



**Investors and Media:**

Chris Oltmann  
(818) 532-3708

## **Velocity Financial, Inc. Reports Fourth Quarter and Full-Year 2023 Results**

### **Fourth Quarter Highlights:**

- Net income of \$17.4 million, up 105.1% from \$8.5 million for 4Q22. Diluted EPS of \$0.50, up \$0.25 from \$0.25 per share for 4Q22
- Core net income<sup>(1)</sup> of \$16.2 million, up 77.2% from \$9.1 million for 4Q22. Core diluted EPS<sup>(1)</sup> of \$0.46, up \$0.19 from \$0.27 per share for 4Q22
- Loan production of \$352.1 million in UPB, a 21.2% increase from 3Q23 and 26.8% from 4Q22
  - Year-to-date 2024 loan production through February 2024 totaled \$254.4 million with an 11.1% weighted average coupon (WAC)
- Nonperforming loans as a percentage of Held for Investment (HFI) loans was 9.7%, a decrease from 10.1% as of September 30, 2023, and an increase from 8.3% as of December 31, 2022
- Resolutions of nonperforming loans (NPL) and real estate owned (REO) totaled \$70.9 million in UPB,
  - Realizing gains of \$1.5 million or 102.2% of UPB resolved
- Portfolio net interest margin (NIM) of 3.52%, up 18 bps Q/Q and an increase of 68 bps from 2.84% for 4Q22
- Completed the VCC 2023-4 securitization totaling \$202.9 million of securities issued
- Liquidity<sup>(2)</sup> of \$63.2 million as of December 31, 2023
- Recourse debt to equity ratio of 1.2 times
- Book value per common share of \$13.49 as of December 31, 2023, an increase from \$13.00 as of September 30, 2023

### **Full-Year 2023 Highlights:**

- Total loan portfolio of \$4.1 billion in UPB, an increase of 16.0% from December 31, 2022
- Loan production volume of \$1.1 billion in unpaid principal balance (UPB), a decrease from \$1.8 billion for FY 2022
- Net income of \$52.3 million, compared to \$32.2 million for FY 2022. Diluted earnings per share (EPS) of \$1.52 in 2023, compared to \$0.94 per share for FY 2022

<sup>(1)</sup> Core income and Core EPS are non-GAAP measures that exclude nonrecurring and unusual activities from GAAP net income.

<sup>(2)</sup> Liquidity includes unrestricted cash reserves of \$40.7 million and available liquidity in unfinanced loans of \$22.5 million.

- Core Net Income<sup>(1)</sup> totaled \$53.4 million in 2023, compared to \$42.2 million for FY 2022. Core diluted EPS<sup>(1)</sup> of \$1.54, compared to \$1.24 per share for FY 2022
- Net charge-off and gain/(loss) on REO activity for FY 2023 was a gain of \$2.0 million, compared to a gain of \$5.5 million for FY 2022
- Portfolio NIM of 3.34%, compared to 3.64% for FY 2022
- Pretax return on equity of 17.5%, an increase from 12.2% for FY 2022

Westlake Village, CA – March 7, 2024 – Velocity Financial, Inc. (NYSE: VEL) (Velocity or the Company), a leader in business purpose loans, reported net income of \$52.3 million and core net income of \$53.4 million for full-year 2023, compared to net income of \$32.2 million and core net income of \$42.2 million for the full-year 2022. Earnings and core earnings per diluted share were \$1.52 and \$1.54, respectively, for the full-year 2023, compared to \$0.94 and \$1.24 for the full-year 2022.

“I am pleased to announce that Velocity delivered record earnings for the fourth quarter and full year 2023, driven by strategic portfolio growth and proactive asset management.” said Chris Farrar, President and CEO. “While higher interest rates and rising inflation presented significant challenges for the mortgage market last year, our dedicated and experienced team turned these challenges into opportunities and delivered strong financial and operational results. We successfully increased loan production each quarter in 2023, while also increasing mortgage coupons by 86 basis point from the average rate for 4Q22. As a result, our net interest margins increased 68 basis points from 4Q22, and our asset management team continued to enhance shareholder value with positive recovery rates. Recently, we announced a \$75 million capital raise we are deploying into accretive investments to fuel additional growth and attain our “5X25” goal of a \$5 billion loan portfolio by 2025.”

## Fourth Quarter Operating Results

KEY PERFORMANCE INDICATORS					
(\$ in thousands)	4Q 2023	4Q 2022	\$ Variance	% Variance	
Pretax income	\$ 22,307	\$ 11,692	\$ 10,615	91%	
Net income	\$ 17,355	\$ 8,462	\$ 8,892	105%	
Diluted earnings per share	\$ 0.50	\$ 0.25	\$ 0.25	100%	
Core net income <sup>(a)</sup>	\$ 16,161	\$ 9,118	\$ 7,043	77%	
Core diluted earnings per share <sup>(a)</sup>	\$ 0.46	\$ 0.27	\$ 0.19	73%	
Pretax return on equity	20.66%	12.37%	n.a.	67%	
Core pretax return on equity <sup>(a)</sup>	20.84%	13.61%	n.a.	53%	
Net interest margin - portfolio	3.52%	2.84%	n.a.	24%	
Net interest margin - total company	3.10%	2.36%	n.a.	31%	
Average common equity	\$ 431,891	\$ 378,007	\$ 53,884	14%	

<sup>(a)</sup> Core income, core diluted earnings per share and core pretax return on equity are non-GAAP measures. Please see the reconciliation to GAAP net income at the end of this release.

