

Investor 1-4

Mixed-Use

Commercial

Multi-Family



2Q21 Earnings Presentation
August 5, 2021



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. 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.

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 continued 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 customers' continued interest in loans and doing business with us, (5) market conditions and investor interest in our contemplated securitization and (6) 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" previously disclosed in our Form 10-Q filed with the SEC on May 14, 2020, as well as other cautionary statements we make in our current and periodic filings with the SEC. Such filings are available publicly on our Investor Relations web page at www.velfinance.com.



2Q21 Highlights

Earnings

- Net Income of \$9.5 million and Core income⁽¹⁾ of \$8.5 million; diluted EPS of \$0.28 and Core diluted EPS of \$0.25
 - Results driven by strong net interest income growth resulting from increased nonperforming asset resolutions and improved loan portfolio performance
- Portfolio NIM⁽²⁾ of 4.83%, an increase of 73 basis points (bps) from 1Q21
- Book value per common share as of June 30, 2021, was \$11.62, compared to \$11.12 as of March 31, 2021

Production & Loan Portfolio

- Loan production volume in 2Q21 totaled \$256.5 million in UPB⁽³⁾, a 10.1% Q/Q increase driven by continued strong demand and the re-introduction of short-term loans
- Steady improvement in loan performance drives a 153 bps Q/Q decrease in nonperforming loans (NPL) as a % of loans held for investment
- NPL and Real Estate Owned (REO) resolutions in 2Q21 recovered 103.9% of UPB⁽²⁾ resolved, continuing our consistent track record of net gains over and above contractual principal and interest due

Financing & Capital

- Completed our VCC 2021-1 securitization totaling \$264.5 million of UPB, Velocity's first securitization of 2021, which priced with a weighted average rate of 1.73%
 - Reflects strong investor appetite and Velocity's extensive track record of performance
- Velocity Financial, Inc. (NYSE:VEL) was added to the Russell 2000 and 3000 indices in June 2021

Subsequent to Quarter-End

- Continued to strengthen the Company's liquidity profile with the addition of a new non-mark-to-market warehouse financing facility with a maximum capacity of \$100.0 million

⁽¹⁾ "Core" income is a non-GAAP measure which excludes non-recurring and/or unusual activities from GAAP net income.

⁽²⁾ Net Interest Margin

⁽³⁾ Unpaid Principal Balance

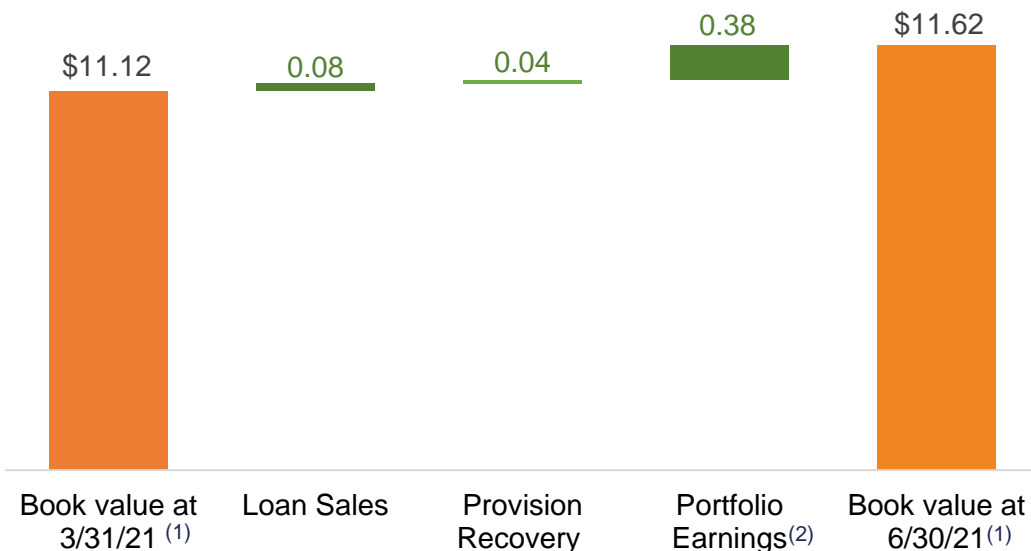


Core Income and Book Value Growth

Core Income

GAAP Net Income	\$9,453
Recovery of Loan Loss Provision	\$(1,000)
Core Income	\$8,453

Book Value Per Share



- Core income totaled \$8.5 million (\$0.25 per diluted share), which excludes a \$1 million loan loss provision recovery
- GAAP net income in 2Q21 included \$6.98 million of interest income from the realization of contractual interest, default interest and prepayment fees on nonperforming loans in 2Q21, a 59% increase from 1Q21
 - Corporate interest expense normalized in 2Q21 compared to 1Q21. 1Q21 included \$3.33 million of nonrecurring interest expense from the refinancing of our corporate debt
- Book value per share as of June 30, 2021, was \$11.62, compared to \$11.12 per share as of March 31, 2021⁽¹⁾

⁽¹⁾ Based on 20,087,494 common shares outstanding as of June 30, 2021, and March 31, 2021.

