

Velocity Financial

Third Quarter 2025 Conference Call

Thursday, November 06, 2025, 05:00 PM ET

CORPORATE PARTICIPANTS

Christopher Farrar--*Chief Executive Officer*

Mark Szczepaniak--*Chief Financial Officer*

Christopher Oltmann--*Treasurer*

PRESENTATION

Operator

Good day, and welcome to the Velocity Financial, Inc. Third Quarter 2025 Conference Call. [Operator Instructions]. Please note, this event is being recorded.

I would now like to turn the conference over to Chris Oltmann, Treasurer. Please go ahead.

Christopher Oltmann

Thanks, Chloe. Hello, everyone, and thank you for joining us today for the discussion of Velocity's third quarter 2025 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 third quarter results. You can find the press release and accompanying presentation that 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. 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.

Christopher Farrar

Thanks, Chris, and we appreciate everyone joining the call today. Our third quarter results were fantastic as we achieved another record quarter in terms of pre-tax earnings, which were up 66.5%, production volumes of \$739 million, and new applications, which exceeded 1.4 billion for the quarter. Looking forward, the markets remain strong, and this momentum has continued into the fourth quarter as we gain market share and expand our reach.

From a credit perspective, we remain disciplined as evidenced by the decline in the weighted average portfolio loan-to-value to 65.5% and our coupons remain on target at 10.5%, generating attractive risk-adjusted spreads and stabilizing our attractive NIM and core pre-tax ROE of 24.1%. Our asset managers have done a great job of resolving NPAs consistently above par for net positive gains. Plenty of capital available for REOs that are priced properly and expect the real estate markets to continue to perform well within our niche.

The unique event in Q3 was the closing of our first-ever single counterparty securitization of new production with a top-tier money manager. This strategic partnership allows us to reduce transaction costs, execute at similar levels to our regular, widely marketed deals, and diversify our long-term funding options.

We're proud to partner with this world-class firm and expect the transactions to continue as evidenced by a second transaction that closed in early October. Obviously, the fixed income markets are very supportive, and we intend to maximize our opportunities there. And as usual, I give full credit to our outstanding team members that work so hard to deliver these results and we will continue to create shareholder value wherever possible.

With that, I'll turn over to the presentation and begin discussing Page 3. In terms of earnings, obviously a great quarter. Net income up 60% year-over-year and core diluted EPS of \$0.69 a share. Portfolio NIM was very stable at 360 basis points above our target of 3.5%.

Moving to production and the loan portfolio, I mentioned record level of production of \$739 million. 32% net increase in the portfolio year-over-year after netting out prepayments. In terms of non-performing loans, that portfolio was pretty stable, 9.8% down from 10.6% and within our expected range. As I mentioned earlier, we continued to see positive gains on resolved NPAs of \$2.8 million, and our team did a fantastic job there.

Turning to financing and capital, I mentioned that first-ever single-county counterparty transaction were approached a quarter or two ago by a large party and with the interest of developing a consistent outlet for our product and very pleased with the way that transaction, both those transactions executed, and we expect it to be an additional diversification of our funding sources going forward. In terms of liquidity, we have plenty of cash and available borrowings, and you can see over \$600 million of warehouse capacity at the end of the quarter. So all-in-all, it's in good shape there.

Turning to Page 4, I want to reemphasize our strategy of compounding earnings by taking all of our earnings and investing them back into the platform and the portfolio. As you can see, we've had outstanding results, and we think this is a great opportunity for investors to get exposure to our earnings and the compounding of capital. So, I'm very pleased with how we've transacted over the last couple of years and expect this to continue going forward.

With that, I'll turn it over to Mark on Page 5.

Mark Szczepaniak

Thanks, Chris, and good afternoon and evening, everyone. Page 5, as Chris mentioned, Velocity had a new record for loan production in Q3. The loan production for the quarter was \$739 million, which included 23.9 million in unfunded loan commitments.

The \$739 million again demonstrates our continued strong demand for our product. In Q3, the loan production broke the previous quarter's record of \$725 million. There were a total of 1,778 loans originated in the third quarter. The strong production growth in Q3 included the weighted average coupon on new held for investment originations continuing to come in strong at 10.5%, and the weighted average coupon on our HFI originations for the last five-quarter average trend was at 10.6%.