### **Discussion of results:**

- Net income in 4Q23 was \$17.4 million, compared to \$8.5 million for 4Q22

- Driven by FV gains on new production and a 48.9% increase in net interest income
- Core net income<sup>(1)</sup> was \$16.2 million, compared to \$9.1 million for 4Q22
  - 4Q23 Core adjustments include a California apportionment tax liability reduction, incentive compensation expenses and costs related to the Company’s employee stock purchase plan (ESPP)
- Portfolio NIM in 4Q23 was 3.52%, compared to 2.84% for 4Q22, a 24.0% Y/Y increase driven by an increased average portfolio yield from higher loan coupons on recent loan production and growth in NPL resolution gains, partially offset by higher funding costs
- The GAAP pretax return on equity was 20.7% for 4Q23, compared to 12.37% for 4Q22

<b>TOTAL LOAN PORTFOLIO</b>					
<i>(\$ of UPB in millions)</i>					
	<b>4Q 2023</b>		<b>4Q 2022</b>		
					<b>\$ Variance</b>   <b>% Variance</b>
<b><i>Held for Investment</i></b>					
Investor 1-4 Rental	\$	2,225	\$	1,852	\$ 373   20%
Mixed Use		475		443	32   7%
Multi-Family		316		301	15   5%
Retail		344		305	39   13%
Warehouse		265		223	42   19%
All Other		431		388	43   11%
<b>Total</b>	<b>\$</b>	<b>4,056</b>	<b>\$</b>	<b>3,512</b>	<b>\$ 543</b>   <b>15%</b>
<b><i>Held for Sale</i></b>					
Investor 1-4 Rental	\$	17	\$	-	\$ 17   n.m.
Multi-Family		-		-	-   n.m.
Warehouse		-		-	-   n.m.
All Other		-		-	-   n.m.
<b>Total Managed Loan Portfolio UPB</b>	<b>\$</b>	<b>4,073</b>	<b>\$</b>	<b>3,512</b>	<b>\$ 560</b>   <b>16%</b>
<b><i>Key loan portfolio metrics:</i></b>					
Total loan count		10,477		8,893	
Weighted average loan to value		67.8%		68.2%	
Weighted average coupon		8.88%		7.95%	
Weighted average total portfolio yield		8.70%		7.51%	
Weighted average portfolio debt cost		5.75%		5.23%	

n.m. - non meaningful

### ***Discussion of results:***

- Velocity’s total loan portfolio was \$4.1 billion in UPB as of December 31, 2023, an increase of 16.0% from \$3.5 billion in UPB as of December 31, 2022
  - Primarily driven by 20.2% Y/Y growth in loans collateralized by Investor 1-4 Rental properties and a combined 15.2% Y/Y growth in loans collateralized by Retail and Warehouse properties
  - Loan prepayments totaled \$118.0 million, an increase of 13.0% Q/Q and 35.7% Y/Y

- The UPB of Fair Value (FVO) loans was \$1.27 billion, or 31.1% of total HFI loans, as of December 31, 2023, an increase from \$268.6 million in UPB and 7.6%, as of December 31, 2022
  - The company elected fair value accounting treatment for new loan originations effective October 1, 2022
- The weighted average portfolio loan-to-value ratio was 67.8% as of December 31, 2023, down from 68.2% as of December 31, 2022, and consistent with the five-quarter trailing average of 68.8%
- The weighted average total portfolio yield was 8.70% for 4Q23, an increase of 119 bps from 4Q22, driven by a 93 bps increase in average loan coupons from 4Q22
- Portfolio-related debt cost for 4Q23 was 5.75%, an increase of 52 bps from 4Q22, driven by higher interest rates on 2023 securitizations and warehouse financing

LOAN PRODUCTION VOLUMES						
(\$ in millions)	4Q 2023		4Q 2022		\$ Variance	% Variance
Investor 1-4 Rental	\$	183	\$	169	\$ 14	9%
Traditional Commercial		130		83	47	57%
Short-term loans		39		26	13	49%
<b>Total loan production</b>	<b>\$</b>	<b>352</b>	<b>\$</b>	<b>278</b>	<b>\$ 74</b>	<b>27%</b>
Acquisitions	\$	-	\$	-		

n.m. - non meaningful

## Discussion of results:

- Loan production for 4Q23 totaled \$352.1 million in UPB, a 26.8% increase from \$277.8 million in UPB for 4Q22
  - Driven by continued strong demand for business-purpose loans. On a Q/Q basis, production volume rose 21.2% from 3Q23.
- The weighted average coupon (WAC) on 4Q23 HFI loan production was 11.2%, an increase of 86 bps from the WAC for 4Q22

HFI PORTFOLIO CREDIT PERFORMANCE INDICATORS						
(\$ in thousands)	4Q 2023		4Q 2022		\$ Variance	% Variance
Nonperforming loans <sup>(a)</sup>	\$	394,562	\$	292,789	\$ 101,773	35%
Average Nonperforming Loans	\$	332,971	\$	279,224	\$ 53,748	19%
Nonperforming loans % total HFI Loans		9.7%		8.3%	n.a.	17%
Total Charge Offs	\$	744	\$	-	\$ 744	n.a.
Charge-offs as a % of Avg. Nonperforming Loans <sup>(b)</sup>		0.89%		0.00%	n.a.	n.a.
Loan Loss Reserve	\$	4,769	\$	4,893	\$ (124)	(3)%

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

<sup>(b)</sup> Reflects the annualized quarter-to-date charge-offs to average nonperforming loans for the period.

n.a.- not applicable

Discussion of results:

- Nonperforming loans (NPL) totaled \$394.6 million in UPB as of December 31, 2023, or 9.7% of loans HFI, compared to \$279.2 million and 8.3% as of December 31, 2022
  - NPLs as a percentage of HFI loans decreased 32 bps from 10.1% as of September 30, 2023, driven by portfolio growth and a significant slowdown in the pace of loans transitioning to foreclosure
  - On a year-over-year basis, NPL growth was driven by the older, legacy amortized cost portfolio, and the Company’s collection philosophy that places loans in foreclosure quickly for early delinquencies
- Charge-offs for 4Q23 totaled \$744.0 thousand, compared to no charge-offs for 4Q22
  - The trailing five-quarter charge-off average was \$408.0 thousand
- The loan loss reserve totaled \$4.8 million as of December 31, 2023, a 2.5% decrease from \$4.9 million as of December 31, 2022
  - Resulting from the continued run-off of the amortized cost HFI loan portfolio
  - Loans carried at fair value are not subject to a CECL reserve