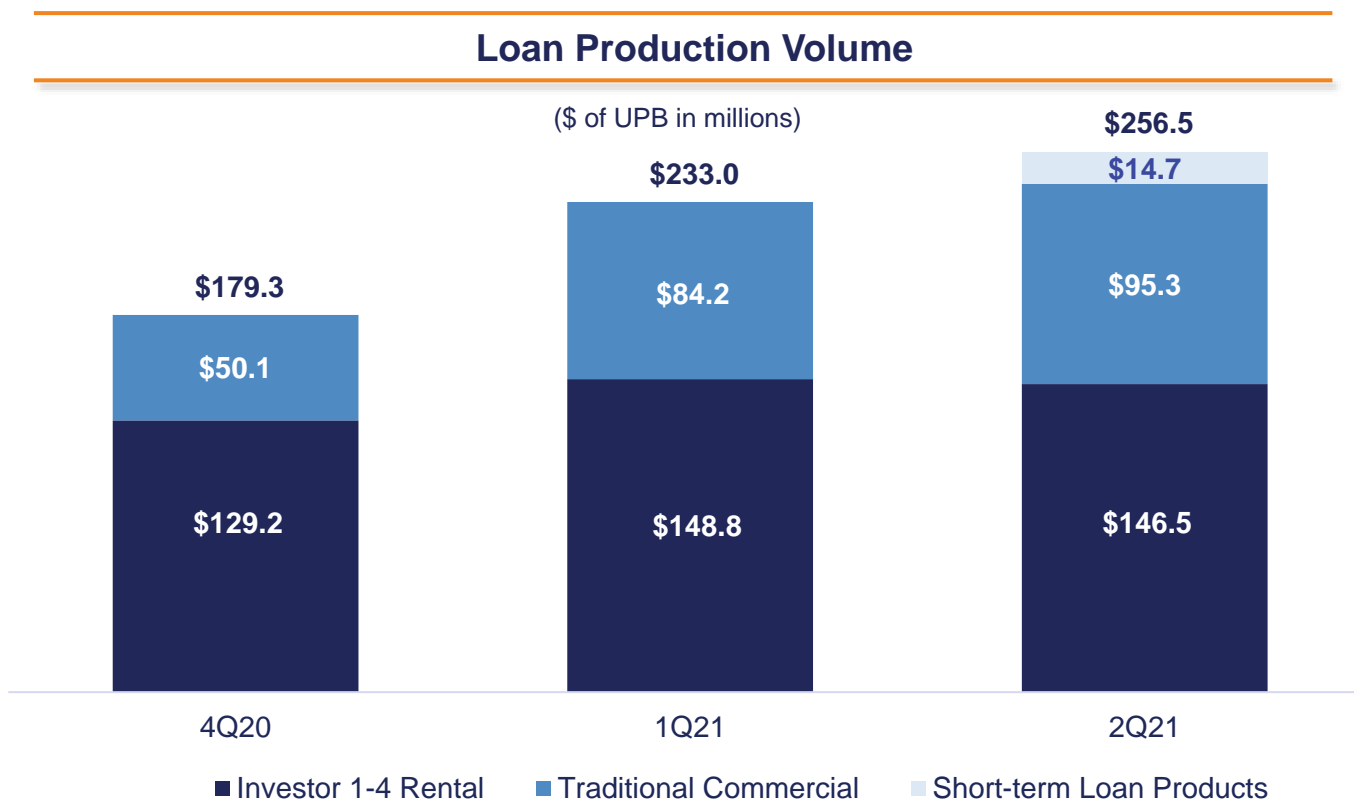
⁽²⁾ Includes an increase to APIC from stock-based compensation.



Production Momentum Continues to Build

New Product Additions and Continued Strong Demand Drive 2Q21 Volume Growth

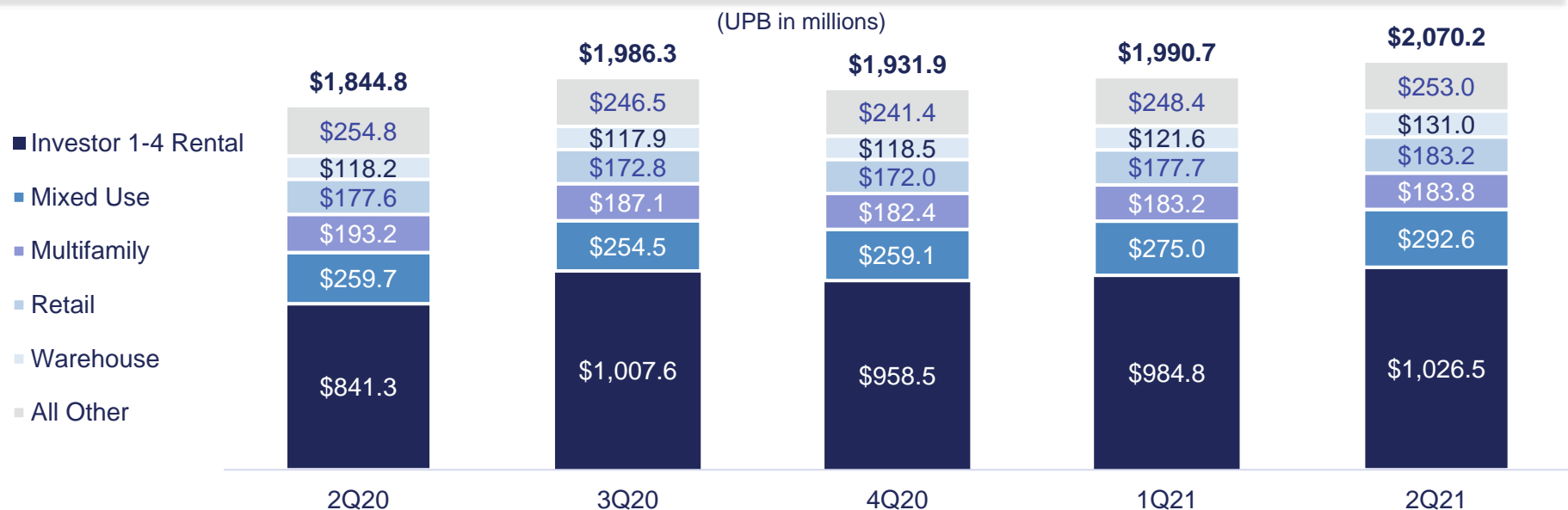
- Loan production totaled \$256.5 million in UPB for 2Q21, a 10.1% Q/Q increase from \$233.0 million in UPB in 1Q21
 - Driven by the re-introduction of short-term loans to the production mix and growth of long-term traditional commercial loan production
- Loan origination volume in July 2021 totaled \$104.4 million in UPB



Loan Portfolio

- Total loan portfolio as of June 30, 2021, was \$2.07 billion in UPB, a 4.0% Q/Q increase from \$1.99 billion in UPB as of March 31, 2021
 - Net Portfolio growth of \$80 million driven by strong production activity
- Strong credit discipline has maintained low average loan-to-value ratios in the portfolio, which is a key component of Velocity's success in profitably resolving loans
- Lower W.A. coupon primarily reflects run-off of short-term loans during temporary suspension of production⁽¹⁾

Loan Portfolio by Property Type



	2Q20	3Q20	4Q20	1Q21	2Q21
Loan to Value	65.80%	66.18%	66.13%	66.28%	66.70%
Loan Count	6,294	6,029	5,878	5,935	6,125
W.A. Coupon ⁽¹⁾	8.60%	8.56%	8.51%	8.42%	8.29%
Average Loan Balance ⁽²⁾	\$327.1	\$329.5	\$330.9	\$335.4	\$338.0

⁽¹⁾ Temporary suspension of short-term loan production occurred from March 2020 to April 2021.

