

Velocity Financial, Inc.

Fourth Quarter 2025 Conference Call

Wednesday, March 11, 2026, 05:00 PM ET

CORPORATE PARTICIPANTS

Christopher Farrar--*President and Chief Executive Officer*

Mark Szczepaniak--*Chief Financial Officer*

Christopher Oltmann--*Treasurer*

PRESENTATION

Operator

Good day, and welcome to the Velocity Financial, Inc. Fourth Quarter 2025 Conference Call. Please note, today's event is being recorded.

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

Christopher Oltmann

Thanks, Rocco. Hello, everyone, and thank you for joining us today for the discussion of Velocity's fourth quarter and full year 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 results, and 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. 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.

Christopher Farrar

Thanks, Chris, and I'd like to welcome everyone. I appreciate you joining our 2025 year-end earnings call. Pleased to report another incredible year of performance and very proud of what our team accomplished. Through hard work and dedication to our vision, we recognized record levels in originations, portfolio growth, new securitizations, book value, pre-tax ROE and earnings. Credit belongs to my amazing team members who are talented and passionate about our mission. I believe they are our greatest asset.

From a macro perspective, we see healthy activity in the fixed income markets as our deals are oversubscribed and spreads are tight. Our pipeline is growing. Our end real estate markets are healthy, and we're optimistic about our prospects going forward.

In terms of our specific results, core net income increased by 52% to \$111 million, which also drove a new record level of pre-tax ROE of 26%. Importantly, we achieved this growth while maintaining our margins and credit discipline. With respect to originations, we increased volume by 49% to a record \$2.7 billion, driven by increases in productivity from our account executives. The increased volume also set a record for our capital markets team with nine new securitizations and \$2.6 billion in new issuance.

On a net basis, the portfolio grew by 28% versus the prior year, and our asset management team successfully resolved \$331 million in NPLs with net recoveries of \$30 million. At year-end, we entered into a transformative partnership whereby we sold 129 million of NPLs and retained the servicing rights for the entire pool of loans. This transaction drove significant earnings in Q4 but also freed up approximately \$50 million in working capital and will drive future earnings from the servicing fees earned. All in all, a great transaction as this team continues to impress and drive meaningful results to the bottom line.

From a liquidity perspective, we've never been stronger as we issued our first rated unsecured debt offering for \$500 million in January, which gives us greater flexibility and makes us less reliant on short-term warehouse lines. This new capital will help us execute our long-term plan of growing book value and maximizing shareholder returns. Looking forward, we have great momentum and are well positioned to continue our growth.

That concludes my prepared remarks, and we'll turn over to Page 3 in the earnings presentation. Summing up, 2025 was really just a fantastic year for us. You can see growth across the board: 26% pre-tax ROE, we grew book value by 21%, and maintained a very healthy NIM at 3.6%.

Turning to Page 4, digging into the fourth quarter, you can see core net income of 36.3 million or \$0.93 a share, up from \$0.60 a share from Q4 '24. I mentioned that the NIM was very healthy and stable at 3.59%. In terms of production, \$634 million for the quarter, up 12.5% from the prior year, and mentioned the activity in both the portfolio and NPLs.

As a result of that NPL sale, NPLs were down to 8.5% at the end of the year. Again, hitting on the asset management team, they continue to do a great job of realizing net gains, and we've expanded our disclosures in this year's 10-K and in these earnings materials, where we're reflecting total revenue that we recognize from the NPLs. We've always made those fees and made that income, but it's been difficult to suss-out in the financials. So, we broken that out and showed the activity from regular accrued interest as well. As you can see for the quarter, that was a total of \$7.6 million. So, that team continues to do a great job for us.

In terms of financing and capital, I mentioned that we've done a number of securitizations in the year. We did do our second private securitization where we had one investor taking down the entire transaction. We like that execution and think it's a great diversification as we move forward. I mentioned the strong liquidity position, \$92 million in unrestricted cash and plenty of warehouse capacity.

As I mentioned in my opening remarks, we're really proud of the NPL transaction that we were able to close in the fourth quarter, recognizing \$13.4 million of net income as a result of that sale and releasing about \$50 million of working capital to fund future production. With that, I'll turn it over to Mark for Page 5.