NET REVENUES					
(\$ in thousands)	4Q 2023	4Q 2022	\$ Variance	% Variance	
Interest income	\$ 86,269	\$ 65,632	\$ 20,638	31%	
Interest expense - portfolio related	(51,405)	(40,854)	(10,551)	26%	
Net Interest Income - portfolio related	34,864	24,777	10,087	41%	
Interest expense - corporate debt	(4,140)	(4,139)	(1)	0%	
Loan loss provision	(828)	437	(1,264)	(290)%	
<b>Net interest income after provision for loan losses</b>	<b>\$ 29,897</b>	<b>\$ 21,076</b>	<b>\$ 8,821</b>	<b>42%</b>	
Gain on disposition of loans	1,482	391	1,091	279%	
Unrealized (loss) gain on fair value loans	39,367	7,795	31,572	405%	
Unrealized gain (loss) on fair value of securitized debt	(24,085)	-	(24,085)	n.m.	
Unrealized gain/(loss) on mortgage servicing rights	(1,208)	(630)	(578)	92%	
Origination income	3,981	3,521	461	13%	
Bank interest income	1,716	-	1,716	n.m.	
Other operating income (expense)	418	(288)	706	(245)%	
<b>Total Other operating income (expense)</b>	<b>\$ 21,670</b>	<b>\$ 10,789</b>	<b>\$ 10,881</b>	<b>101%</b>	
<b>Net Revenue</b>	<b>\$ 51,567</b>	<b>\$ 32,302</b>	<b>\$ 19,265</b>	<b>59.6%</b>	

n.m. - non meaningful

**Discussion of results:**

- Net Revenue in 4Q23 was \$51.6 million, an increase of 59.6% compared to \$32.3 million for 4Q22
- Total net interest income, including corporate debt interest expense and loan loss provision, was \$29.9 million for 4Q23, a 41.9% increase from \$21.1 million for 4Q22

- Portfolio net Interest income was \$34.9 million for 4Q23, an increase of 40.7% from 4Q22 resulting from the increased size of our portfolio and a 68 bps increase in NIM
- Total other operating income was \$21.7 million for 4Q23 as compared to \$10.8 million for 4Q22 driven largely by the FVO gains from 4Q23 loan production
  - Gain on disposition of loans totaled \$1.5 million for 4Q23, primarily resulting from loans transferred to REO
  - Net FVO marks on loans and securitized debt were \$15.3 million as a result of new 4Q23 loan production and the decrease in Treasury rates during 4Q23
  - Origination income totaled \$4.0 million, resulting from fee income realized on loans originated in 4Q23

OPERATING EXPENSES				
(\$ in thousands)	4Q 2023	4Q 2022	\$ Variance	% Variance
Compensation and employee benefits	\$ 15,143	\$ 11,793	\$ 3,350	28%
Origination (income)/expense	173	1,328	(1,156)	(87)%
Securitization expenses	2,709	-	2,709	n.m.
Rent and occupancy	551	435	116	27%
Loan servicing	4,636	3,244	1,392	43%
Professional fees	1,733	1,091	642	59%
Real estate owned, net	2,068	552	1,516	275%
Other expenses	2,248	2,360	(112)	(5)%
<b>Total operating expenses</b>	<b>\$ 29,260</b>	<b>\$ 20,804</b>	<b>\$ 8,456</b>	<b>41%</b>

n.m. - non meaningful

**Discussion of results:**

- Operating expenses totaled \$29.3 million for 4Q23, an increase of 40.7% from 4Q22, driven by higher compensation expenses from headcount growth and securitization expenses driven by impacts attributable to our fair value accounting election
  - Compensation expense totaled \$15.1 million, compared to \$11.8 million for 4Q22
    - Compensation growth was driven by hires of sales account executives and operational staff, in addition to commissions paid on higher loan production
  - Securitization expenses totaled \$2.7 million, resulting from the issuance of the VCC 2023-4 securitization during the quarter. Securitization issuance costs are now expensed under fair value accounting and were deferred in 4Q22.
  - Loan servicing expense totaled \$4.6 million, a 42.9% increase from \$3.2 million for 4Q22, driven by the increase in our portfolio balance and nonperforming loans
  - REO expense increased totaled \$2.1, an increase from \$0.6 million for 4Q22, driven by increased valuation-related expenses