⁽²⁾ \$ in thousands

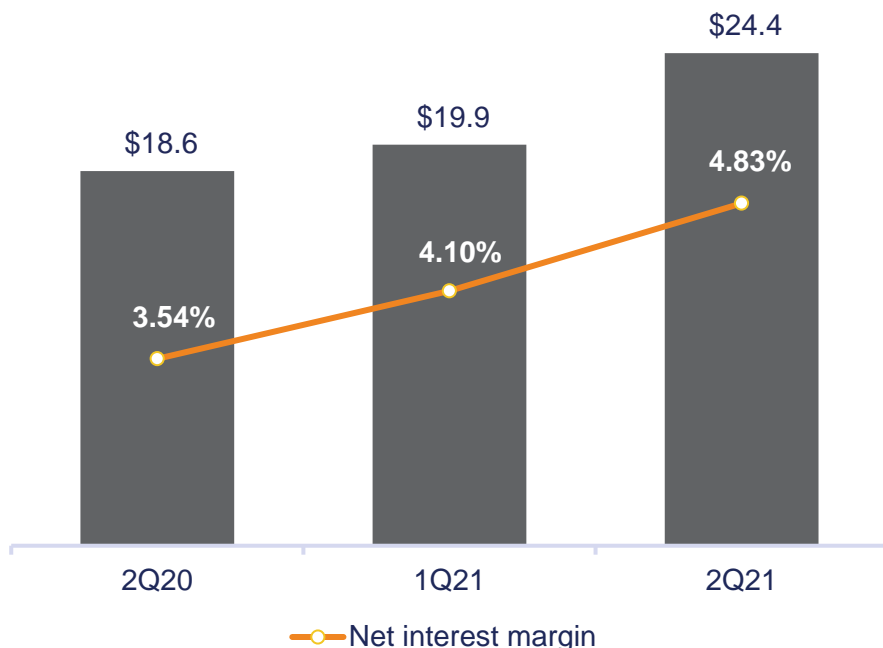
Net Interest Margin

Portfolio NIM Rises On Improved Loan Performance and Strong Resolution Activity

- 2Q21 Portfolio NIM⁽¹⁾ was 4.83%, an increase of 73 bps from 4.10% in 1Q21, driven by an increase in the HFI loan yield and a reduction in the portfolio-related weighted average cost of funds
 - Interest income grew 10.5% Q/Q, driven by strong nonperforming asset resolutions which resulted in increased realization of delinquent and default interest income
 - The portfolio-related weighted average cost of funds decreased as result of the 2021-1 securitization, which priced at weighed average cost of 1.73%, and the continued paydown of higher cost securitizations

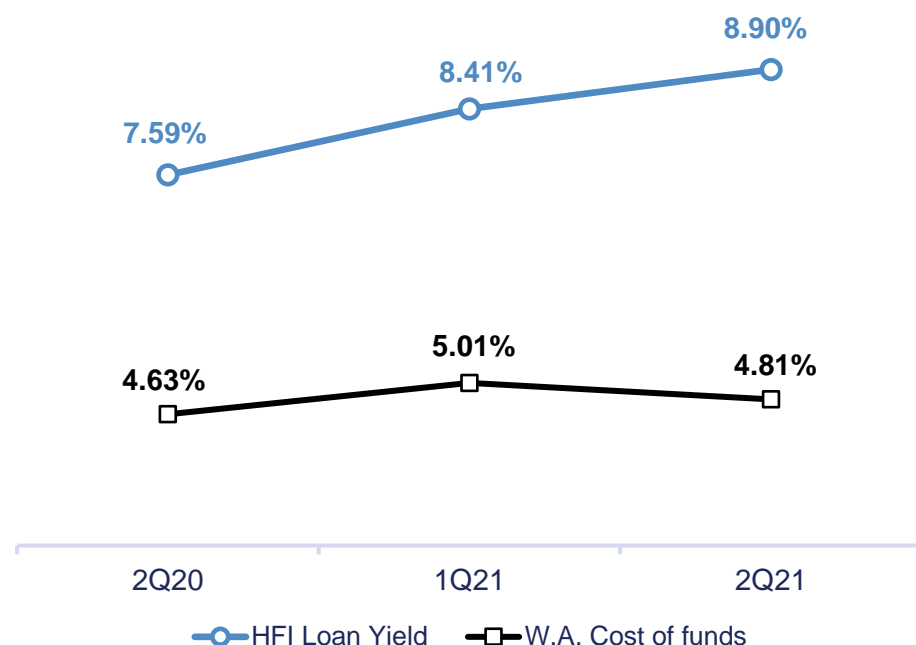
Portfolio Net Interest Income & NIM⁽¹⁾

Portfolio Related (\$ in millions)



