Velocity Financial Second Quarter 2026 Results

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Speakers:
Chris Farrar - President and Chief Executive Officer
Mark Szczepaniak - Chief Financial Officer
Chris Oltmann - Corporate Treasurer

Operator: Hello and welcome to the Velocity Financial Second Quarter 2026 Results Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, simply press star one on your cellphone keypad to raise your hand and join the queue. If you'd like to withdraw your question, simply press star one again.

We'll now turn the conference over to Chris Oltmann, Corporate Treasurer. Please go ahead.

Chris Oltmann: Thanks, JL. Hello, everyone, and thank you for joining us today for the discussion of Velocity's Second Quarter 2026 Results.

Joining me today are Chris Farrar, Velocity's President & Chief Executive Officer; and Mark Szczepaniak, Velocity's Chief Financial Officer. Earlier this afternoon, we issued a press release with our second quarter results, and you can find that press release and the 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 in 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, and good afternoon, everyone. I appreciate you taking the time to join us today. I'll start with how the quarter came together and then walk through the highlights. Mark will then walk you through the financials in detail before we open up for questions.

The second quarter was, in many ways, a continuation of the story we've been telling all year. Demand for our products stayed healthy across both the traditional commercial and 1-4 family rental markets. Our portfolio kept compounding, and our credit book performed the way we've come to expect from a well-seasoned low LTV loan book. We delivered core net income of $27.9 million this quarter, with pre-tax income up 3.9% year-over-year to $35.2 million. The modest year-over-year dip in GAAP net income and EPS came almost entirely from a higher effective tax rate, not from any softening in the underlying business. If anything, the underlying business kept getting stronger. Diluted book value per share grew to $18.43, up nearly $2.81 from a year ago, which is really the number that best captures what compounding at Velocity looks like over time. Credit remains our top priority, and this quarter, we reinforced that discipline. Nonperforming loans fell to 9.6% of held-for-investment loans, down from 10.3% a year ago. And we resolved $90.5 million of NPLs with net gains of 102.7% and with total recoveries of 107.7%. Our special servicing team continues to do exactly what we ask of it: resolve assets efficiently while maximizing recovery.

We've said before that we optimize for asset valuation, not volume, and that discipline continues to show up in our numbers. Charge-offs this quarter were just $700,000, below our five-quarter trailing average. On the origination side, we again grew the portfolio the way we like to grow it deliberately. Total loan production was $672.6 million this quarter, slightly down from $725 million a year ago, but unit production was actually up 3.3%. The dollar decline reflects a lower average loan size, not softer demand. Our total loan portfolio grew to $7 billion in UPB, up 19% year-over-year, with healthy growth across every collateral type we serve.

We stayed active on the funding side as well, completing two securitizations during the quarter, and the fixed income markets remain very supportive, as evidenced by the tightest spreads we've seen in the last three years. We ended the period with $240 million of liquidity and $662 million of available warehouse capacity, which gives us real flexibility to keep leaning into origination opportunities without stretching the balance sheet.

At the back half of 2026, we feel good about where we sit. Credit is performing. Our funding base is diverse and well capitalized, and demand for our products remains strong. The pipeline is robust, and we expect origination volumes to increase for the rest of this year. We remain confident in our ability to keep compounding book value and earnings at the pace our investors have come to expect from us.

With that, I'll turn it over to Mark to take you through the numbers in more detail.

Mark Szczepaniak: Thanks, Chris.

Chris Farrar: I'll hit the first page, and then I'll turn it over to you, actually.

Mark Szczepaniak: Okay.

Chris Farrar: Okay. Cool, thanks.

On page three, just the highlights for the quarter. NIM income, as I mentioned, $25.2 million, a 3.2% decrease from the prior year, and that was mainly driven by the tax rate that I mentioned. Core net income, up 1.4%, and portfolio NIM, 3.66% above our targeted 3.5%, down slightly from the 3.82% in the prior year, but that level was elevated due to some cash collections in that prior period.

