Velocity Financial, Inc.

First Quarter 2026 Results Conference Call

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CORPORATE PARTICIPANTS

Chris Farrar - *President, Chief Executive Officer*

Mark Szczepaniak - *Chief Financial Officer*

Chris Oltmann - *Treasurer*

PRESENTATION

Operator
Good day, and welcome to the Velocity Financial First Quarter 2026 Results Conference Call. Please note that today's event is being recorded and all participants will be in a listen-only mode. Should you need any assistance during the call, 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 telephone keypad and to withdraw your question, please press "*" then "2."

I would now like to turn the call over to the treasurer, Chris Oltmann. Please go ahead.

Chris Oltmann
Thanks, Joe. Hello, everyone, and thank you for joining us today for the discussion of Velocity's first quarter 2026 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 a press release with our first quarter 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 everybody 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 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
Thank you, Chris. Good evening, everyone. We appreciate you taking the time to join us today. First off, I want to apologize to everyone. On our last call, we had technical difficulties. We've been assured that by our vendor that won't happen again. Hopefully things go well here for us. I'll start off with a few words on the environment and walk through our Q1 performance. Mark will take you through the rest of the financials in detail before we open up for questions.

The first quarter of 2026 was obviously volatile from a macro perspective, quite steady in our corner of the world. Our end real estate markets are functioning well; our pipeline is growing. Our fixed income markets are well bid.

In our view, making low LTV loans secured by real estate is a smart way to generate healthy risk-adjusted returns, and our Q1 results speak to the durability of what we've built at Velocity. In the first quarter, we delivered results that were in line with our expectations and importantly, consistent with the trajectory we laid out at the start of the year.

Portfolio growth was measured and deliberate, NPL recoveries remained strong, and we continued to generate reliable net interest income from a well-seasoned book. Our story is about consistently compounding our capital, and in this environment, I believe consistency is exactly what our investors, our borrowers, and our originator partners need to see from us. Credit is always a top priority, and this quarter reinforced that discipline. Our non-performing loan resolutions were very consistent with positive gains and significant interest income recognition.

Our dedicated special servicing team continues to resolve assets efficiently while maximizing recovery rates. I've said before that we optimize for asset valuation and that disciplined approach to valuation has served us well through several cycles now. Q1 was no exception, as evidenced by the weighted average LTV on new loan originations of 64.9%.

On the origination side, we were intentional. We did not chase volume for its own sake. We originated loans that met our return threshold in markets where we have depth of knowledge through originator relationships we trust. The result was a portfolio that grew nicely quarter-over-quarter with yields that remain attractive relative to our cost of funds. The most significant activity in the quarter was our first-ever issuance of $500 million of unsecured corporate debt rated by Moody's and Fitch.

The investor demand was broad and the deal was oversubscribed and comprised of high quality, sophisticated investors that we are proud to call partners. This capital positions us well for future growth and strengthens our financial flexibility as we dramatically reduced our reliance on shorter-term warehouse debt.

As we look to the rest of 2026, we feel well-positioned. Our balance sheet is clean, our funding is stable, and we see a pipeline of origination opportunity that should translate into meaningful volume growth in the second half of the year. We remain confident in our ability to deliver on the objectives that we set at the beginning of the year.

With that, I will turn to the earnings presentation materials, starting on page three. As I mentioned in my remarks, a pretty stable, straightforward quarter, very simple core net income up 30% over the prior year's quarter.

NIM was very healthy and on-target at just over three and a half %. I mentioned that the portfolio grew nicely, up 25% year-over-year and we continued to see positive gains on the NPL resolutions, again, 102.3 and expanded our disclosures here to show the other recovered revenue on those NPLs of $4.6 million dollars. In financing and capital, as I mentioned, the securitization markets are very healthy and we have got another deal out to market that will price this week. Those markets are very supportive.

In terms of capital and liquidity, we have never been in a stronger position with, for us, a much larger amount of liquidity coming off that unsecured corporate debt issuance, and really gives us, as I mentioned, the strength and the flexibility to navigate whatever market comes our way. So with that, I will turn it over to Mark.

Mark Szczepaniak
Thanks, Chris, and good evening, everyone. As Chris mentioned, the first quarter of 2026 continued the consistent production that we saw all during 2025. On page four of the presentation, our Q1 loan production was just a little over $639 million in UPB. That is consistent with just under $635 million for Q4 of '25. In Q1 of '26, there were over 1,600 loans funded.