Portfolio Yield and Cost of Funds

Portfolio Related



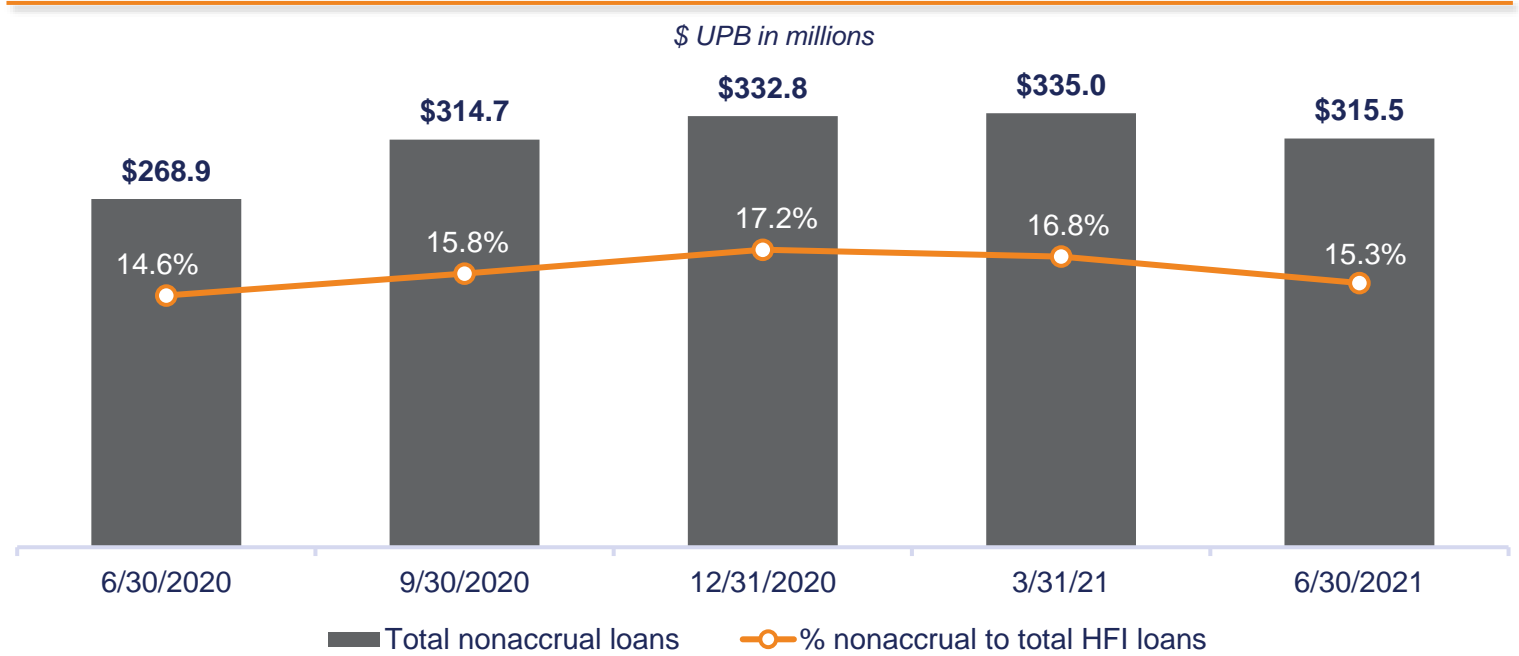
⁽¹⁾ Net Interest Income and Net Interest Margin related to the loan portfolio only; excludes corporate debt.



Loan Investment Portfolio Performance

- Total nonperforming loans as of June 30, 2021, totaled \$315.5 million in UPB, or 15.3% of total loans held for investment, compared to \$335.0 million, or 16.8% as of March 31, 2021
 - The quarter-over-quarter improvement was driven by the resolution of 17.37% of nonperforming loan UPB as of March 31, 2021
 - Payoffs accounted for 10.58% of nonperforming loan UPB as of March 31, 2021, and loans brought back to performing (accrual) status accounted for 6.79%
 - Realized all delinquent contractual interest in addition to default interest and prepayment fees

Nonperforming Loans⁽¹⁾



⁽¹⁾ For additional detail, please see page 18 in the Appendix of this presentation.

2Q21 Asset Resolution Activity

Growth in Nonperforming Loan and REO Resolution Activity Realized Strong Gains

Resolution Activity

RESOLUTION ACTIVITIES

LONG-TERM LOANS

RESOLUTION ACTIVITY (\$ in thousands)	SECOND QUARTER 2021		FIRST QUARTER 2021	
	UPB \$	Gain / (Loss) \$	UPB \$	Gain / (Loss) \$
Paid in full	\$ 21,925	\$ 1,446	\$ 15,961	\$ 795
Paid current	14,949	219	10,774	62
REO sold	947	(2)	2,754	76
Total resolutions	\$ 37,821	\$ 1,663	\$ 29,489	\$ 933
Resolutions as a % of nonperforming UPB	104.4%		103.2%	

SHORT-TERM AND FORBEARANCE LOANS

RESOLUTION ACTIVITY (\$ in thousands)	SECOND QUARTER 2021		FIRST QUARTER 2021	
	UPB \$	Gain / (Loss) \$	UPB \$	Gain / (Loss) \$
Paid in full	\$ 13,517	\$ 682	\$ 8,569	\$ 343
Paid current	7,794	59	11,170	40
REO sold	164	(73)	-	-
Total resolutions	\$ 21,475	\$ 668	\$ 19,739	\$ 383
Resolutions as a % of nonperforming UPB	103.1%		101.9%	
Grand total resolutions	\$ 59,296	\$ 2,331	\$ 49,228	\$ 1,316
Grand total resolutions as a % of nonperforming UPB	103.9%		102.7%	

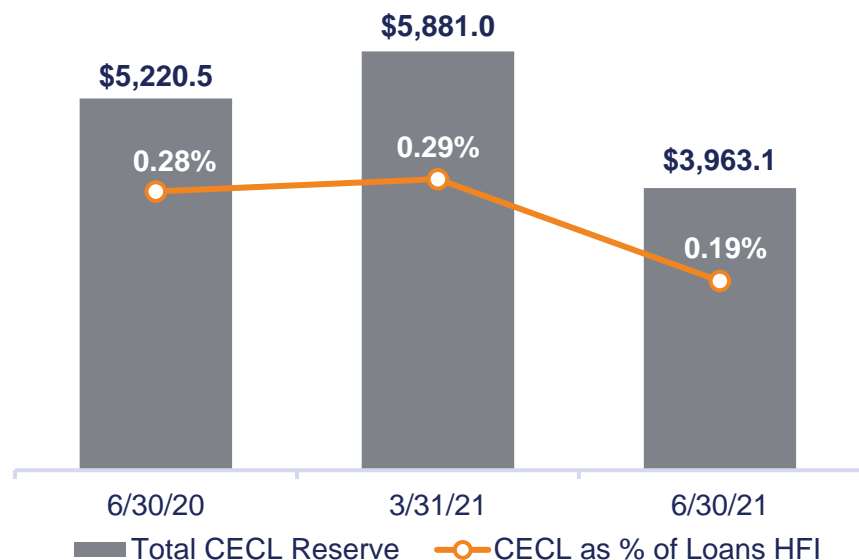
- Resolution activities on \$59.3 million of UPB and realized \$2.3 million of gains during 2Q21
 - Resolutions as a percentage of UPB resolved totaled 103.9%, up from 102.7% in 1Q21
- Long-term loan resolutions totaled \$37.8 million in UPB and realized \$1.7 million of gains
 - Gains in 2Q21 were primarily comprised of default interest and prepayment penalties
- Short-term loan resolutions totaled \$21.5 million in UPB and realized \$0.7 million of gains
 - Gains in 2Q21 were primarily comprised of default interest
 - Short-term loans do not include prepayment fees

