# Velocity Financial, Inc.

## Fourth Quarter and Full Year 2024
## Conference Call

## Thursday, March 06, 2025, 5:00 PM Eastern

**CORPORATE PARTICIPANTS**

**Chris Farrar** - *President, Chief Executive Officer*

**Mark Szczepaniak** - *Chief Financial Officer*

**Chris Oltmann** – *Treasurer and Director of Investor Relations*

## PRESENTATION

**Operator**
Good day, and welcome to the Velocity Financial Fourth Quarter and Full Year 2024 Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Chris Oltmann, Director of Investor Relations. Please go ahead.

**Chris Oltmann**
Thanks, Arshia [ph]. Hello everyone, and thank you for joining us today for the discussion of Velocity's fourth quarter and full year 2024 results. Joining me today are Chris Farrar, Velocity's President and Chief Executive Officer and Mark Szczepaniak, Velocity's Chief Financial Officer.

Earlier this afternoon, we released our fourth quarter results, and you can find the press release and accompanying presentation, we will refer to during this call, on our investor relations website at www.velfinance.com.

I'd like to remind everyone that today's call may include forward-looking statements, which are uncertain and outside of the company's control, and actual results may differ materially. For a discussion of some of the risks and other factors that could affect results, please see the risk factors and other cautionary statements made in our communications with shareholders, including the risk factors disclosed in our filings with the Securities and Exchange Commission.

Please also note that the content of this conference call contains time-sensitive information that is accurate only as of today, and we do not undertake any duty to update forward-looking statements. We may also refer to certain non-GAAP measures on this call. For reconciliations of these non-GAAP measures, you should refer to the earnings materials on our investor relations website. And finally, today's call is being recorded and will be available on the company's website later today.

And with that, I will now turn the call over to Chris Farrar.

**Chris Farrar**
Thanks, Chris, and welcome, everyone, to our fourth quarter earnings call. Our team is proud to announce another record quarter and year-end results for 2024.

In short, the Velocity engine was firing on all cylinders last year. We have strong tailwinds supporting our business and we're capitalizing on the unmet needs in our niche of the market. By lending to both residential and commercial real estate investors, we can serve a larger base of customers and provide capital to underserved people. Our customers tell us that banks are limiting their lending in our target niches and we believe that we will continue to allow…that will allow us to capture market share.

We saw a very strong demand from our borrowers in 2024 as evidenced by our 64% increase in originations and that momentum has carried into the New Year. Importantly, we remain disciplined in our credit process while preserving our risk-adjusted margins at lower loan to values.

Our portfolio growth led to a 37% increase in net revenue and Q4 pretax ROE was an impressive 26.8%. In terms of our portfolio, our special servicing team did a great job resolving NPLs and REOs for net gains and our nimble hands-on approach consistently contributes to our earnings. As most of you know, we prefer to lend in larger, more liquid MSAs, and we still see healthy demand for the types of real estate we lend on.

On a more somber note, we recently experienced devastating wildfires in Southern California and all of us extend our deepest sympathies and concern for everyone impacted. From the business perspective, we were fortunate that only two of the properties backing our loans were destroyed and fully insured, so we expect no impact financially. On a more positive note, all Velocity team members are safe and healthy and we will do our part to help those affected recover.

From a Capital Markets perspective, we saw a significant improvement post the Presidential election as evidenced by tighter spreads for our securitizations and increased investor participation, which enable us to achieve high ROEs on our invested capital.

As we've explained before, our business is far less rate sensitive than other mortgage segments. And while much energy is spent by others prognosticating future Fed moves, we simply continue to deliver much needed capital to underserved borrowers. This is an important differentiator as we successfully originated loans over the last 20 years in both higher and lower rate environments.

Looking forward, we can expect another strong year of growth and our team is engaged and proud to provide solutions for real estate investors nationwide as we look to create long-term shareholder value.

With that….that concludes my prepared remarks and we'll turn over to the presentation materials, starting with page three. Obviously, from an earnings perspective, a fantastic year, $0.60 of core earnings in Q4 and a full year core earnings of $2.03. So, fantastic earnings across all the different segments of the business.

From a production and portfolio perspective, another great quarter, $563 million in UPB, 18% increase sequentially over last quarter and 60% year-over-year. The portfolio is just over $5 billion now. Non-performing loans is pretty steady with where it was from the last quarter. And impressively, in the fourth quarter from an NPL resolution perspective, we had just over $5.5 million of gains from resolved delinquent assets.