The growth in originations in Q3 was also at very tight credit levels, with the weighted average loan to value for the quarter being at 62.8%, which is right on top of the last five quarter average weighted average LTV trend of 62.8%. As a result of the continued robust growth in production, take a look at Page 6. It shows the overall growth in Q3 for our overall loan portfolio as we retain these loans in our portfolio.

Our total loan portfolio as of September 30th is just under \$6.3 billion in UPB. That's a 7.1% increase from Q2, and I think as Chris mentioned, a 32% increase year-over-year even netting out prepayments. The weighted average coupon on our total portfolio as of September 30th was 9.74%, which is 7 basis points above Q2, and 37 basis points in terms of portfolio yield over Q3, I'm sorry, year-over-year. The total portfolio weighted average loan-to-value remained consistently low at 65.5% as of September 30th.

If you go to Page 7, we maintained a strong portfolio NIM at 3.65% in Q3, and that's consistent with our last five-quarter average portfolio NIM of 3.62%. On the right side of that page, you're going to see the breakout of our yield as well as the cost of funds. Our portfolio yield for the quarter was at 9.54%, and the cost of funds at 6.27%. We've maintained a nice, healthy spread over several periods.

On Page 8, our non-performing loan rate at the end of Q3 was 9.8%, that's down half a point from Q2, and 80 basis points year-over-year. We continue to see, as Chris mentioned, strong collection efforts by our Special Servicing Department that have resulted in favorable resolutions of our non-performing assets, and NPAs are comprised of our non-performing loans as well as REOs.

Page 9 shows the continued positive results of our NPA resolution efforts. Our Q3 NPA resolution gains totalled \$2.8 million, or 2.6% of the \$108 million in UPB resolved. And on a trend basis, we've averaged 3.8% quarterly NPA resolution gains over the last five quarters.

Turning to Page 10, the top part of that table on the right-hand side shows our CECL loan loss reserve. The bottom part shows the net loan charge-off and gain loss in our REO activity. In terms of the CECL reserve at September 30th, it was \$4.6 million or 22 basis points and that's on our outstanding amortized cost HFI portfolio and the 22 basis points is consistent in the last five quarters. We've averaged around 20 basis points of CECL reserves and not much to change there.

And keep in mind the CECL reserve does not include fair value option loans. It's only our held for amortized cost loans. The bottom part of that table shows that for Q3 our net gain / loss and loan charge loss ROA activities. We had a net loss of \$1.6 million, mainly as a result of REO valuations.

Page 11 shows our durable funding and liquidity position at the end of Q3. Total liquidity of September 30th was just under \$144 million. That's comprised of about \$99 million in our cash and cash equivalents and almost another \$45 million in available liquidity on our unfinanced collateral. As of September 30th, our available warehouse line capacity was just a little over \$600 million with a maximum line capacity of \$935 million. And that's a \$125 million increase in maximum line capacity over Q2. So, we went from \$810 million in maximum capacity at the end of Q2 to \$935 million. Some of our warehouse lines are increasing their capacity.

Our debt equity ratio on a recourse basis stayed consistent at 1.0x, which has been between 1.5x and 1x for the last five quarters. And that concludes my Q3 remarks. So, Chris, with that, I'll turn it back to you to present an overview on our outlook and key business drivers.

Christopher Farrar

Thanks, Mark. I appreciate it. Just to sum it up, we're very positive about the future. We think markets are healthy, our credit's performing well, capital markets are extremely robust, especially on the fixed income side, and we believe that our earnings are going to continue to grow and expect positive results going forward.

So, with that, I'll open it up for questions.

QUESTION AND ANSWER

Operator

[Operator Instructions]. The first question comes from Steve Delaney with Citizens. Please go ahead.

Steve Delaney

Hello, everyone. Thanks for taking my question. Gosh, excellent quarter. It sounds repetitive, but you guys put the numbers up every quarter and just whether it's production, gains, everything that you've summarized on Page 3. So, I'll tip my hat to you on that for sure. A little concern on not so much REO resolutions, but just in terms of, as you show on Page 10, the charge-offs are up, quarter-over-quarter for sure.