CECL Reserve and Charge-Offs

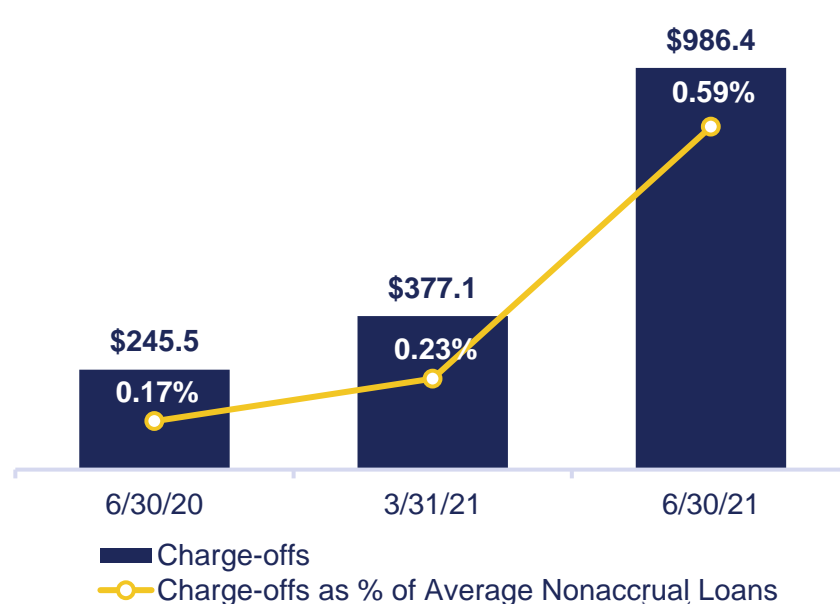
Loan Loss Reserve Recovery Driven by Improved Economic Outlook

- Velocity's CECL reserve as a percentage of the HFI portfolio as of June 30, 2021, was 19 bps compared to 29 bps as of March 31, 2021, and 28 bps as of June 30, 2020
 - Provision recovery primarily resulted from a reduction in the macroeconomic component of the loan loss reserve resulting from a more optimistic outlook for improvement in the U.S. economy
- Charge-offs were \$986.4 thousand for six months ended June 30, 2021, compared to \$377.1 thousand for the six months ended March 31, 2021, and \$245.5 thousand for the same period in the prior year
 - Nearly half, or \$420.5 thousand of the 2Q21 charge-off amount was related to one loan that transferred to REO, all or part of which could be recovered upon sale of the REO

Loan Loss Reserve



Charge-offs⁽¹⁾



⁽¹⁾ For the six months ended.



Outlook for Velocity's Business

Transitioning to a More "Normalized" Economic Environment

- Considerable momentum the U.S. economy was gained during this spring, with further improvement expected in 2H 2021
 - COVID risks have diminished, but further caution is still warranted given delta variant
 - Real estate prices remain strong, particularly for residential real estate, and losses remain low
 - Government assistance starting to be released to landlords and tenants which is expected to be a tailwind going forward
-

Net Interest Income Growth Driven By Production and Improved Loan Performance

- Increasing demand for traditional commercial and ARV-Pro loans as the economy re-opens expected to drive incremental production volume , bolstering continued strong activity in Investor 1-4 Rental loans
 - Net interest income growth expected to continue, driven by solid HFI portfolio growth and continued reduction in the level of nonperforming loans
 - Nonperforming loan resolutions activity to remain strong
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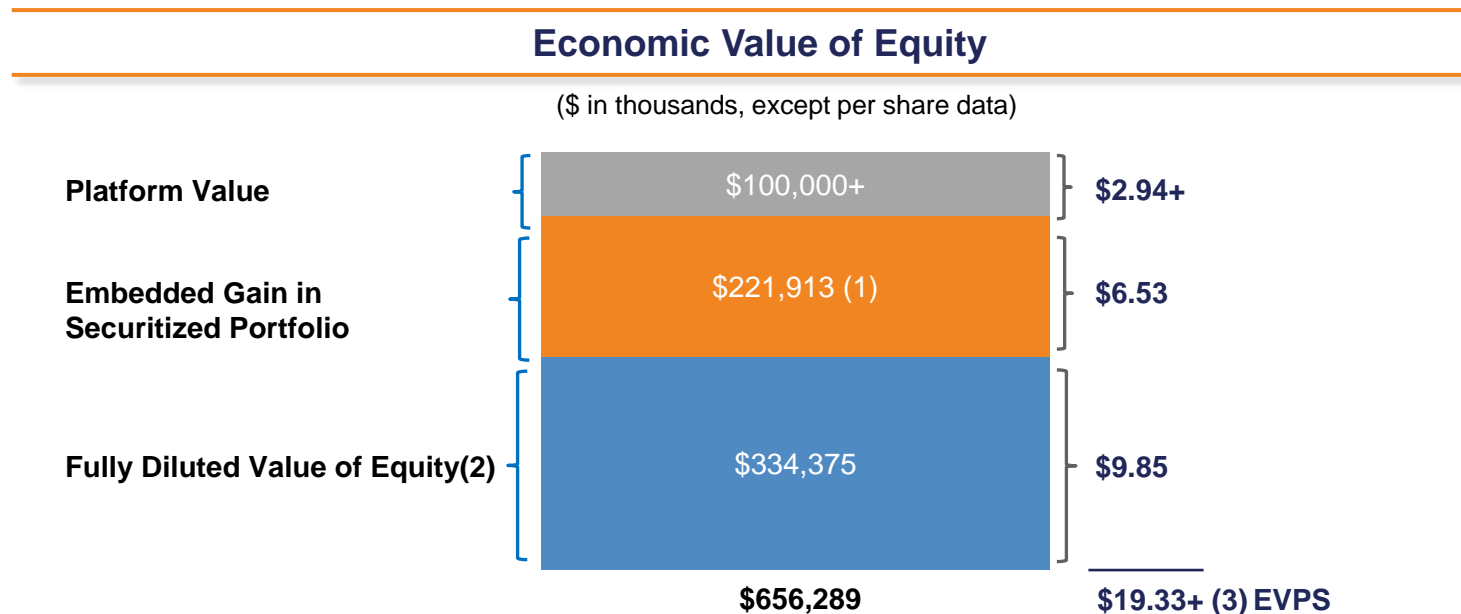
Optimizing the Capital Structure and Financing Costs