On the financing and capital side, we mentioned the securitization market and we did a couple of deals in the fourth quarter that went off extremely well. We also issued little over $7 million in new equity through the ATM program and the strategy there is really just to continue to increase float and broaden out our investor base as best we can. From a capital and liquidity perspective, really great at year-end, almost $96 million of liquidity. So, we've got plenty of capital to fund future growth.

Turning to page four. We outlined our strategy here, just continuing to retain earnings and building book value. And you can see the bridge from 09/30 to 12/31 there as we retain earnings and grow the book value.

On the upper right-hand corner, we have two bars that take our GAAP book value at 12/31 and adjust to what we call adjusted book value and that's simply to reflect the…all of the assets that are carried at amortized cost. If GAAP allowed us to mark those assets to fair value, we think that adjusted book value would be about $18.73 a share. So, there's tremendous value, we think, still in the platform that doesn't show up from a GAAP perspective.

And with that, I will turn the presentation over to Mark on page five.

**Mark Szczepaniak**
Thanks, Chris. Hi, everybody. Another year is in the books and Velocity has really ended the year strong, we're also starting '25 kind of where we left off in '24. If we take a look at page five, the total loan production for Q4, as Chris mentioned, was $563.5 million in UPB. That's an 18.2% increase over Q3, which was $476.8 million. There were over 1,200 loans funded in the fourth quarter.

The strong production growth during Q4 included the weighted average coupon on new health and investment originations continuing strong at 10.8%. The WAC on HFI originations for the last five quarter average trend has been at 11%. So, great weighted average coupons over the last five quarters.

The growth in originations in Q4 also continued at tight credit levels with the weighted average loan-to-value for the quarter at just under 63% at 62.9%. The last five quarter average trend has been at 63.9% LTV. So, the strong Q4 production growth at the healthy WAC, the low LTV, tight credit, that still demonstrates, as Chris mentioned, the consistent borrower demand for our product through different market cycles and environments. And 2025…so far, 2025 year-to-date loan production through February was $429.4 million, so again, continuing where we left off in 2024.

As a result of the continued strong growth in production, page six shows a similar growth in Q4 for our overall loan portfolio. Total loan portfolio as of December 31st was $5.1 billion in UPB. That's a 6.4% increase from Q3 and over a 24% increase year-over-year.

The weighted average coupon on our total portfolio at the end of the year was 9.53%. That's a 16 basis points increase from Q3 and a 65 basis point increase in yield year-over-year. And again, the total weighted average loan-to-value ratio on the portfolio at the end of the year remained low at 66.6%.

On page seven, our Q4 portfolio net interest margin was 3.70%, an increase of 10 basis points when looking at Q3 and 18 basis points year-over-year, as our portfolio yield over to the right of the table, portfolio yield increased 16 basis points quarter-over-quarter, 64 basis points year-over-year, while our cost of funds actually decreased by 1 basis point quarter-over-quarter and increased only 39 basis points year-over-year, mainly due a lot to that tighter spreads that we're seeing in the securitization market that Chris previously mentioned.

The quarter-over-quarter increase in NIM was mainly driven by strong loan production in the quarter at healthy spreads with the higher loan coupons, coupled with the continued favorable execution in the securitization market on the debt financing side.

Going over to page eight. Our nonperforming loan rate at the end of Q4 was 10.7%. It's relatively flat compared to 10.6% for Q3, and our nonperforming loan rate has remained consistent for the last five quarters at an average of about 10.3%. We continue to see very strong collection efforts by our special servicing department that have resulted in favorable gain resolutions for NPL loans.

The table on page nine highlights the NPL resolution efforts. In Q4, the NPL resolution gains were $5.6 million or 7%...a little bit over $79 million in UPB resolved. On a trend basis as we've been averaging 3.3% quarterly NPL resolution gains over the last five quarters. It's not here on this table. If you look at all of 2024, NPL resolution gains were $10.2 million for the year and over $283 million of UPB resolved.

Page 10 shows our CECL reserve and also our loan charge-offs and our net gain loss on REO activity. On the left-hand corner, the CECL reserve at December 31st was $4.2 million, at 17 basis points of our outstanding non-fair value HFI portfolio. Our CECL reserve remains within our expected range of between 15 basis points and 20 basis points. Keep in mind that the CECL loan loss reserve does not include our loans being carried at fair value.