And this quarter, I know REO gains can be a little fluky, but we went from a nice gain on REO in the second quarter to a -- or excuse me, last year, third quarter to the loss this year. And I guess the number that jumps off the page, because primarily I don't understand it. Chris, if you could help me understand the REO valuations on a net basis, the negative \$6.3 million?

Christopher Farrar

Sure.

Steve Delaney

Just explain that, if that was a, you book the REO at where you think it should be or based on your loan balance and then as you study the market and get feedback on property valuation, then you have to adjust. Just curious why that big number of negative \$6.3 million?

Christopher Farrar

Thanks for the question, Steve. In terms of the REO valuation, I'll walk you through the detail, but just from a high level, if you look, you'll see it in our Q that gets filed later today. Year-to-date, our REO activities is basically on top of last year \$3.2 million gain, I think it is. So, there's some noise just in timing issues here. In terms of the REO valuation expense that we recognize, that happens after we've taken a loan off the books and put it into REO.

And then as it sits on the balance sheet, we adjust to market realities. I would say in this \$6.3 million, you've got some cases where maybe the property has deteriorated maybe worse than what we thought when we originally foreclosed. You have some cases where we actually end up just selling the REO a little less than where we thought we were going to, where we had it marked. So, it can be driven by a number of different things, but I would say, from our perspective, we don't see it as like a worsening trend and much more of just kind of a quarterly timing issue. I expect that number, you'll see it kind of go up and down quarter-by-quarter.

Mark Szczepaniak

And Steve, this is Mark. If I could just add to what Chris said.

Steve Delaney

Yes, please.

Mark Szczepaniak

It is really a timing item. The main thing to look at is the NPL resolution table, the final resolutions. For example, like that \$6.3 million, what could happen is when we first foreclose on a property and set the REO up, the REO has to go up at its fair value. Well, keep in mind, since we've got the loans at basically 63%, 60% LTV, if you have a \$500,000 loan, now you're going to write off that loan and put the REO in the books for, say, 800,000, because the loan's at a 65% LTV.

So, you put the REO on your books at 800,000. So that's what's in that gain on transfer to REO, that top number. Then maybe six months down the road, you get an offer. It's not \$800,000, it's 7. And you say, okay, we got an offer for it. That's the new fair value. We're going to take the offer. So, you write it down from 8 to 7. Well, in that period, which might be six months later, eight months later, it looks like \$100,000 REO loss.

But in reality, that \$700,000 you're writing it down to is still \$200,000 more than the \$500,000 loan you had. So overall, if you sell it at 700, you're still going to have an overall gain on resolution. It's just a timing of when you first put the REO on and then maybe you write it down because you're going to decide to take less to sell it. But what you're selling it for is still more than the loan that they took off the books.

Steve Delaney

Got it. So, I think you're telling me you added \$4.6 million as a positive number when you took it into REO and then when you understood the property or developed a marketing plan or looked at offers or something, then you had to just reverse some of that?

Mark Szczepaniak

That's exactly correct. And that \$6.3 million, remember, it's different periods. So, the \$4.5 million, that's all new REO data that came on in that quarter. The \$6.3 million is probably something that maybe in those quarters, it went on for \$8 million or \$9 million positive and now we're taking \$6.3 million of it back, if I'm saying, but yes.

Steve Delaney

Got it. Okay. Understood because you have the gain, it's more of an accounting gain when you take it into REO the first time, but then try to understand that valuation, it sounds like that can be a little lumpier in terms of when the valuation adjustment is made.

Mark Szczepaniak

Yes. That's correct.

Steve Delaney

All right, that's helpful. Well, obviously, the positives in the report far exceed the negatives, but I just wanted to bring that up and one final thing, what is your headcount currently or at 9-30-25 and how has that changed over the last year?

Christopher Farrar

Yes, so we're at like 347 people at 9-30-25 and that's up about 82 heads.

Steve Delaney

Okay. All right. Very good. Well, that's all I have for this evening. Congrats on another great quarter and I guess we'll do this again in three or four months.

Christopher Farrar

Okay. Thanks, Steve. Take care.

Steve Delaney

And thanks to you. Stay well.

Conclusion**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Christopher Farrar for any closing remarks.

Christopher Farrar

Great. Thanks, everybody, for joining and we'll speak to you in a few months.

Operator

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