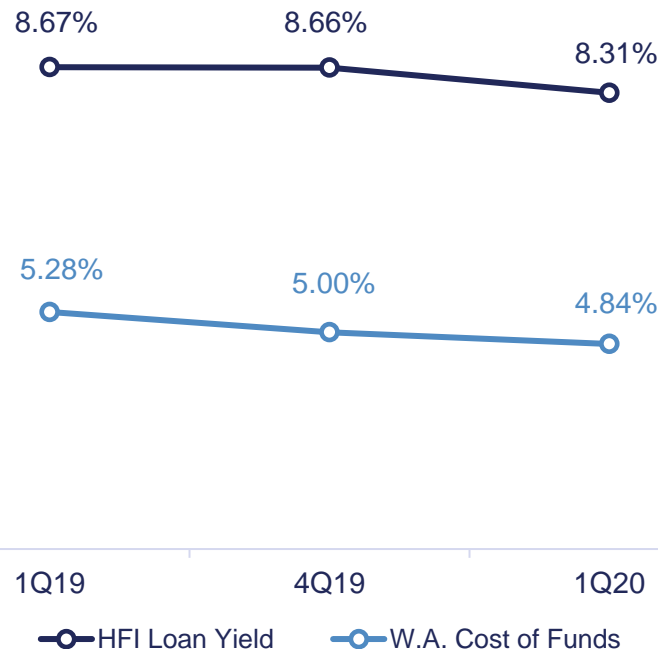
## Interest Income and Net Interest Margin<sup>(1)</sup>

Portfolio Related (\$ in Millions)



## Portfolio Yield and Cost of Funds

Portfolio Related



<sup>(1)</sup> Net Interest Income and Net Interest Margin related to the loan portfolio only; excludes corporate debt.

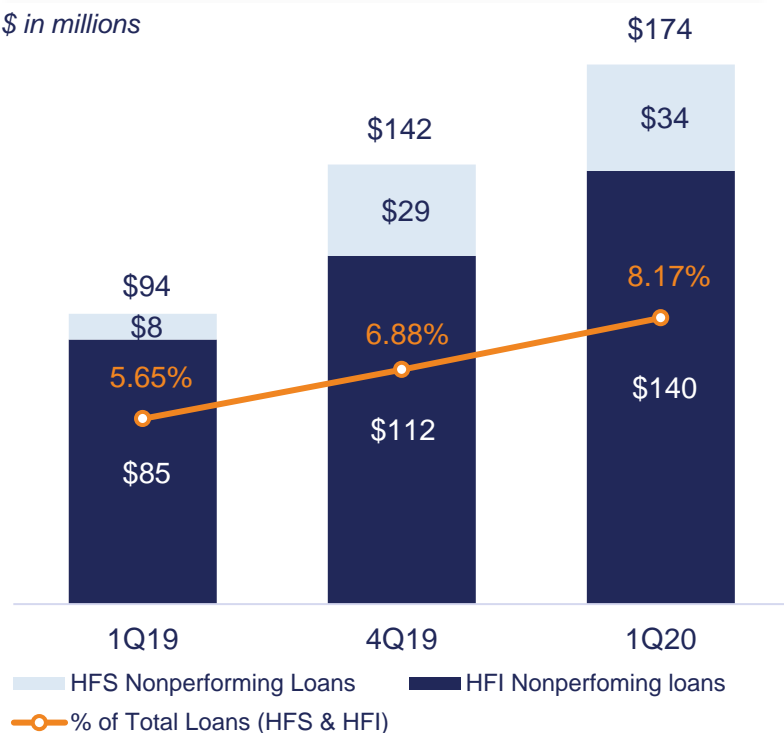


# Loan Portfolio Performance

- Nonperforming loans<sup>(1)</sup> totaled \$174 million in UPB at March 31, 2020, or 8.17% of total loans (held for sale and held for investment), up from 6.88% at December 31, 2019 and 5.65% at March 31, 2019
- Charge-offs in 1Q20 were \$171 thousand, down from \$579 thousand in 4Q19 and up from \$112 thousand at March 31, 2019
  - Charge-offs have averaged \$312 thousand per quarter over past two years
- Low LTVs and our in-house special servicing capabilities continued to result in a net positive earnings contribution from loan resolution activities in the first quarter