<b>SECURITIZATIONS</b>					
<i>(\$ in thousands)</i>					
<b>Trusts</b>	<b>Securities Issued</b>	<b>Balance at 12/31/2023</b>		<b>Balance at 12/31/2022</b>	
			<b>W.A. Rate</b>		<b>W.A. Rate</b>
2016-1 Trust	319,809	\$ -	0.00%	\$ 22,369	8.59%
2017-2 Trust	245,601	45,869	3.97%	59,183	3.92%
2018-1 Trust	176,816	33,505	4.03%	43,596	4.05%
2018-2 Trust	307,988	76,871	4.48%	93,792	4.46%
2019-1 Trust	235,580	76,391	4.07%	91,167	4.06%
2019-2 Trust	207,020	66,340	3.42%	82,508	3.46%
2019-3 Trust	154,419	58,089	3.29%	67,899	3.25%
2020-1 Trust	248,700	106,976	2.85%	136,643	2.89%
2020-2 Trust	96,352	45,180	4.61%	60,445	4.60%
2021-1 Trust	251,301	171,748	1.76%	196,969	1.73%
2021-2 Trust	194,918	143,797	2.02%	170,072	2.02%
2021-3 Trust	204,205	158,043	2.46%	178,038	2.44%
2021-4 Trust	319,116	244,919	3.22%	273,489	3.20%
2022-1 Trust	273,594	236,358	3.93%	256,667	3.93%
2022-2 Trust	241,388	210,217	5.07%	233,045	5.07%
2022-MC1 Trust	84,967	31,508	6.90%	54,528	6.91%
2022-3 Trust	296,323	257,047	5.70%	280,066	5.67%
2022-4 Trust	308,357	274,419	6.24%	301,856	6.23%
2022-5 Trust	188,754	162,925	7.06%	186,577	7.10%
2023-1 Trust	198,715	177,250	7.02%		
2023-1R Trust	64,833	58,237	7.68%		
2023-2 Trust	202,210	188,805	7.19%		
2023-RTL1 Trust	81,608	81,608	8.24%		
2023-3 Trust	234,741	227,228	7.82%		
2023-4 Trust	202,890	201,813	8.38%		
	<b>\$ 5,340,205</b>	<b>\$ 3,335,143</b>	<b>5.22%</b>	<b>\$ 2,788,909</b>	<b>4.27%</b>

**Discussion of results**

- The company completed one securitization during 4Q23 totaling \$202.9 million of securities issued
- The weighted average rate on Velocity’s outstanding securitizations was 5.22% as of December 31, 2023, an increase of 94 bps from December 31, 2022

RESOLUTION ACTIVITIES				
LONG-TERM LOANS				
RESOLUTION ACTIVITY (\$ in thousands)	FOURTH QUARTER 2023		FOURTH QUARTER 2022	
	UPB \$	Gain / (Loss) \$	UPB \$	Gain / (Loss) \$
Paid in full	\$ 22,342	\$ 826	\$ 8,188	\$ 329
Paid current	36,026	206	9,648	21
REO sold (a)	1,588	140	2,404	67
<b>Total resolutions</b>	<b>\$ 59,956</b>	<b>\$ 1,172</b>	<b>\$ 20,240</b>	<b>\$ 417</b>
Resolutions as a % of nonperforming UPB	102.0%		102.1%	
SHORT-TERM AND FORBEARANCE LOANS				
RESOLUTION ACTIVITY (\$ in thousands)	FOURTH QUARTER 2023		FOURTH QUARTER 2022	
	UPB \$	Gain / (Loss) \$	UPB \$	Gain / (Loss) \$
Paid in full	\$ 2,770	\$ 37	\$ 4,092	\$ 82
Paid current	7,560	13	457	-
REO sold	604	316	529	74
<b>Total resolutions</b>	<b>\$ 10,934</b>	<b>\$ 366</b>	<b>\$ 5,078</b>	<b>\$ 156</b>
Resolutions as a % of nonperforming UPB	103.3%		103.1%	
<b>Grand total resolutions</b>	<b>\$ 70,890</b>	<b>\$ 1,538</b>	<b>\$ 25,318</b>	<b>\$ 572</b>
Grand total resolutions as a % of nonperforming UPB	102.2%		102.3%	

**Discussion of results:**

- NPL resolution totaled 70.9 million in UPB, realizing 102.2% of UPB resolved compared to \$25.3 million in UPB and realization of 102.3% of UPB resolved for 4Q22
- 4Q23 NPL resolutions represented 18.3% of nonperforming loan UPB as of September 30, 2023
- The UPB of loan resolutions in 4Q23 was 41.4% higher than the recent five-quarter resolution average of \$50.1 million in UPB



**Full-Year 2023 Operating Results**

<b>FULL-YEAR OPERATING RESULTS</b>					
<i>(\$ in thousands)</i>	<b>FY 2023</b>	<b>FY 2022</b>	<b>\$ Variance</b>	<b>% Variance</b>	
Investor 1-4 Rental	\$ 617	\$ 994	\$ (377)	(38)%	
Traditional Commercial	381	652	(271)	(42)%	
Short-term loans	120	116	4	4%	
<b>Total Loan production</b>	<b>\$ 1,118</b>	<b>\$ 1,762</b>	<b>\$ (644)</b>	<b>(37)%</b>	
<b>Net Interest Margin - Portfolio</b>	<b>3.34%</b>	<b>3.64%</b>	<b>n.a.</b>	<b>(8)%</b>	
<b>Average Nonperforming Loans</b>	<b>\$ 328,105</b>	<b>\$ 266,129</b>	<b>\$ 61,976</b>	<b>23%</b>	
Total Net Interest Income <sup>(a)</sup>	105,836	81,996	\$ 23,840	29.1%	
Total Other Income	65,910	24,320	41,590	171.0%	
Total Expenses	119,472	74,106	45,366	61.2%	
<b>Net Income</b>	<b>\$ 52,273</b>	<b>\$ 32,211</b>	<b>\$ 20,062</b>	<b>62%</b>	
<b>Diluted EPS</b>	<b>\$ 1.52</b>	<b>\$ 0.94</b>	<b>\$ 0.57</b>	<b>61%</b>	
<b>Core Income<sup>(b)</sup></b>	<b>\$ 53,384</b>	<b>\$ 42,153</b>	<b>\$ 11,231</b>	<b>26.6%</b>	
<b>Core Diluted EPS<sup>(b)</sup></b>	<b>\$ 1.54</b>	<b>\$ 1.24</b>	<b>\$ 0.30</b>	<b>24.5%</b>	
<b>Pretax Return on Equity</b>	<b>17.5%</b>	<b>12.2%</b>	<b>n.a.</b>	<b>42.8%</b>	

<sup>(a)</sup> After provision for loan losses.