Mark Szczepaniak

Thanks, Chris. Hi, everyone. Another year is in the books for Velocity and as Chris had mentioned, Velocity is really ending the year strong. If we go to Page 5 and look at our loan production, total loan production for the fourth quarter was just under \$635 million in UPB. As Chris mentioned, that's a 12.6% year-over-year increase from about \$563 million in Q4 2024. The strong production growth during 2025 included the weighted average coupon on new Q4 held-for-investment originations continuing to come in strong at just a little over 10%.

Originations in Q4 also continued at tight credit levels, resulting in a weighted average loan-to-value for the quarter of just under 63%. 2025 total year loan production was 2.7 billion in UPB and that was almost a 47.5% year-over-year increase over the \$1.9 billion in production for 2024. Over 6,600 loans were originated during 2025. The strong 2025 production was a result of continued organic growth of our borrower base and strong demand for our product.

As a result of the continued strong growth in production, if you look at Page 6, it shows the year-over-year growth in our overall loan portfolio. The total loan portfolio as of the end of the year for 2025 was \$6.5 billion in UPB, which is a 28.4% increase over the \$5.1 billion as of December 31, 2024. The weighted average coupon on our total portfolio at the end of the year was 9.7% and as Chris mentioned, a 21 basis point year-over-year increase.

The total portfolio weighted average loan-to-value remained consistently low at 65% as of December 31, 2025, and the average loan balance remained consistent at about \$390,000. On Page 7, it shows our recent quarterly portfolio net interest margin. You can see Q4 of 2024, Q3 of 2025 and Q4 of 2025, very, very consistent net interest margins. It's not on the slide, but on an annual basis, our portfolio-related net interest margin was 3.61%, which is about a 1.4% increase over our 2024 net interest margin of 3.56%.

Over the year, our portfolio yield increased 39 basis points year-over-year, while our portfolio cost of funds increased year-over-year by only 18 basis points. The portfolio yield increase was mainly driven by strong loan production during the year and higher loan coupons. And the increase in a portfolio cost of funds was mainly due to an increase in the securitization market yields.

On Page 8, our non-performing loan rate at the end of 2025 was 8.5% compared to 10.7% at the end of '24. The decrease, as Chris mentioned, was a combination of the sale of \$129 million in UPB of NPL loans sold during Q4 as well as a combination of continued strong resolutions during the entire year by our Special Servicing department.

The table to the right of the page shows our loans-held-for-investment portfolio, including both our amortized cost and fair value loans and shows the total year-over-year non-performing loan valuation allowance we have for our non-performing loans. As of December 31, 2025, the amortized cost loan portfolio had a \$4.5 million CECL reserve, and the fair value portfolio had a \$48.3 million valuation adjustment allowance for a combined valuation allowance on the entire loans-held-for-investment portfolio of about 81 basis points.

Both of these valuation adjustments are required under U.S. GAAP. The unrealized valuation adjustment on our non-performing fair value loans represents the value for which the loans under U.S. GAAP could be sold out in the secondary market. However, we do not plan on selling NPL loans since our in-house Special Servicing department has a history of producing net gains and very successful resolutions on these loans.

Turning to Page 9. Again, it just shows our CECL loan loss reserve, which we said was at \$4.5 million for the end of the year, or 22 basis points of our outstanding amortized cost held-for-investment portfolio. And the CECL loan loss reserve does not include the loans being carried at fair value that you saw on the previous page.

For 2025, our net gain/loss from loan charge-offs and REO-related activities at the bottom of that table is a net loss of \$3.7 million, mainly as a result of a couple of large legacy loan charge-offs. Some older loans we wanted to clean those up. We don't have those type of loans in our portfolio anymore, so that loss is well above our historical loss experience.

We do not foresee these types of losses going forward because of continued favorable resolutions of our non-performing loans and that significant loss allowance adjustment that you saw on the previous page for the fair value loans.

Page 10 presents the enhanced disclosure that Chris was mentioning on our non-performing loan resolution activity. So, the first set of three, four columns there is what we've always shown in the past where we go up to the net gain or loss on NPL loan resolution, which brings in the amount of default interest and prepayment fee income over and above contractual principal and interest.

But what we hadn't really previously shown was what is the contractual interest that we go back and pull in. Under GAAP, you have to reverse that out when a loan goes non-performing. So, once we resolve the loan, we're collecting all of that contractual interest in cash. So, we wanted to bring that in the table to show the total amount of revenue that we bring in when we resolve these loans.