## Nonperforming Loans<sup>(1)</sup>

\$ in millions



## 1Q20 Resolution Activity

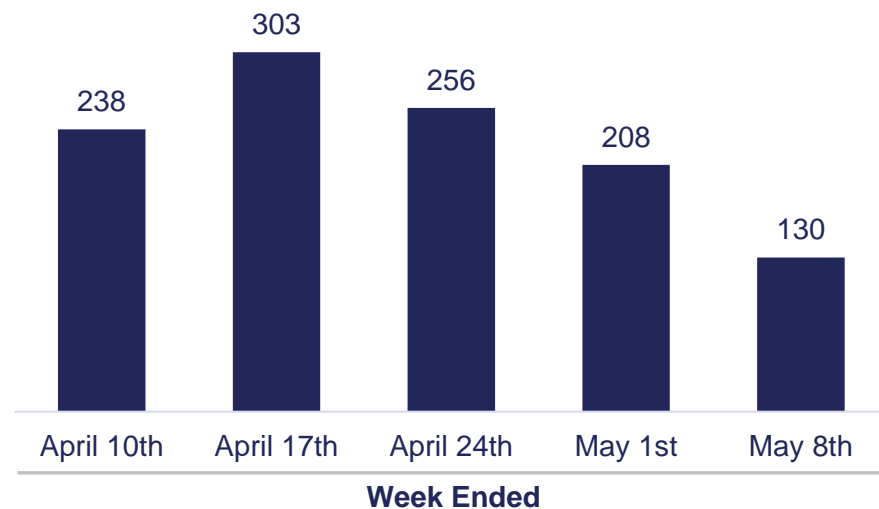
\$ UPB in millions	\$ UPB	\$ Gain / Loss
Paid in full	\$12.9	\$0.85
Paid current	\$3.5	\$0.10
REO sold	\$1.1	\$(0.29)
<b>Realized a net gain of \$0.66 million from 1Q20 resolution activity</b>		

<sup>(1)</sup> Nonperforming loans include loans 90+ days past due, loans in foreclosure and in bankruptcy.

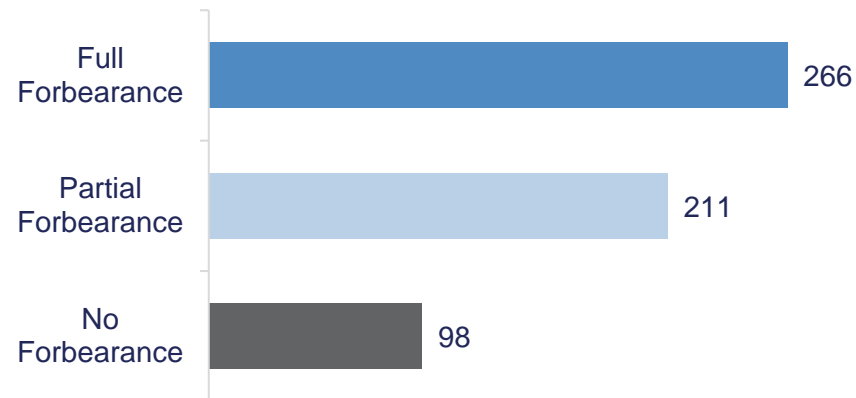
# COVID-19 Relief Initiatives

- In April, Velocity implemented COVID-19 relief initiatives for borrowers experiencing temporary difficulties
- Through May 8<sup>th</sup>, approximately 1,160 requests have been received
- Borrowers required to complete VCC forbearance application for underwriting
- To date, 575 forbearance plans have been finalized
  - Approved and completed plans total 477 (~ 7% of portfolio)
  - A total of 98 requests have been denied due primarily to prior delinquency
- Forbearance period is three months, after which borrowers will need to resume making regular payments in order receive a permanent modification for the missed payments

## Relief Requests Trend



## Forbearance Requests Completed





# Key Initiatives

## Financing & Capital

- Pay off loans currently financed on our existing warehouse lines through securitization, other forms of financing, or loan sales
  - Use capital to further strengthen liquidity position and pursue attractive loan acquisition opportunities
  - Establish new financing arrangements with banks and other capital partners
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## Forbearance & Special Servicing Initiatives

- Expand loss mitigation efforts and operational capabilities to address expected increase in nonperforming loans
    - Transitioned select account executives to special servicing team
  - Finalize post-forbearance modifications
  - Continue to help small business owners navigate the crisis
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## Production / Acquisitions

- Expand review of loans pools offered for sale
- Revise post-COVID-19 origination strategy to identify best risk/reward opportunities



# Appendix

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# Velocity Financial, Inc. Balance Sheet