Over to the right, the table shows our net gain loss from loan charge-offs and also REO related activities during the quarter. For Q4, we had a net gain on the combination of loan charge-offs and our REO related activities of $2.9 million, which is net of the $700,000 in charge-offs that you see in the table, netted with the $3.6 million gain on REO activities. For full year 2024, the net charge-offs between the net charge-offs and the REO activity gain was $5.1 million.

Page 11 shows our durable funding and liquidity position. At the end of Q4, total liquidity was just under $96 million comprised of almost $50 million in actual cash and cash equivalents and another $46 million in our available liquidity on finance collateral. In addition, our available warehouse line capacity at the end of the year was $435 million and we have a maximum line capacity of $785 million.

In Q4, as Chris mentioned, we issued one in October with 2024-5 and one in December 2024-6. Combined, those two securities had over $586 million in securities issued. And then already in 2025, in February, we issued our first security with a little over $351 million in securities.

So, with that, that concludes my 2024 financial recap, and I'll turn the presentation back to Chris for his overview on Velocity's 2025 key business drivers. Chris.

**Chris Farrar**
Thanks Mark. On slide 12, you can see our outlook here from the market perspective we still think everything remains healthy and very positive on the credit side. Mentioned rates higher for longer is good for us and we expect to continue to resolve NPVLs favorably, so we we're very positive there. From a capital perspective, the strong securitization market is definitely a tailwind for us in helping us execute on our plan.

And then lastly, from an earnings perspective, we expect to grow not only production, but earnings as well and feel good about the future.

So that wraps up our presentation and we will open it up for questions.

**QUESTION AND ANSWER**

**Operator**
Thank you. We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your

handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*" then "2."

The first question comes from Stephen Laws with Raymond James. Please go ahead.

**Stephen Laws**
Hi, good afternoon. Wow, another fantastic quarter. Congrats on a really strong. I guess, close to '24 and mark from your comments on January February volume seems like '25 is off to a continued strong start. So, maybe on that point, can you talk about production expectations for this year? I think you said $430 million through January and February. Kind of, is there a stabilized run rate on the production front that you think you reach on a quarterly level or things plateau or how much incremental volumes on a quarterly basis do you think you can put through the system?

**Chris Farrar**
Hi, Stephen. Yes, thanks for the comments. And we…I would say the current run rate feels good to us as a forecast for the rest of the year. We are growing and we see increasing demand. So, I don't…we are not. We don't formally forecast what that would look like and I don't want to put any sort of limits or bookends on it. I just think. The current run rate is definitely a good. Forward forecast but probably with a little bit of upward slope to that because we're seeing really good demand.

**Stephen Laws**
Appreciate that, and maybe to try to not read too much into the numbers on a one quarter basis but certainly notice the average loan balance just shy of $450,000 a little bit bigger than kind of a 380 to 390 or 400 the last year, is that due to doing market…entering markets more traction with larger loans? Is it more of a due to the shift in mix with a higher commercial component if those carry higher balances? Can you talk about the...the mix of the production and impact I might be having on average loan size?

**Chris Farrar**
Sure, yes, I think it's the latter not the former. I think that we definitely did see an uptick in the second half of the year in the commercial assets which as you mentioned rightfully that They have larger balances definitely still continue to see the banks being very tight there. So, we see great opportunities come to us all the time with a little bit larger balance there and that's really driven the average up.

**Stephen Laws**
Appreciate those comments. And one last one if I may, from a capital standpoint with the retained earnings and then a little bit of proceeds from ATM issuance. Is that enough capital to support and feed the growth of the business? Do you think you'll need to look for ways to tap bigger chunks of additional equity as you grow? Kind of how do you think about managing your capital base?

**Chris Farrar**
Yes, that's a great question. Based on kind of current run rates we're in good shape if we really start to accelerate even more. I could see somewhere down the road where we might need additional growth capital. We have over $75 million of retained bonds that we can sell at any time to fund some of that future growth and then also as you mentioned some of the ATM issuance.

So, at current levels we're fine, it really is just going to depend on how much growth we experience and. That could drive some marginal capital down the road and our view is we would do it on a kind of a balanced. Level meaning a little bit of equity a little bit of debt just to try to keep our debt-to-equity ratio in line with where it is right now.