So in this table, we added columns for net accrued interest and total recovered revenue to the far right. We felt it was important to add the amount of contractual interest net of any advance write-offs that is also collected on resolutions through the efforts of our Special Servicing team. For 2025 Q4, NPL resolution total dollars recovered, including net contractual interest, was \$7.6 million or 109.8% over the UPB compared to \$7.5 million or 10.8% over UPB for the fourth quarter of 2024.

If you look at the full year 2025, it's not on this table, but if you look at the full year 2025, the total amount recovered on the resolutions of our NPL loans was \$30 million or 9% over UPB compared to \$22.3 million total recovered in 2024 or 8.8% over UPB.

Page 11 shows our durable funding and liquidity position at the end of the year. Total liquidity as of December 31 was just under \$117 million, comprised of about \$92 million in cash and cash equivalents and another \$25 million in available liquidity on unfinanced collateral. In addition, our available warehouse line capacity at December 31 was just under \$600 million with a maximum line capacity of \$935 million. So, plenty of capacity and available capacity on the warehouse lines.

In Q4, we issued two securitizations, 2025-P2 and 2025-5, with a total of \$646.3 million in securities issued. As Chris mentioned, in January of 2026, we completed a public rating process for Velocity Financial, Inc. It was our first time getting a corporate rating; we were rated by both Fitch and Moody's. And we issued \$500 million in unsecured debt. That's a 5-year term debt fixed rate at 9 3/8% interest due in 2031.

The proceeds of this \$500 million debt were used to pay off \$215 million corporate securitized debt that was set to mature in 2027. So, we paid that off and the balance of it was to pay down, as Chris mentioned, our shorter-term warehouse lines.

And then in February of this year, we issued the first 2026 securitization, 2026-1, with \$355 million in securities issued. That concludes my 2025 financial recap. Chris, I'd like to now give the presentation back to you for an overview of Velocity's 2026 outlook and key business drivers.

Christopher Farrar

Thanks, Mark. On Page 12, our markets are very healthy, we like the backdrop there. Credit is stable, we aren't reaching to hit our targets or our volumes, so we're remaining disciplined there. Capital markets are great, the securitization market in particular is very robust and we've got a deep bench of investors supporting us there.

And then I think from an earnings perspective, we think NIMs should remain where they are and we think we can continue growing the portfolio. So, we're very positive about the future in '26. So, with that, we'll conclude our presentation and open it up for questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Today's first question comes from Steve Delaney at Citizens Capital Markets. Please go ahead.

Steve Delaney

Good afternoon, everyone, and congratulations on an excellent year. We do appreciate Mark's comments on Page 9 about the REO and we may want to follow-up with you on that, but obviously an outstanding performance.

Chris, I'm curious, looking ahead, one of the things as you think about the broader financial markets and let's talk about the rates market. God, I don't know how many times you turn on CNBC and they're talking about the Fed and yada yada. We don't know what the Fed will do, but the futures market as of a week ago when we updated our internal rate forecast, is showing -- the futures is showing somewhere between 2 and 325 basis points cuts in 2026.

Now, who knows what we get, and more importantly, the 10-year's really being kind of cranky at 420, and that's 50, 60 basis points off the recent 12-month lows. I guess what I'm trying to say is you have performed the way you did in terms of origination volume, and your clients are obviously finding deals, and they can afford the current rates. But let's just say if we get some short-term rate relief and if the 10-year were to come down 50 basis points or whatever, how impactful is that to the demand from your borrowing universe for additional loans?

Just curious what the mindset is. And I'm curious if you have any material floating rate loan concentration in your portfolio where if we did get a break in the five and 10-year range, is there the possibility of showing somebody some kind of a mini perm type of a loan structure vis-a-vis just a SOFR type floater? Thank you for commenting on that if you would.

Christopher Farrar

Thanks, Steve. I think in terms of the rate drop, that's probably marginally helpful to us in that it is going to lower our cost of funds and probably make our offering more attractive than it otherwise would be, but I don't see it as a huge driver of our growth. Most of the folks that come to us have some type of a need and they're less rate sensitive and more transaction sensitive. So, it's not something we spend a lot of time on. For example, I think our rate sheet moved one time in all of '25. So, as you know, conforming lenders or consumer lenders are changing daily, and we changed once through the whole year. So, probably not that impactful to us, but helpful.