<sup>(b)</sup> Core income is a non-GAAP measure. Please see the reconciliation to GAAP net income at the end of this release.

n.a.- not applicable

<b>CHARGE-OFFS, NET GAIN/(LOSS) ON REO</b>	<b>Year Ended</b>			
	<b>FY 2023</b>	<b>FY 2022</b>	<b>\$ Variance</b>	<b>% Variance</b>
<i>(\$ in thousands)</i>				
Average nonperforming loans for the period <sup>(a)</sup>	\$ 328,105	\$ 266,129	\$ 61,976	23%
Charge-offs	(2,039)	(521)	\$ (1,518)	291%
Charge-offs / Average nonperforming loans for the period <sup>(a)</sup>	-0.62%	-0.20%	\$ (0)	217%
Gain on transfer of REO	7,412	3,408	\$ 4,004	117%
Gain on sale of REO	568	2,939	\$ (2,371)	(81)%
REO valuations, net	(3,903)	(364)	\$ (3,539)	972%
<b>Total gain/(loss) on REO</b>	<b>\$ 2,038</b>	<b>\$ 5,462</b>	<b>\$ (3,424)</b>	<b>(63)%</b>

<sup>(a)</sup> Reflects the monthly average of nonperforming loans held for investment during the period.

**Discussion of results:**

- Loan production in FY 2023 totaled \$1.1 billion in UPB, a 36.5% decrease from \$1.8 billion in UPB for 2022
  - Driven by higher interest rates throughout most of FY 2023
- Net interest margin (NIM) was 3.34% for FY 2023, a 30 bps decrease from 3.64% for FY 2022
  - Driven by higher securitization and warehouse financing costs

- Partially offset by a higher weighted average coupon on FY 2023 loan production of 11.1% compared to 8.0% for FY 2022
- Average NPLs were \$328.1 million for FY 2023, an increase of 23.3% from the FY 2022 average of \$266.1 million
  - Average NPLs as a percentage of average loans HFI were 8.7% for FY 2023, compared to 8.6% for FY 2022
- Net charge-off and gain/(loss) on REO activity for FY 2023 was a gain of \$2.0 million, compared to a gain of \$5.5 million for FY 2022
- Net income totaled 52.3 million for FY 2023, a 62.3% increase from 32.2 million for FY 2022
  - Net interest income (after corporate interest expense and provision for loan losses) totaled \$105.8 million, a 29.1% increase from \$82.0 million in FY 2022, driven by HFI portfolio growth and higher coupons on FY 2023 loan production
  - Other income totaled \$65.9 million, a 171.0% increase from \$24.3 million in FY 2022, driven by the net impact of the Company's fair value accounting election for loan production originated after October 1, 2022, and unrealized fair value losses on securitized debt
  - Expenses totaled \$119.5 million, a 61.2% increase from \$74.1 million in FY 2022, driven by an increase in compensation expense related to the Company's fair value accounting election and securitization costs resulting from the issuance of six VCC securitizations in 2023. Under fair value accounting, securitization costs are expensed as incurred, whereas previously, they were deferred and amortized over the life of the securitization.
- Core net income<sup>(1)</sup> totaled \$53.4 million, a 26.6% increase from \$42.2 million for FY 2022
  - Core income adjustments totaled \$1.1 million, compared to \$9.9 million for FY 2022
  - Core diluted EPS was \$1.54 per share, a 24.5% increase from \$1.24 per share for FY 2022
- Pretax return on equity was 17.5%, a 42.8% increase from 12.2% for FY 2022

Velocity's executive management team will host a conference call and webcast to review 4Q23 and Full-Year 2023 financial results on March 7<sup>th</sup>, 2024, at 2:00 p.m. Pacific Time / 5:00 p.m. Eastern Time.

### **Webcast Information**

The conference call will be webcast live in listen-only mode and can be accessed through the Events and Presentations section of the Velocity Financial Investor Relations website <https://www.velfinance.com/events-and-presentations>. To listen to the webcast, please visit Velocity's website at least 15 minutes before the call to register, download, and install any needed software. An audio replay of the call will also be available on Velocity's website following the completion of the conference call.

### **Conference Call Information**

To participate by phone, please dial-in 15 minutes before the start time to allow for wait times to access the conference call. The live conference call will be accessible by dialing 1-833-316-0544 in the U.S. and Canada and 1-412-317-5725 for international callers. Callers should ask to join the Velocity Financial, Inc. conference call.

A replay of the call will be available through midnight on March 14, 2024, and can be accessed by dialing 1-877-344-7529 in the U.S. and 855-669-9658 in Canada or 1-412-317-0088 internationally. The passcode for the replay is #7107943. The replay will also be available on the Investor Relations section of the Company's website under "Events and Presentations."

### **About Velocity Financial, Inc.**

Based in Westlake Village, California, Velocity is a vertically integrated real estate finance company that primarily originates and manages business purpose loans secured by 1-4-unit residential rental and small commercial properties. Velocity originates loans nationwide across an extensive network of independent mortgage brokers built and refined over 19 years.

### **Non-GAAP Financial Measures**

To supplement our financial statements presented in accordance with United States generally accepted accounting principles (GAAP), the Company uses non-GAAP core net income and core diluted EPS, which are non-GAAP financial measures.

Non-GAAP core net income and non-GAAP core diluted EPS are non-GAAP financial measures that represent our net income (loss) and net income (loss) per diluted share, adjusted to eliminate the effect of certain costs incurred from activities that are not normal recurring operating expenses, such as COVID-stressed charges and recoveries of loan loss provision, nonrecurring debt amortization, the impact of operational measures taken to address the COVID-19 pandemic and workforce reduction costs, and costs associated with acquisitions. To

calculate non-GAAP core diluted EPS, we use the weighted-average number of shares of common stock outstanding that is used to calculate net income per diluted share under GAAP.