**Stephen Laws**
Great appreciate the comments this afternoon and then again congrats on a very nice end of 2024.

**Chris Farrar**
Thanks, Stephen.

**Operator**
The next question comes from Steve Delaney with Citizens Capital Markets. Please go ahead.

**Steve Delaney**
Hi, Chris and everyone and congrats on just a great close to the year.

**Mark Szczepaniak**
Thanks Steve.

**Steve Delaney**
Yes. So, look as you talk about your borrowers when we think about the volatility and what's been going on in the 10 year and what's been going on mortgage rates. And I guess I just naturally think of home buyers and how they're so fickle. And one month they're a buyer one month they're not, your borrowers and clients must have a much different mindset about what they're out there doing. Is it as simple as that they their focus is to buy and manage properties and the rates are just sort of something you deal with that's kind of like noise, but their focus is on the properties and acquiring and managing those properties, kind of regardless of and across whatever the right rate cycle is. It's just, I guess, whenever we we're talking to a mortgage company, it's so different Chris, than what we normally hear about borrower's sensitivity to rates…

**Chris Farrar**
Yes.

**Steve Delaney**
…little color, would be helpful.

**Chris Farrar**
Yes sure. No, it's a good question. And it's definitely something that's unique to our business model. I think you summed it up well, these folks need access to capital and they're willing to pay for it. They're very smart. They're opportunistic. And they're doing creative things. And they need capital to manage their real estate portfolio. And they come to us and we execute with certainty. And we give them some duration. We write a 30 years fixed rate mortgage which is very unusual. So, some of their alternatives might be very expensive, shorter term capital that really is a bullet coming at them maybe in 6 or 12 months. So, I think they like some of the optionality that they have with our products, but you're absolutely right. Unlike, I mean unlike most mortgage lenders the first question or the first concern is not rate with our borrowers it's certainty of execution.

**Steve Delaney**

Got it.  Yes, because they might property that has to close by a certain date…

**Chris Farrar**
Yes.  That's right.

**Steve Delaney**
And that kind of…

**Chris Farrar**
They need to access capital in their balance sheet for some other opportunity.

**Steve Delaney**
Right.  And they need a quick answer from you, right?

**Chris Farrar**
Right.  That's right.

**Steve Delaney**
Not an extended going to get a loan committee three times over six to eight weeks cycle work.

**Chris Farrar**
Right.  That's right.

**Steve Delaney**
The MPL resolutions are certainly remarkable.  Let's just talk about that when you're…you have gains of $5.6 million on $79 million in 4Q.  Are you…in these cases are you…that's the resolutions in the fourth quarter, but this…is this a matter of you taking back, taking title to properties and then actually reselling them or in some cases, are you working with distressed debt buyers?  Are you actually being able to…are there buyers for your delinquent loans that you can offset your loans to another quote credit investor that's not a public company.

**Chris Farrar**
Yes.

**Steve Delaney**
I'm curious, how…what the resolutions look like, is it foreclosure or is it not sale?

**Chris Farrar**
Yes.  I mean, all those resolutions that you see are either us taking back a property and selling it for a gain or delinquent loans resolving sort of at the foreclosure steps if you will maybe a different investor comes in and buys that, but you know, we can only bid up to the total amount that we're doing all of the costs and fees associated with that.  And so, we get satisfied there oftentimes as well, but I'm sure there are probably distressed buyers out there.  We've never sold assets to anyone like that, so I don't know but that's not our strategy.

**Steve Delaney**
Got it.

**Mark Szczepaniak**
Hey Steve, this is Mark.  I think another thing to kind of keep in mind is, you know, the resolutions are resolutions of our non-performing loan UPB, right?  So, in many cases those never make it to

the REO property to your point of selling REO. So over 90% of all of our non-performing loan resolutions, like that $79 million you saw for Q4, probably over 90% of that. Are the borrowers either paying current…paying the loan current with default interest, which is part of the gain or they come, they refinance, they have capital somewhere else and they pay off the loan and we get the default interest and depending on…if it's still in the pre-payment window we get prepayment fee. So, 2 months or 90% of the MPL resolutions is the original borrower either paying current or paying off the loan and then the other 8% to 10% of whatever that goes to foreclosure to Chris…Chris's point that can either get to the foreclosure sales steps or we take possession of the REO and then sell the REO, but with 90% of it is the borrower resolving it themselves.