- The strong market reception for Velocity's VCC-2021-1 securitization in May expected to continued as we prepare for our second securitization of 2021 in the third quarter
- Exploring options to collapse and refinance 2 to 3 of Velocity's older, higher cost, securitizations before year end, resulting in further cost of funds reductions
- Total warehouse line capacity reached \$550.0 million as of July 31, 2021, with the addition of a fifth warehouse line

Economic Value of Equity

Economic Value of Equity is significantly higher than GAAP Book Value of Equity

- We elect to carry our retained interests in securitizations at amortized cost to minimize volatility
- The graph below reflects our estimate of economic value of equity (a non-GAAP financial measure) by adding the net present value of expected future gains embedded in the securitized portfolio and the value of our unique origination platform – our estimate of economic value of equity does not represent a substitute for GAAP book value of equity
- Recent M&A precedents for business purpose lenders demonstrate significant platform/franchise values that investors are ascribing to businesses like Velocity Financial
- These transactions have demonstrated platform values of \$100MM+ based on ~10%+ of annual production



(1) Embedded gain in portfolio assumes a 10% discount rate of projected securitization earnings and is net of \$49,061,026 of deferred loan origination costs and securitization deal costs.

(2) Fully Diluted Value of Equity assumes 6/30/2021 GAAP Book Value of Equity of \$233.5MM + \$90.0MM from full conversion of preferred stock to common stock, for which Velocity has the option effective October 8, 2021, and \$10.9MM from exercise of all warrants.

(3) Economic Value of Equity per Share ("EVPS") calculated using 33,960,141 shares outstanding assuming dilution impact based on Velocity's average stock price for Q2 2021.



Appendix

Vertically Integrated Platform

Highly Customized Platform Integrates All Functional Areas to Enable Efficient Workflow Execution

Sourcing

- 100% of new loan applications submitted via fully integrated broker portal

Appraisal

- Proprietary network of local appraisers with internal licensed appraisers driving valuation process

Underwriting

- Uniform credit guidelines, pricing engine, and collaborative real time process

Securitization

- Strong institutional ownership with outstanding performance

Servicing

- Seamless and instantaneous transfer of loan data with 3rd party servicers

Asset Management

- Hands on internal asset managers focused on minimizing credit losses



Velocity Financial, Inc. Balance Sheet

	Quarter Ended				
	6/30/2021	3/31/2021	12/31/2020	9/30/2020	6/30/2020
	Unaudited	Unaudited	Audited	Unaudited	Unaudited
<i>(In thousands)</i>					
Assets					
Cash and cash equivalents	\$ 27,741	\$ 20,434	\$ 13,273	\$ 19,210	\$ 9,803
Restricted cash	7,921	6,808	7,020	7,821	6,735
Loans held for sale, net	7,916	0	13,106	0	212,344
Loans held for investment, at fair value	1,370	1,364	1,539	3,327	2,956
Loans held for investment	2,057,046	1,983,435	1,924,489	1,977,236	1,836,065
Net deferred loan costs	26,707	25,070	23,600	23,850	25,754
Total loans, net	2,093,039	2,009,869	1,962,734	2,004,413	2,077,119
Accrued interest receivables	11,094	11,169	11,373	13,134	17,793
Receivables due from servicers	73,517	77,731	71,044	44,466	36,028
Other receivables	10,169	3,879	4,085	402	4,609
Real estate owned, net	20,046	14,487	15,767	14,653	15,648
Property and equipment, net	3,625	3,891	4,145	4,446	4,718
Deferred tax asset	13,196	9,246	6,654	1,832	5,556
Other assets	7,257	7,325	6,779	16,489	9,042
Total Assets	\$ 2,267,605	\$ 2,164,839	\$ 2,102,874	\$ 2,126,866	\$ 2,187,051
Liabilities and members' equity					
Accounts payable and accrued expenses	\$ 70,049	\$ 65,003	\$ 63,361	\$ 61,859	\$ 55,938
Secured financing, net	164,053	129,666	74,982	74,776	74,571
Securitized, net	1,558,163	1,453,386	1,579,019	1,670,930	1,599,719
Warehouse & repurchase facilities	151,872	203,314	75,923	19,541	160,796
Total Liabilities	1,944,137	1,851,369	1,793,285	1,827,106	1,891,024
Mezzanine Equity					
Series A Convertible preferred stock	90,000	90,000	90,000	90,000	90,000
Stockholders' Equity					
Stockholders' equity	233,468	223,470	219,589	209,760	206,027
Total Liabilities and members' equity	\$ 2,267,605	\$ 2,164,839	\$ 2,102,874	\$ 2,126,866	\$ 2,187,051
Book value per share	\$ 11.62	\$ 11.12	\$ 10.93	\$ 10.44	\$ 10.26
Shares outstanding	20,087	20,087	20,087	20,087	20,087