In terms of production, I already hit on the numbers there, so I won't reiterate those. And suffice it to say that we're very pleased with the way the business was performing and the production levels that we achieved. And as I mentioned, looking forward, the pipeline looks very healthy. So, we expect those volumes to increase.

On the financing and capital side, I did already mention both the securitizations and the liquidity, and want folks to know that we feel like we're in a really good position to continue growing the portfolio. And I'd highlight that the MC2 securitization that we did continues to help us improve our capital efficiency, unlocking some capital that was tied up in nonperforming loans.

With that, I'll turn it over to Mark to take you through the rest.

Mark Szczepaniak: Thanks, Chris. Good afternoon, everybody.

Velocity's second quarter of 2026 continues to reflect, as Chris mentioned, our strong earnings results for the year. Looking at page four, our Q2 loan production, as Chris mentioned, was just under $673 million in UPB. That's an increase of about 5.2% over Q1's production of $639 million. There were over 1,600 loans funded in the second quarter, and that's consistent with Q1's unit production. Production during Q2 included the weighted average coupon on our new held-for-investment originations, continuing to come in strong at about 10%. And the weighted average coupon on HFI originations for the last five quarter average trend was at 10.2%. So, really holding that 10% WAC level constant over the last five quarters.

The growth in originations in Q2 also continued at very tight credit levels, with the weighted average loan-to-value for the quarter at 61.1% and the last five-quarter average trend for the weighted average loan-to-value at 62.4%. So, this Q2 production grew at a very healthy WAC, low LTV. And so it continues the trend of good borrower demand for our product even during what's been an unstable year-to-date so far, 2026 economic market.

Turning to page five. As a result of the continued strong Q2 production. Page five shows the growth in the quarter for our overall loan portfolio. Total loan portfolio as of June 30th was about $7 billion in UPB. That's a 2.2% increase from Q1, and over a 19% increase year-over-year compared to the second quarter of 2025. The weighted average coupon on our total portfolio as of June 30th was 9.7% on a yield basis, and that was consistent quarter-over-quarter and year-over-year. So, we're holding that 9.7% coupon. And again, that kind of ties to the originations over the last five quarters coming in at 10%, very consistent on the WAC and also on the WAC in the portfolio. The metrics show the loan portfolio continues to provide healthy yield at tight credit levels.

Flipping to page six. Our Q2 portfolio net interest margin was 366 basis points. That's a 10 basis point increase over Q1 NIM of 356 basis points. Looking to the right at the different components of NIM, our portfolio yield increased by 6 basis points quarter-over-quarter due to the continued loan production at the healthy WACs that we just highlighted. The higher portfolio yield of 965 basis points reflected in Q2 of 2025, that was due to more cash being received during that period on nonperforming loans. And cash received on nonperforming loans, as we know, can vary quarter-to-quarter based on actual resolution activity and cash received. Our portfolio cost of funds remained constant quarter-over-quarter and decreased by 15 basis points year-over-year. The year-over-year decrease, again, mainly due to paying down those portfolio warehouse lines back in Q1 of this year, with the proceeds from the unsecured corporate debt issuance that we had in Q1.

Looking at page seven. Our nonperforming loan rate at the end of Q2 was 9.6%, which is a 70 basis point year-over-year decrease. And the decrease is a result of both selling nonperforming loans into that 2026-MC2 Trust security and also the continued strong resolution efforts by our special servicing department, which we continue to resolve those NPL resolutions at favorable gains on all of our NPA assets, which are comprised of the NPL loans as well as the REOs. The table to the right on page seven shows our loans held-for-investment portfolio, which includes both the amortized cost loan portfolio and the fair value loan portfolio, and shows the total year-over-year nonperforming loan valuation allowance that we have for nonperforming loans. As of June 30th, the amortized cost loan portfolio had a $5.1 million CECL loss reserve, and the fair value loan portfolio had a $24.3 million valuation adjustment loss allowance for a combined total portfolio valuation loss allowance of 42 basis points.