**Steve Delaney**
That's fabulous. Yes, thank you both so much for the comments and again congrats on it just a fantastic year.

**Chris Farrar**
Thanks, Steve. Appreciate it.

**Operator**
Once again, if you have a question, please press "*" then "1." The next question comes from Eric Hagen with BTIG. Please go ahead.

**Eric Hagen**
Hey, thanks. Hope you guys are well. Couple of follow ups here. Do you guys see any response in the CMBS market so far related to the broader market volatility recently and maybe how does your expected ROE change, if spreads were wider? And then a follow-up, just kind of like a follow-up on the NPL resolutions. I mean, how do you gain visibility into that pipeline? In other words, like, how do you go about predicting the benchmark or the trajectory that you might see there under different scenarios? Like do you eventually not expect to have any gains or how does that even factor in the asset valuation and so forth? Thanks guys.

**Chris Farrar**
Sure. Thanks, Eric. I appreciate it. See so on the first question we're not seeing the volatility on our securitizations that maybe you're referring to in larger CMBS so no impact there. Our securitizations probably from most bond investors get comped more typically to like a non-QM RMBS execution, and we usually print a little wider there, so I think on a relative value basis, I think we represent a very good alternative for a lot of those investors. So, we feel good about our execution there going forward.

The second point, NPL resolutions are near impossible to predict. They're extremely lumpy. Obviously, we had a big resolution in Q4. One of those REOs happened to be a very large resolution, almost 2.5…a little over $2.5 million. So, we certainly don't expect to get 107 every quarter. And you can see historically we haven't. But if you look back over the last 15 years of us doing this, we think it's very fair to expect a 2 to 3 point gain on an average basis. And sometimes it will be higher, sometimes it will be lower. But because there's so much equity in the real estate here we've just historically always seen positive resolutions there. So, we think that's a durable source of part of our total overall return.

**Eric Hagen**
Yes. That's helpful. Okay, great. Alright, I realized that the focus of the portfolio is the single family loan, but how about the other assets like the mixed use plus the retailers now 20% of the

portfolio. Are those borrowers looking for valuation improvement? This is a shorter-term leverage that they're sourcing. And then relatedly, I mean is the REO mostly single family and how do we reserve for liquidity in the single family versus the commercial?

**Chris Farrar**
Yes. Sure, absolutely. So, on the first part, we did see an uptick in the commercial assets for sure. The portfolio is almost 50:50 fifty between one to four rentals and then what we would call small commercial on the other side. There's a wide array of reasons why borrowers are coming to us. They are purchasing assets that maybe they're having a hard time finding financing for. They're refinancing other assets they own to buy something else. They're buying properties and fixing them up and re-tenanting them. I mean it's across the board, so I can't give you just sort of one little bucket there, but these are all smart sophisticated, small investors that know how to see opportunity in real estate and maximize it. And I think on a go-forward basis, when we…in terms of the REO, we've got definitely more REO from the one to four side than the small commercial side. There's been, I would say, more delinquency in the one to four space and more REO there.

That REO tends to be very, very liquid and relatively easy to sell, because even though it's rented as an investment property, it could continue to be used that way, but it also could be occupied by an owner or a consumer that wants to live there. So, those markets tend to be very deep and very liquid and they're relatively easy to liquidate and sell. We…as you know, all of the loans that are carried at fair value, we already marked those assets to what we believe would be some representation of the fair value, so there's no loss provisioning on any of those assets. So, as we continue to morph the balance sheet into a completely fair value type of classification, I think you're going to continue to see that loan loss reserve shrink and run off, and in a couple of years we won't even talk about CECL.

**Eric Hagen**
Yes. Great stuff. I always appreciate the color from you guys. Thank you.

**Chris Farrar**
You're welcome. Thank you, Eric.

**Operator**
This concludes our question and answer session. I would like to turn the conference back over to Chris Farrar for any closing remarks. Please go ahead.

**CONCLUSION**

**Chris Farrar**
Thank you all for taking the time to listen to our story. We appreciate your support, and we'll [indiscernible].

**Mark Szczepaniak**
Thank you everybody. Appreciate your time.

**Operator**
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.