We have included non-GAAP core net income and non-GAAP core diluted EPS because they are key measures used by our management to evaluate our operating performance, generate future operating plans, and make strategic decisions, including those relating to operating expenses and the allocation of internal resources. Accordingly, we believe that non-GAAP core net income and non-GAAP core diluted EPS provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. In addition, they provide useful measures for period-to-period comparisons of our business, as they remove the effect of certain items that we expect to be nonrecurring.

These non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. These non-GAAP financial measures are not based on any standardized methodology prescribed by GAAP and are not necessarily comparable to similarly titled measures presented by other companies.

For more information on Core Income, please refer to the section of this press release below titled "Adjusted Financial Metric Reconciliation to GAAP Net Income" at the end of this press release.

## **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 anticipated results, 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," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "goal," "position," 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 continued course and severity of the COVID-19 pandemic and its direct and indirect impacts, (2) general economic

and real estate market conditions, including the risk of recession (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 future securitizations, and (6) the continued conflict in Ukraine and (7) changes in federal government fiscal and monetary policies.

Additional information relating to these and other factors that could cause future results to differ materially from those expressed or contemplated in any forward-looking statements can be found in the section titled "Risk Factors" 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](http://www.velfinance.com).

**Velocity Financial, Inc.**  
**Consolidated Statements of Financial Condition**

	Quarter Ended				
	12/31/2023	9/30/2023	6/30/2023	3/31/2023	12/31/2022
	Audited	Unaudited	Unaudited	Unaudited	Audited
<i>(In thousands)</i>					
<b>Assets</b>					
Cash and cash equivalents	\$ 40,566	\$ 29,393	\$ 33,987	\$ 39,397	\$ 45,248
Restricted cash	21,361	17,703	16,786	16,636	16,808
Loans held for sale, at fair value	17,590	19,536	-	18,081	-
Loans held for investment, at fair value	1,306,072	951,990	705,330	450,732	276,095
Loans held for investment	2,828,123	2,945,840	3,057,940	3,169,280	3,272,390
Total loans, net	4,151,785	3,917,366	3,763,270	3,638,093	3,548,485
Accrued interest receivables	27,028	24,756	22,602	20,931	20,463
Receivables due from servicers	85,077	70,139	63,896	64,133	65,644
Other receivables	8,763	236	1,306	2,188	1,075
Real estate owned, net	44,268	29,299	20,388	21,778	13,325
Property and equipment, net	2,785	2,861	3,023	3,209	3,356
Deferred tax asset	2,339	705	1,878	2,543	5,033
Mortgage Servicing Rights, at fair value	8,578	9,786	9,445	9,143	9,238
Derivative assets	-	1,261	-	-	-
Goodwill	6,775	6,775	6,775	6,775	6,775
Other assets	5,248	7,028	7,789	12,268	13,525
<b>Total Assets</b>	<b>\$ 4,404,573</b>	<b>\$ 4,117,308</b>	<b>\$ 3,951,145</b>	<b>\$ 3,837,094</b>	<b>\$ 3,748,975</b>
<b>Liabilities and members' equity</b>					
Accounts payable and accrued expenses	\$ 121,969	\$ 97,869	\$ 95,344	\$ 84,976	\$ 91,525
Secured financing, net	211,083	210,774	210,464	210,155	209,846
Securitized debt, net	2,418,811	2,504,334	2,622,547	2,657,469	2,736,290
Securitized debt, at fair value	877,417	669,139	381,799	194,941	-
Warehouse & repurchase facilities	334,755	215,176	235,749	298,313	330,814
Derivative liability	3,665	-	-	-	-
Total Liabilities	3,967,700	3,697,292	3,545,903	3,445,854	3,368,475
<b>Stockholders' Equity</b>					
Stockholders' equity	433,444	416,398	401,707	387,624	376,811
Noncontrolling interest in subsidiary	3,429	3,618	3,535	3,616	3,689
Total equity	436,873	420,016	405,242	391,240	380,500
<b>Total Liabilities and members' equity</b>	<b>\$ 4,404,573</b>	<b>\$ 4,117,308</b>	<b>\$ 3,951,145</b>	<b>\$ 3,837,094</b>	<b>\$ 3,748,975</b>
Book value per share	\$ 13.49	\$ 13.00	\$ 12.57	\$ 12.18	\$ 11.89
Shares outstanding	32,395 <sup>(1)</sup>	32,314 <sup>(2)</sup>	32,239 <sup>(3)</sup>	32,112 <sup>(4)</sup>	31,996 <sup>(5)</sup>

<sup>(1)</sup> Based on 32,395,423 common shares outstanding as of December 31, 2023, and excludes unvested shares of common stock authorized for incentive compensation totaling 470,413.

<sup>(2)</sup> Based on 32,313,744 common shares outstanding as of September 30, 2023, and excludes unvested shares of common stock authorized for incentive compensation totaling 589,634.

<sup>(3)</sup> Based on 32,238,715 common shares outstanding as of June 30, 2023, and excludes unvested shares of common stock authorized for incentive compensation totaling 502,913.

<sup>(4)</sup> Based on 32,111,906 common shares outstanding as of March 31, 2023, and excludes unvested shares of common stock authorized for incentive compensation totaling 490,526.

<sup>(5)</sup> Based on 31,955,730 common shares outstanding as of December 31, 2022, and excludes unvested shares of common stock authorized for incentive compensation totaling 494,139.