(Unaudited)

	Quarter Ended				
	3/31/2020	12/31/2019	09/30/2019	06/30/2019	03/31/2019
<i>(In thousands)</i>					
<b>Assets</b>					
Cash and cash equivalents	\$ 7,649	\$ 21,465	\$ 8,849	\$ 14,105	\$ 16,948
Restricted cash	4,483	6,087	3,152	1,542	1,986
Loans held for sale, net	223,123	214,467	170,440	82,308	58,123
Loans held for investment, at fair value	2,987	2,960	2,936	2,974	2,971
Loans held for investment	1,895,684	1,837,646	1,751,178	1,660,387	1,592,708
Net deferred loan costs	26,801	25,714	24,757	23,346	21,874
Total loans, net	2,148,595	2,080,787	1,949,311	1,769,015	1,675,676
Accrued interest receivables	14,470	13,295	12,450	11,326	10,788
Receivables due from servicers	37,884	49,659	38,349	33,618	35,395
Other receivables	2,516	4,778	7,585	3,321	1,190
Real estate owned, net	16,164	13,068	15,806	14,221	12,996
Property and equipment, net	4,964	4,680	4,903	5,045	5,254
Deferred tax asset	10,111	8,280	4,127	3,228	1,778
Other assets	10,519	12,667	17,219	15,383	7,365
<b>Total Assets</b>	<b>\$ 2,257,354</b>	<b>\$ 2,214,766</b>	<b>\$ 2,061,751</b>	<b>\$ 1,870,804</b>	<b>\$ 1,769,376</b>
<b>Liabilities and members' equity</b>					
Accounts payable and accrued expenses	\$ 58,591	\$ 56,146	\$ 41,957	\$ 30,832	\$ 39,731
Secured financing, net	74,364	145,599	145,285	127,061	127,179
Securitizations, net	1,576,431	1,438,629	1,377,733	1,261,456	1,338,032
Warehouse and repurchase facilities	298,372	422,688	349,859	280,710	97,059
Debt issuance costs	(835)	(1,140)	(744)	(750)	(586)
Total Liabilities	2,006,924	2,061,922	1,914,090	1,699,309	1,601,415
Class C preferred units	-	-	-	27,399	26,929
Stockholders' equity	250,430	152,844	147,661	144,096	141,032
<b>Total Liabilities and members' equity</b>	<b>\$ 2,257,354</b>	<b>\$ 2,214,766</b>	<b>\$ 2,061,751</b>	<b>\$ 1,870,804</b>	<b>\$ 1,769,376</b>



# Velocity Financial, Inc. Income Statement

(Unaudited)

	Quarter Ended				
	3/31/2020	12/31/2019	09/30/2019	06/30/2019	03/31/2019
(\$ in thousands)					
<b>Revenues</b>					
Interest income	\$ 44,637	\$ 44,124	\$ 40,379	\$ 36,884	\$ 36,143
Interest expense - portfolio related	22,848	22,689	21,827	20,324	19,062
Net interest income - portfolio related	21,789	21,435	18,552	16,560	17,081
Interest expense - corporate debt	6,342	4,070	3,842	3,353	3,353
Net interest income	15,447	17,365	14,710	13,207	13,728
Provision for loan losses	1,289	242	338	212	348
Net interest income after provision for loan losses	14,157	17,123	14,372	12,995	13,380
Other operating income (expense)	1,620	833	(212)	308	1,721
Total revenues	15,777	17,956	14,160	13,303	15,101
<b>Operating expenses</b>					
Compensation and employee benefits	5,041	3,992	3,712	3,801	4,006
Rent and occupancy	455	426	369	398	338
Loan servicing	2,239	1,939	1,957	1,637	1,863
Professional fees	1,184	469	398	534	656
Real estate owned, net	1,134	1,300	485	561	301
Provision for held for sale loan losses	-	7	-	-	-
Other operating expenses	1,998	1,681	1,563	1,393	1,336
Total operating expenses	12,051	9,814	8,484	8,324	8,500
Income before income taxes	3,727	8,142	5,676	4,979	6,601
Income tax expense	1,148	2,960	1,796	1,444	1,906
<b>Net income</b>	<b>\$ 2,579</b>	<b>\$ 5,182</b>	<b>\$ 3,880</b>	<b>\$ 3,535</b>	<b>\$ 4,695</b>
<b>Earnings per share</b>	<b>\$ 0.13</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>Earnings per share (diluted)</b>	<b>\$ 0.13</b>				