The production during Q1 included the weighted average coupon on new held-for-investment originations continuing to come in strong at 10.1%. And the weighted average coupon on our held-for-investment originations for the last five-quarter average trend has been at 10.3%. This growth in originations in Q1 also continued at tight credit levels, with the weighted average loan-to-value for the quarter at 62.5% and on a five-quarter average trend basis at 62.7%, so, consistently tight credit levels. So, the strong Q1 production growth, the healthy WAC, and the low LTV demonstrate a consistent trend. Chris mentioned the borrower demand for our product, even though these recent challenging economic markets.

If we go to page five, as a result of the strong Q1 production, Page five shows the growth in our overall loan portfolio. At the end of Q1, the total loan portfolio as of March 31 was $6.8 billion in UPB, and that is a 5.3% increase from Q4 and a 25.4% increase in the portfolio year-over-year compared to Q1 of '25. The weighted average coupon on our loan portfolio as of March 31 was 9.75%, which was almost flat to Q4 '25 and a 15-basis point year-over-year increase compared to Q1 of '25. The total portfolio weighted average loan-to-value decreased to just under 65% as of March 31. And the loan portfolio continues to provide a healthy yield at these tight credit levels.

Moving to page six, our first quarter net interest margin was 3.56%. That is consistent with Q4's net interest margin of 3.59. Looking at the individual components over to the right of our net interest margin, our portfolio yield increased by 12 basis points year-over-year due to continued loan production at those healthy WACs.

The higher portfolio yield in Q4 '25 was due to more cash being received during that period on our non-performing loans. As we said, some of that cash on non-performing loans kind of comes in lumpy time-over-time, so it was a little bit elevated in Q4.

Our portfolio cost of funds decreased by 14 basis points both quarter-over-quarter and year-over-year compared to Q1 '26. And that is mainly due to paying down the portfolio warehouse lines in Q1 with proceeds from the unsecured corporate debt issuance that Chris had mentioned.

On page seven, our non-performing loan rate at the end of Q1 in those left tables was 10.1%, and that is a 70-basis point year-over-year decrease compared to Q1 of '25. We continue to see strong collection efforts by our special servicing department that have resulted in favorable gain resolutions of our non-performing assets, which are comprised of both the non-performing loans as well as the REOs.

The table to the right shows our loans held for investment portfolio, including both our amortized cost loans and our fair value loans. And it shows the total year-over-year non-performing loan valuation allowance we have for our non-performing loans.

As of March 31st, 2026, the amortized cost loan portfolio had a $4.9 million CECL loss reserve, and the fair value loan portfolio had a $52.2 million valuation adjustment loss allowance for a combined valuation loss allowance of 83 basis points on the entire HFI portfolio. Both these valuation adjustments are required under US GAAP. The unrealized loss valuation adjustment on our non-performing fair value loans represents what could be achieved for those loans transacted between a willing buyer and a willing seller in the secondary market.

However, we do not plan on selling these NPL loans since our in-house special servicing department has a history of producing net gains on the resolutions of these non-performing assets. And again, that 83 basis points of total loss allowance on our entire HFI portfolio, our actual historical trends on losses has been nowhere near that 83 basis points. It's been fractions of that.

On page eight, page eight just shows the CECL loan loss reserve activity. The CECL reserve, remember is only applicable on the amortized cost loan portfolio, which is continuing to pay down as all our new loans are fair value. So it does not include the fair value portfolio. And again, that CECL reserve at the end of the quarter was $4.9 million or 25 basis points of our outstanding amortized cost portfolio. So it's been very consistent.

Page nine shows the real estate-owned activity and the left-hand side just shows the percentage of our real estate assets to the total HFI portfolio. And you can see year-over-year, it's been very, very consistent. You are talking about, you know, several basis points movement from 1.5% to 1.9%.

On the right-hand side is an expanded disclosure that we have on total gain or loss on REO activity. And what we have done on this page is we have actually broken out the gain or loss activity on new REOs compared to the gain or loss on existing REOs. The top half of the table shows the gain or loss for recording new REOs in that period, and it segregates REO activity between being sourced from either the amortized cost or the fair value loan portfolios. You can see in Q1 of 2026, there was a total $6.8 million gain on transfers of non-performing loans to new REOs in the quarter, compared to $4.4 million gain year-over-year in Q1 2025.

The second half of that table shows the gain or loss on activities on existing REOs subsequent to the initial recording of the REO in future periods or subsequent periods reflecting on the lower of cost or market accounting. For Q1 of 2026, there was a $3.3 million loss on REO activities compared to $1.8 million in Q1. And if you take those two sections combined, that presents a holistic picture of our overall REO P&L activity for the periods, which for Q1 of 2026 was a net gain of $3.5 million, compared to a net gain of $2.7 million for Q1 of 2025.