**Velocity Financial, Inc.**  
**Consolidated Statements of Income (Quarters)**

(\$ in thousands)	Quarter Ended				
	12/31/2023	9/30/2023	6/30/2023	3/31/2023	12/31/2022
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
<b>Revenues</b>					
Interest income	\$ 86,269	\$ 79,088	\$ 74,897	\$ 70,521	\$ 65,632
Interest expense - portfolio related	51,405	47,583	45,451	42,029	40,854
Net interest income - portfolio related	34,864	31,505	29,446	28,492	24,778
Interest expense - corporate debt	4,140	4,138	4,139	4,139	4,139
Net interest income	30,724	27,367	25,307	24,353	20,639
Provision for loan losses	828	154	298	636	(437)
Net interest income after provision for loan losses	29,897	27,213	25,009	23,717	21,076
<b>Other operating income</b>					
Gain on disposition of loans	1,482	3,606	1,237	1,913	391
Unrealized gain (loss) on fair value loans	39,367	(1,284)	2,413	7,354	7,795
Unrealized gain (loss) on fair value securitized debt	(24,085)	9,692	5,560	(170)	-
Origination income	3,981	3,323	2,735	2,411	3,521
Bank interest income	1,716	1,342	1,188	948	-
Other income (expense)	418	340	601	482	(288)
Total other operating income	21,670	17,360	14,036	12,842	11,419
Net revenue	51,567	44,573	39,046	36,560	32,495
<b>Operating expenses</b>					
Compensation and employee benefits	15,143	12,523	10,670	10,008	11,793
Origination expenses	173	273	123	(50)	1,328
Securitizations expenses	2,709	4,930	2,699	2,584	-
Rent and occupancy	551	472	458	446	435
Loan servicing	4,636	4,901	4,267	3,828	3,244
Professional fees	1,733	854	1,056	955	1,091
Real estate owned, net	2,068	1,239	1,018	1,829	552
Other operating expenses	2,248	2,142	1,931	2,202	2,360
Total operating expenses	29,260	27,334	22,222	21,802	20,804
Income before income taxes	22,307	17,239	16,824	14,757	11,692
Income tax expense	5,141	5,070	4,602	4,021	3,465
Net income	17,166	12,169	12,222	10,736	8,227
Net income attributable to noncontrolling interest	(189)	83	39	87	(235)
Net income attributable to Velocity Financial, Inc.	17,355	12,086	12,183	10,649	8,462
Less undistributed earnings attributable to participating securities	225	183	185	160	127
<b>Net earnings attributable to common shareholders</b>	<b>\$ 17,130</b>	<b>\$ 11,903</b>	<b>\$ 11,998</b>	<b>\$ 10,489</b>	<b>\$ 8,335</b>
<b>Basic earnings (loss) per share</b>	<b>\$ 0.53</b>	<b>\$ 0.37</b>	<b>\$ 0.37</b>	<b>\$ 0.33</b>	<b>\$ 0.26</b>
<b>Diluted earnings (loss) per common share</b>	<b>\$ 0.50</b>	<b>\$ 0.35</b>	<b>\$ 0.36</b>	<b>\$ 0.31</b>	<b>\$ 0.25</b>
Basic weighted average common shares outstanding	32,326	32,275	32,122	32,098	31,923
Diluted weighted average common shares outstanding	34,991	34,731	34,140	34,052	34,063

**Velocity Financial, Inc.**  
**Consolidated Statements of Income (Years)**

(\$ in thousands)	Year Ended	
	12/31/2023	12/31/2022
	Audited	Audited
<b>Revenues</b>		
Interest income	\$ 310,776	\$ 240,343
Interest expense - portfolio related	186,468	127,723
Net interest income - portfolio related	124,308	112,620
Interest expense - corporate debt	16,556	29,472
Net interest income	107,750	83,148
Provision for loan losses	1,915	1,152
Net interest income after provision for loan losses	105,836	81,996
Other operating income		
Gain on disposition of loans	8,238	7,107
Unrealized gain (loss) on fair value loans	47,850	8,265
Unrealized gain (loss) on fair value securitized debt	(9,002)	-
Origination income	12,450	5,225
Bank interest income	5,194	-
Other income (expense)	1,840	1,637
Total other operating income	65,910	24,320
Net revenue	171,745	106,316
<b>Operating expenses</b>		
Compensation and employee benefits	48,344	30,458
Origination expenses	518	3,985
Securitizations expenses	12,923	-
Rent and occupancy	1,927	1,748
Loan servicing	17,631	12,298
Professional fees	4,599	4,179
Real estate owned, net	6,153	(70)
Other operating expenses	8,524	9,166
Total operating expenses	100,618	61,764
Income before income taxes	71,127	44,553
Income tax expense	18,834	12,033
Net income	52,293	32,519
Net income attributable to noncontrolling interest	19	308
Net income attributable to Velocity Financial, Inc.	52,273	32,211
Less undistributed earnings attributable to participating securities	753	491
<b>Net earnings attributable to common shareholders</b>	<b>\$ 51,520</b>	<b>\$ 31,720</b>
<b>Basic earnings (loss) per share</b>	<b>\$ 1.60</b>	<b>\$ 0.99</b>
<b>Diluted earnings (loss) per common share</b>	<b>\$ 1.52</b>	<b>\$ 0.94</b>
Basic weighted average common shares outstanding	32,206	31,913
Diluted weighted average common shares outstanding	34,484	34,131