And then in terms of the second one, we do have a small portion of our portfolio, the older legacy stuff that was floating rate, but it was all floored at the start rate. So, rates can really only go up, not down. So, I don't think there's much of an opportunity there and/or impact to us. So, probably nothing material there.

Steve Delaney

Got it. Okay, well obviously appreciate the comments and all the best for 2026.

Christopher Farrar

Thanks, Steve, we appreciate your support.

Operator

Our next question will come from Don Fandetti of Wells Fargo. Please go ahead.

Don Fandetti

Hi, guys. I was wondering if you could just give an update on the competitive dynamic of your lending markets. I know it's been very fragmented, and I just want to check in and see if there have been any changes on that front. And then secondarily, obviously private credit markets have been under pressure. Do you think there's any sort of indirect impact to your business through securitization markets or whatever? I know you've had a pretty successful debt capital raising recently, but just wondered just check that box?

Christopher Farrar

Yeah, hi, Don. Thanks for the questions. In terms of competition, I would say we're kind of business as usual, not seeing anything really different or new there. So, no real pressure there and no need to react to that. And then on the second question, I think probably is maybe slightly a net positive for us, the disruption in private credit. I think, we've had a number of reverse inquiries of folks that are calling us saying, could we buy your product, could we structure something, could we buy whole loans, could we do something unique. And I think that's because there's demand for like that secured real estate type backed lending as opposed to some of the other private credit alternatives. So, I would say maybe slight positive for us, but I haven't seen any degradation or impact to us in a negative way.

Don Fandetti

Got it. Thank you.

Christopher Farrar

You're welcome.

Operator

Okay, and we have a question with Eric Hagen from BTIG. Please go ahead.

Eric Hagen

Thank you so much. Am I coming through? Can you hear me?

Christopher Farrar

Yes.

Eric Hagen

Okay, great. Thank you guys very much. A couple questions here. Have you fully deployed the 500 million of proceeds from the debt raise? And as it relates to that, I mean, how do you guys decide on the amount of cash and liquidity that you have available at any given time? Like is there a rule of thumb for like the minimum amount of liquidity or cash that you would hold at any given time?

Christopher Farrar

Yes, thanks Eric. So, yes, we fully deployed all the capital. We were able to basically pay down our entire warehouse balance immediately at the close. So, might be a very small drag on Q1 just

because of all the friction with the transaction, but other than that, we were able to zero out our warehouse lines, which was great. And then minimum cash, we like to make sure we have at least, you know, \$30 million to \$50 million of cash available at all times just for safety or whatever. But right now, right after the transaction closed, we had \$320 million of unpledged loans that we owned for cash. So, it really gives us a lot of flexibility and access to capital whenever we need it.

Eric Hagen

That's great. That's really helpful. I think I want to follow up on one of the last questions around competition. I mean, there's lots of speculation that capital rules are going to get adjusted for banks and that it could result in more activity, you know, from banks and mortgage lending. I mean, do you not see that as being a potential catalyst for more competition?

Christopher Farrar

Yeah, generally I'd say our borrowers are coming to us because they don't want to deal with a bank or can't deal with a bank. So, I don't think that, I mean, competition is always competition, so at the margin could it take a little bit? Maybe. But it's not something that we're worried about or concerned about in any way.

Eric Hagen

Got it. One more for me if you don't mind.

Christopher Farrar

Yeah, please.

Eric Hagen

Can you compare the spreads and the returns that you expect in the single-family versus small-balance commercial segment going forward?

Christopher Farrar

Yes, yes. So, we do get a wider spread on the commercial assets than we do from the single-family and we think that's the appropriate risk adjustment. We're probably 125 basis points wider on the commercial versus the single-family and we think that sort of puts us in an agnostic position whether, you know, we lend single-family or commercial. I think that's the appropriate risk adjustment.

Eric Hagen

Got it. Really helpful. Thank you guys so much.

Christopher Farrar

Thank you, Eric. Appreciate it.

Conclusion

Operator

And at this time, I am not showing any further questions in the question queue. I'd like to turn the conference back over to management for any closing remarks.

Christopher Farrar

Yes, just want to say thanks to everyone for joining the call. We appreciate your support and we'll be speaking soon as Q1 comes up here fairly shortly. Thanks so much.

Mark Szczepaniak

Thanks everybody for your participation.

Operator

And thank you all. The conference is now concluded. We thank you for attending today's presentation. You may now disconnect your lines.