Velocity Financial, Inc. Income Statement

(\$ in thousands)

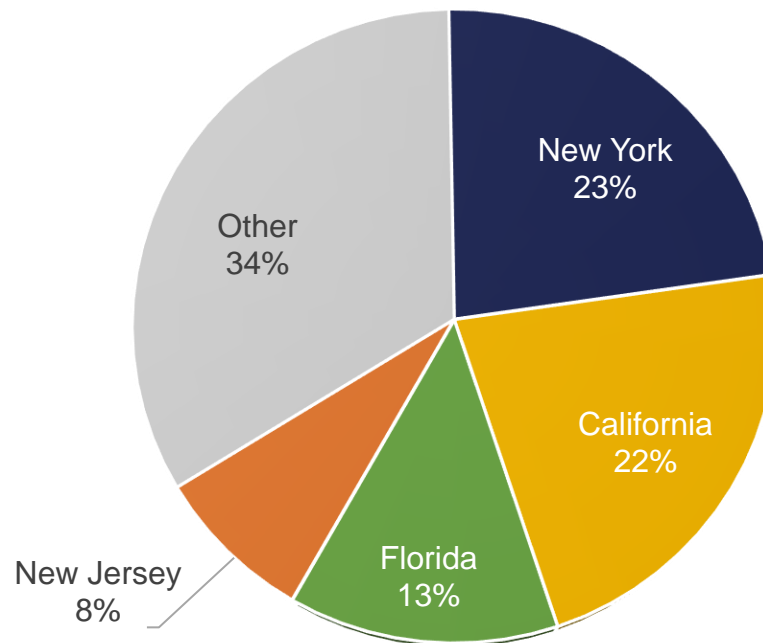
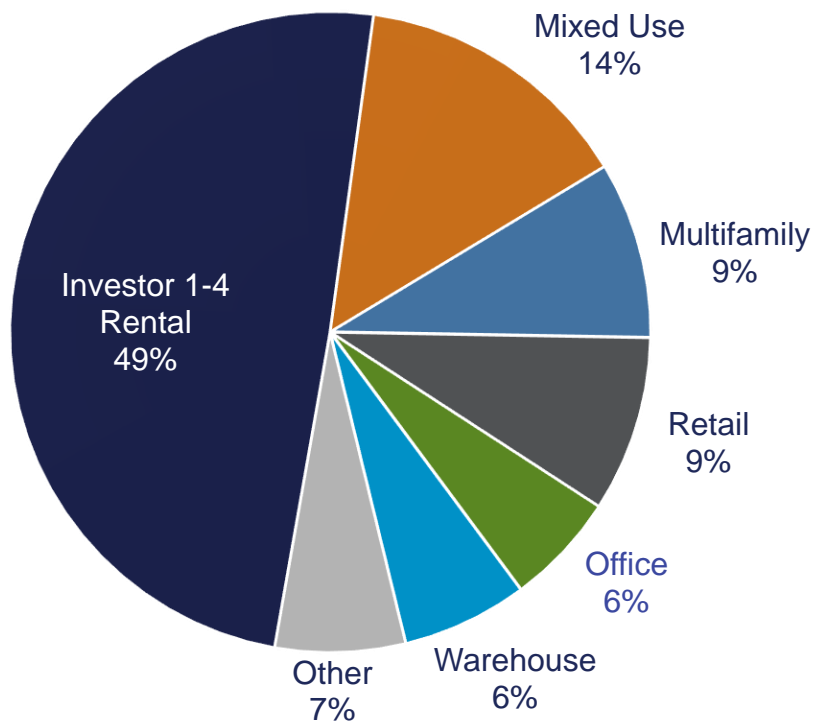
	Quarter Ended				
	6/30/2021 Unaudited	3/31/2021 Unaudited	12/31/2020 Audited	9/30/2020 Unaudited	6/30/2020 Unaudited
Revenues					
Interest income	\$ 44,978	\$ 40,707	\$ 41,556	\$ 41,374	\$ 39,755
Interest expense - portfolio related	20,566	20,832	21,442	22,347	21,189
Net interest income - portfolio related	24,412	19,875	20,114	19,027	18,566
Interest expense - corporate debt	4,309	7,350	1,900	1,913	1,894
Net interest income	20,103	12,525	18,214	17,114	16,672
Provision for loan losses	(1,000)	105	406	1,573	1,800
Net interest income after provision for loan losses	21,103	12,420	17,808	15,541	14,872
Other operating income (expense)	2,432	2,801	4,691	1,349	(1,339)
Total net revenues	23,535	15,221	22,499	16,890	13,533
Operating expenses					
Compensation and employee benefits	4,546	5,186	4,135	5,692	5,863
Rent and occupancy	430	463	424	415	448
Loan servicing	1,922	1,867	1,977	2,168	1,754
Professional fees	795	533	1,415	1,051	588
Real estate owned, net	1,039	509	217	898	408
Other operating expenses	1,918	2,059	2,578	1,641	1,847
Total operating expenses	10,650	10,617	10,746	11,865	10,908
Income before income taxes	12,885	4,604	11,753	5,025	2,625
Income tax expense	3,432	1,208	2,177	1,544	484
Net income	\$ 9,453	\$ 3,396	\$ 9,576	\$ 3,481	\$ 2,141
Less: Deemed dividends on preferred stock	-	-	-	-	\$ 48,955
Less: Undistributed earnings allocated to participating securities	3,571	\$ 1,281	n.a.	n.a.	n.a.
Net income (loss) allocated to common shareholders	\$ 5,882	\$ 2,115	\$ 9,576	\$ 3,481	\$ (46,814)
Basic earnings (loss) per share	\$ 0.29	\$ 0.11	\$ 0.48	\$ 0.17	\$ (2.33)
Diluted earnings (loss) per common share	\$ 0.28	\$ 0.10	\$ 0.29	\$ 0.11	\$ (2.33)
Basic weighted average common shares outstanding	20,087	20,087	20,087	20,087	20,087
Diluted weighted average common shares outstanding	33,960	33,407	32,793	32,435	20,087