**Velocity Financial, Inc.**  
**Net Interest Margin – Portfolio Related and Total Company**  
*(Unaudited)*

**Quarters:**

(\$ in thousands)	Quarter Ended December 31, 2023			Quarter Ended September 30, 2023			Quarter Ended December 31, 2022		
	Average Balance	Interest Income / Expense	Average Yield / Rate <sup>(1)</sup>	Average Balance	Interest Income / Expense	Average Yield / Rate <sup>(1)</sup>	Average Balance	Interest Income / Expense	Average Yield / Rate <sup>(1)</sup>
<b>Loan portfolio:</b>									
Loans held for sale	\$ 14,918			\$ 3,170			\$ 64,699		
Loans held for investment	<u>3,949,642</u>			<u>3,770,460</u>			<u>3,430,296</u>		
Total loans	\$ <u>3,964,560</u>	\$ 86,268	8.70%	\$ <u>3,773,631</u>	\$ 79,088	8.38%	\$ <u>3,494,995</u>	\$ 65,632	7.51%
<b>Debt:</b>									
Warehouse and repurchase facilities	\$ 255,266	6,040	9.46%	\$ 192,855	4,943	10.25%	\$ 286,094	5,776	8.08%
Securitized	<u>3,320,467</u>	<u>45,365</u>	5.46%	<u>3,186,756</u>	<u>42,640</u>	5.35%	<u>2,838,315</u>	<u>35,078</u>	4.94%
Total debt - portfolio related	3,575,733	51,405	5.75%	3,379,610	47,583	5.63%	3,124,409	40,854	5.23%
Corporate debt	<u>215,000</u>	<u>4,138</u>	7.70%	<u>215,000</u>	<u>4,138</u>	7.70%	<u>215,000</u>	<u>4,139</u>	7.70%
Total debt	\$ <u>3,790,733</u>	\$ <u>55,543</u>	5.86%	\$ <u>3,594,610</u>	\$ <u>51,721</u>	5.76%	\$ <u>3,339,409</u>	\$ <u>44,993</u>	5.39%
Net interest spread - portfolio related <sup>(2)</sup>			2.95%			2.75%			2.28%
Net interest margin - portfolio related			3.52%			3.34%			2.84%
Net interest spread - total company <sup>(3)</sup>			2.84%			2.63%			2.11%
Net interest margin - total company			3.10%			2.90%			2.36%

<sup>(1)</sup> Annualized.

<sup>(2)</sup> Net interest spread — portfolio related is the difference between the rate earned on our loan portfolio and the interest rates paid on our portfolio-related debt.

<sup>(3)</sup> Net interest spread — total company is the difference between the rate earned on our loan portfolio and the interest rates paid on our total debt.

**Years:**

(\$ in thousands)	Year Ended December 31, 2023			Year Ended December 31, 2022			Year Ended December 31, 2021		
	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate	Average Balance	Interest Income / Expense	Average Yield / Rate
<b>Loan portfolio:</b>									
Loans held for sale	\$ 8,615			\$ 49,194			\$ 15,794		
Loans held for investment	<u>3,716,582</u>			<u>3,043,003</u>			<u>2,110,053</u>		
Total loans	\$ <u>3,725,197</u>	\$ 310,775	8.34%	\$ <u>3,092,198</u>	\$ 240,343	7.77%	\$ <u>2,125,847</u>	\$ 181,968	8.56%
<b>Debt:</b>									
Warehouse and repurchase facilities	\$ 227,911	21,726	9.53%	\$ 292,490	17,454	5.97%	\$ 183,663	9,706	5.28%
Securitized	<u>3,113,500</u>	<u>164,742</u>	5.29%	<u>2,458,332</u>	<u>110,269</u>	4.49%	<u>1,630,385</u>	<u>75,680</u>	4.64%
Total debt - portfolio related	3,341,411	186,468	5.58%	2,750,822	127,723	4.64%	1,814,048	85,386	4.71%
Corporate debt	<u>215,000</u>	<u>16,556</u>	7.70%	<u>205,979</u>	<u>29,472</u>	14.31%	<u>154,890</u>	<u>20,609</u>	13.31%
Total debt	\$ <u>3,556,411</u>	\$ <u>203,024</u>	5.71%	\$ <u>2,956,801</u>	\$ <u>157,195</u>	5.32%	\$ <u>1,968,938</u>	\$ <u>105,995</u>	5.38%
Net interest spread - portfolio related <sup>(1)</sup>			2.76%			3.13%			3.85%
Net interest margin - portfolio related			3.34%			3.64%			4.54%
Net interest spread - total company <sup>(2)</sup>			2.63%			2.46%			3.18%
Net interest margin - total company			2.89%			2.69%			3.57%

<sup>(1)</sup> Net interest spread — portfolio related is the difference between the rate earned on our loan portfolio and the interest rates paid on our portfolio-related debt.

<sup>(2)</sup> Net interest spread — total company is the difference between the rate earned on our loan portfolio and the interest rates paid on our total debt.

**Velocity Financial, Inc.**  
**Adjusted Financial Metric Reconciliation to GAAP Net Income**  
*(Unaudited)*

**Quarters:**

Core Net Income	Quarter Ended				
	12/31/2023	9/30/2023	6/30/2023	3/31/2023	12/31/2022
<b>Net Income</b>	\$ 17,355	\$ 12,086	\$ 12,183	\$ 10,649	\$ 8,462
Tax liability reduction	(1,866)	-	-	-	-
Equity award & ESPP costs	673	832	745	728	656
<b>Core Net Income</b>	<b>\$ 16,161</b>	<b>\$ 12,918</b>	<b>\$ 12,928</b>	<b>\$ 11,376</b>	<b>\$ 9,118</b>
Diluted weighted average common shares outstanding	34,991	34,731	34,140	34,052	34,063
<b>Core diluted earnings per share</b>	<b>\$ 0.46</b>	<b>\$ 0.37</b>	<b>\$ 0.38</b>	<b>\$ 0.33</b>	<b>\$ 0.27</b>

**Years:**

Core Net Income	Year Ended	
	12/31/2023	12/31/2022
<b>Net Income</b>	\$ 52,273	\$ 32,211
Corporate debt refinancing costs	-	9,286
Tax liability reduction	(1,866)	-
Equity award & ESPP costs	2,977	656
<b>Core Net Income</b>	<b>\$ 53,384</b>	<b>\$ 42,153</b>
Diluted weighted average common shares outstanding	\$ 34,484	\$ 34,131
<b>Core diluted earnings per share</b>	<b>\$ 1.54</b>	<b>\$ 1.24</b>