# Adjusted Financial Metric Reconciliation to GAAP

## Reconciliation of Velocity Financial Inc. GAAP Net Income Net Operating Income

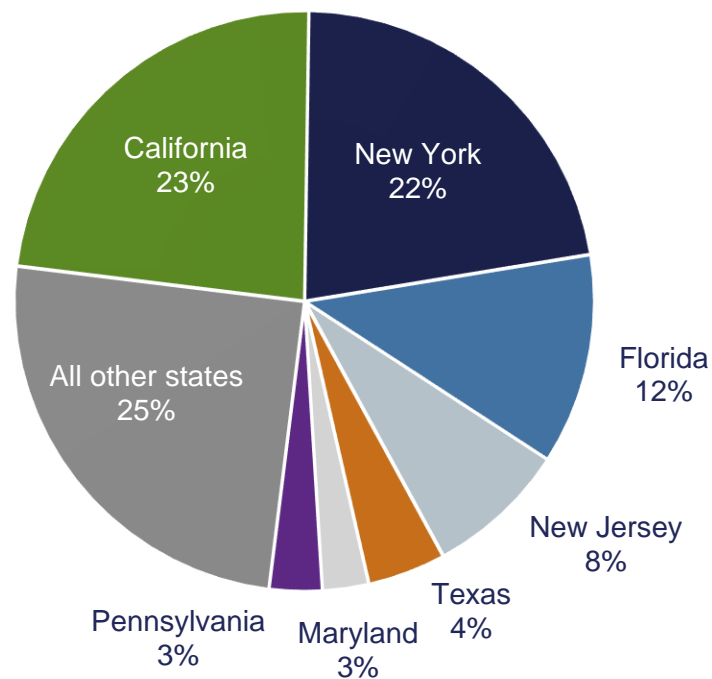
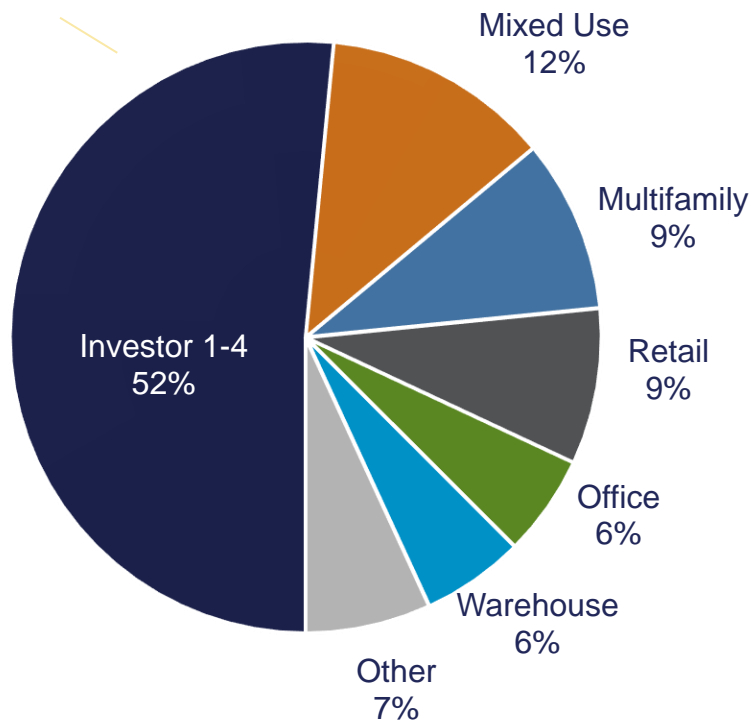
	Quarter Ended				
	3/31/2020	12/31/2019	09/30/2019	06/30/2019	03/31/2019
<b>GAAP Net Income</b>	\$ 2,579	\$ 5,182	\$ 3,880	\$ 3,535	\$ 4,695
Income tax expense	1,148	2,960	1,796	1,444	1,906
Interest expense - corporate debt	2,576	3,657	3,400	3,190	3,190
Amortization expense - corporate debt deal costs	3,766	412	442	163	163
<b>Net Operating Income</b>	<b>\$ 10,069</b>	<b>\$ 7,029</b>	<b>\$ 5,638</b>	<b>\$ 4,797</b>	<b>\$ 5,259</b>

# Loan Portfolio

## Portfolio by Property Type

## Portfolio by State

(100% = \$2.1 billion UPB)<sup>(1)</sup>



<sup>(1)</sup> At March 31, 2020