HFI Loan Portfolio

Portfolio by Property Type

Portfolio by State

(100% = \$2.06 billion UPB)⁽¹⁾



⁽¹⁾ As of June 30, 2021



HFI Portfolio Delinquency Trends

(\$ in thousands)

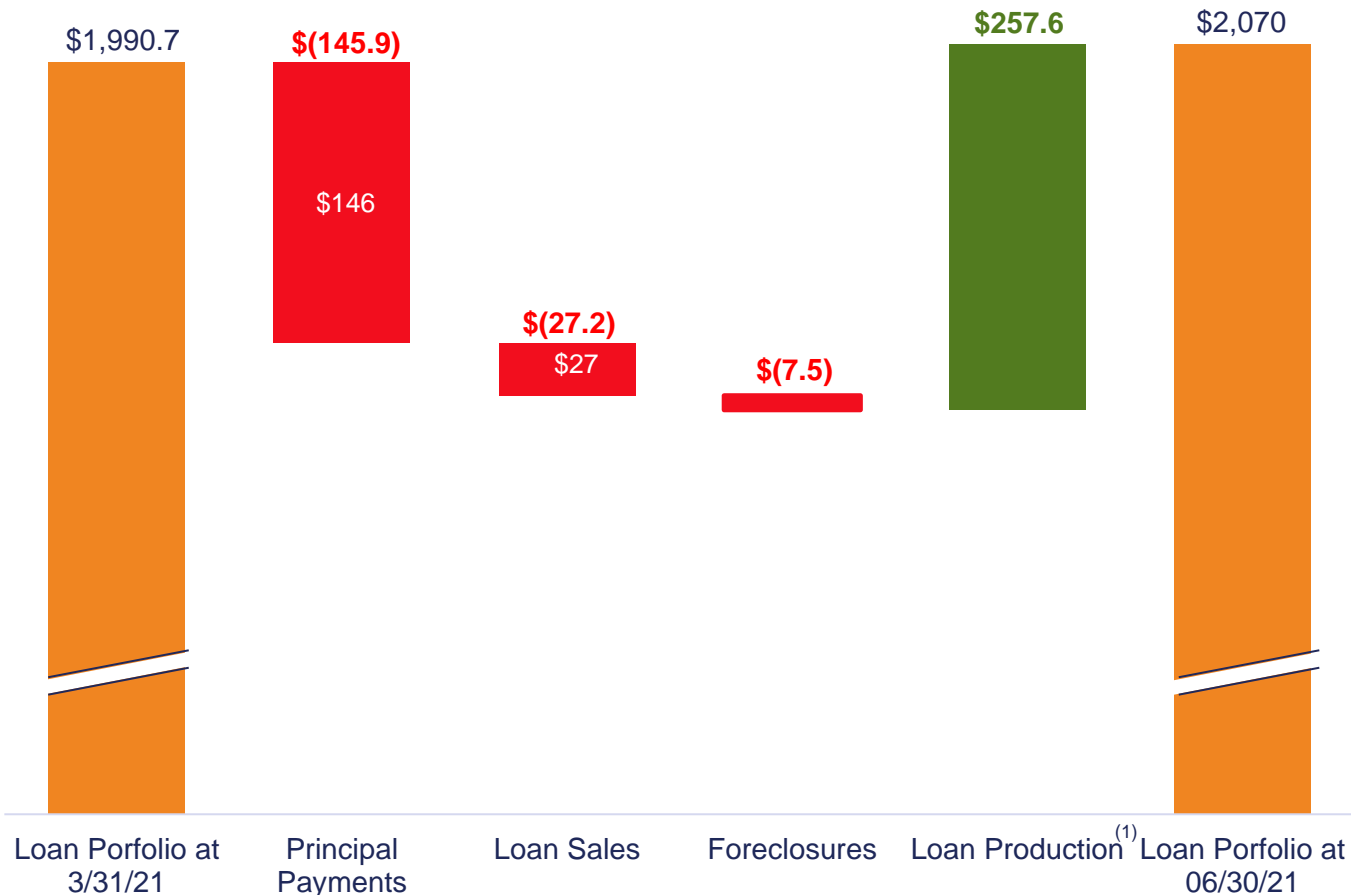
	June 30, 2020		September 30, 2020		December 31, 2020		March 31, 2021		June 30, 2021	
	\$	%	\$	%	\$	%	\$	%	\$	%
Performing/Accruing:										
Current	\$ 1,186,267	64.3%	\$ 1,474,076	74.2%	\$ 1,445,131	74.9%	\$ 1,528,684	76.8%	\$ 1,645,019	79.8%
30-59 days past due	121,320	6.6%	108,601	5.5%	89,284	4.6%	67,100	3.4%	69,165	3.4%
60-89 days past due	145,976	7.9%	74,351	3.7%	62,694	3.2%	59,700	3.0%	32,484	1.6%
90+ days past due	122,195	6.6%	14,589	0.7%	1,953	0.1%	152	0.0%	152	0.0%
Total Performing	1,575,758	85.4%	1,671,617	84.2%	1,599,062	82.9%	1,655,636	83.2%	1,746,820	84.7%
Nonperforming/Nonaccrual:										
<90 days past due	18,657	1.0%	23,502	1.2%	20,778	1.1%	18,076	0.9%	20,740	1.0%
90+ days past due	136,577	7.4%	119,248	6.0%	82,004	4.2%	72,303	3.6%	50,638	2.5%
Bankruptcy	8,668	0.5%	8,646	0.4%	12,655	0.7%	15,226	0.8%	17,659	0.9%
In foreclosure	104,947	5.7%	163,331	8.2%	217,376	11.2%	229,443	11.5%	226,506	11.0%
Total nonperforming loans	268,849	14.6%	314,727	15.8%	332,813	17.2%	335,048	16.8%	315,543	15.3%
Total loans held for investment	\$ 1,844,607	100%	\$ 1,986,343	100%	\$ 1,931,875	100%	\$ 1,990,684	100%	\$ 2,062,363	100%



Loan Portfolio Rollforward

Loan Portfolio Waterfall

(UPB in millions)



⁽¹⁾ Includes \$1.1 million in UPB of repurchased loans