The thing to keep in mind here is the REOs in that bottom half are not the same REOs. The REOs in the top half are new REOs that have come on. The bottom half is activities of REOs that we've had on the books for a while are now making adjustments to based on the requirements of GAAP under lower of cost or market accounting. That kind of gives you the full picture of all the REO activity.

Page 10 shows our non-performing loan resolutions. Chris mentioned continued very, very strong resolutions of our non-performing assets. In Q1 of 2026, we resolved a little over $70 million in UPB non-performing loans and had total resolution dollars recovered, including the past due net contractual interest of $4.6 million or 6.5% over the UPB principal of the loans. And that's compared to $68 million in UPB of loans resolved in Q1 of 2025 with $5.2 million in total recovered revenue or 7.6% over.

And if you wanted to know just the gain based on the default interest and prepayment fees, that's still there. That should be in the column that just says gains. So for the first quarter of 2026, the total gains on just on default interest and prepayment would be $1.6 million of that $4.6 million, with the difference being all the collection of that past due accrued interest.

Turning to page 11 on the durable funding and liquidity. A position at the end of the first quarter, total liquidity as of March 31st was $329 million. That's comprised of $87 million in cash and cash equivalents and almost another $242 million in available liquidity on unfinanced collateral. The available warehouse line capacity at the end of the quarter was $835.6 million, with the maximum line capacity of $935 million.

During Q1, as Chris mentioned, we issued our first publicly rated unsecured debt deal, a $500 million deal. We used the proceeds to pay off our 2022 corporate secured note of $215 million. We paid off the secured note of $215 million that was issued in 2022. And then we also paid down a number of our warehouse lines with those proceeds. Also in Q1, we issued the first regular securitization of the year, 2026-1. That had a little over $335 million in securities issued. And we issued another private security, 2026-P1, and that had about $178 million in securities issued.

Looking at the bottom table, our recourse debt to equity ratio at the end of Q1 remained very low at 1.0 times. Our total debt to equity ratio, which includes all the non-recourse securitizations that we do, was at a 9.6 times as of the end of the quarter.

That kind of wraps up my Q1 2026 financial recap. With that, I'll turn the presentation back over to Chris for an overview of Velocity's outlook on key business drivers this year. Chris.

Chris Farrar
Thanks, Mark. On page 12, we think the markets are healthy and continue to see strong demand. Credit remains very stable for us and where we expect it to be. In terms of capital, mentioned that all capital markets are healthy and functioning well, so we're in really good shape there. And from an earnings perspective, we continue to expect a 3.5% NIM and the portfolio to continue to grow this year as we see origination volumes pick up in the latter half of the year.

That concludes our prepared remarks, and we can open it up for questions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. Again, to ask a question, you may press "*" then "1" on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. And to withdraw a question, you may press "*" then "2." At this time, we will pause just momentarily to assemble our roster.

And our first question here will come from Chris Muller with Citizens. Please go ahead.

Chris Muller
Hey, guys. Thanks for taking the questions. The origination feel like they've been on a pretty steady pace here for, I guess, the last year, year and a half or so. Do you guys expect origination volumes in 2026 to continue on a similar path to what we saw last year with a pickup later in the year?

Chris Farrar
Yes, we do. I think we felt like a…we felt a little bit of a slowdown kind of the end of the year and the beginning of this year. I think that was more seasonal in nature. Maybe it was the market, I'm not sure. But we've already seen kind of new origination volumes starting to tick-up a little bit. And we think similar to last year, kind of Q2, Q3, those volumes will accelerate.

Chris Muller
Got it. And then you guys are generating some really impressive ROEs. Do you think that that can hold in the high teens? It seems like a bunch of the inputs are suggesting that it can hold there, at least in the near term. So how are you guys thinking about ROEs going forward?

Chris Farrar
Yes, we expect them to hold in there. As I mentioned, we're very disciplined on margin. The margin's probably the most important thing to us. We treat our capital as precious, and we need to make sure we earn those returns. So we don't have to chase volume because we have this in-place portfolio. We're far more focused on maintaining margin, which obviously translates into ROE. So yes, is the short answer.

Chris Muller
Got it. Appreciate you guys taking the questions and congrats on a really strong quarter.

Chris Farrar
Thank you.

Chris Muller
Thanks.

Operator
This concludes our question-and-answer session. I'd like to turn the conference back over to Chris Farrar for any closing remarks.

CONCLUSION

Chris Farrar
Great. Thanks, everyone who joined us today. We appreciate your continued interest in Velocity. As always, the investor relations team is available for follow-up conversations, and we look forward to speaking with many of you over the coming weeks. Have a great evening.

Mark Szczepaniak
Thank you, everybody. Have a nice evening.

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