Remember, both of those valuation adjustments are required under U.S. GAAP. The unrealized loss valuation adjustment on our non-performing FVO loans under U.S. GAAP represents the market value for which those loans could be sold in a secondary market. However, we do not plan on going out normally in the secondary market and the whole loan market and selling our nonperforming loans anywhere at a discount because we've got a history of producing net gains on that product.

Page eight shows our CECL loan loss reserve activity. The CECL reserve, again, keep in mind, is only applicable to our amortized cost loan portfolio, which is dwindling down as our amortized cost loans continue to pay down. It does not include the loans being carried at fair value. The CECL reserve as of the end of the quarter was $5.1 million, or 28 basis points of the outstanding amortized cost HFI portfolio.

On page nine, you see our real estate owned REO activity. The graph to the left shows our ratio of REO assets to total HFI loans, and that ratio has been relatively stable over the last 12 months on a year-over-year basis. In the table to the right, we show all of our REO activity. It's broken out. The top half of the table reflects the gain or loss from recording new REOs in the period. And it segregates that new REO activity between being sourced from our amortized cost loan portfolio and our fair value loan portfolio. For Q2 of this year, there was a $5.4 million gain on transfers of non-performing loans to new REOs compared to a $7.1 million gain year-over-year in the second quarter of 2025. The bottom half or second half of the table presents the gain or loss activities on the existing REOs subsequent to the initial recording of the REO, which reflects the lower of cost or LOCOM accounting. In Q2 of 2026, there was a $3 million loss on REO activities compared to a $1.4 million loss year-over-year in the second quarter of 2025. So if you take those two sections combined, the new REO activity as well as existing REO activity, it presents a holistic picture of our overall REO profit and loss activity for the period, which for the second quarter of this year was a net gain of $2.4 million compared to a net gain of $5.7 million for Q2 of 2025.

Page 10 shows our nonperforming loan resolution activity. For Q2, we resolved almost $91 million in UPB of nonperforming loans, and we had total resolution dollars recovered, which includes all the past due net contractual interest of $6.9 million or 7.7% over and above the UPB, compared to the resolution of $90 million of UPB of nonperforming loans with total resolution dollars recovered of $8.7 million or 9.7% year-over-year in second quarter 2025. If you want to see what the amount recovered that was over and above UPB and contractual interest, meaning the pure gain, there's the net gain column in those tables. The net gain column over and above recovering all UPB and past due contractual interest was for second quarter of this year $2.5 million or 2.7% compared to a net gain of $2.8 million or 3.1% year-over-year for second quarter of 2025.

Then, on page 11, weshow our durable funding and liquidity position at the end of the quarter. Total liquidity as of June 30th was $240 million. That's comprised of about $76 million in cash and cash equivalents and another $164 million that we had in available liquidity on unfinanced loan collateral.

The available warehouse line capacity at the end of the quarter was just under $662 million with a maximum line capacity of $975 million. So plenty of available capacity on our existing warehouse lines.

In Q2, as Chris mentioned, we issued two securitizations. We issued the 2026-2 security with a little over $398 million in securities issued. And we also did the 2026 MC2 security, which is comprised of non-performing loans, where the loans were sold into a trust, with Velocity retaining a $30 million trust certificate, a CMBS security from that trust. And then the MC2 security generated a little over $11 million in net proceeds for us.

Our recourse debt-to-equity ratio at the end of the quarter remained low at 1.2x. And our total debt-to-equity, if you include all the non-recourse securitizations, was at 9.7x at the end of the quarter.

With that, I'll turn it back over to Chris for the Q2 financial recap.

Chris Farrar: Thank you, Mark. On Page 12, just an overview of things going forward. We think the market is healthy and doing well. Credit is stable. We like the performance there. Capital markets are very supportive and wide open, which is great for our business. And from an earnings perspective, we think we're going to continue to achieve above 3.5% NIM and good growth going forward. So we like the way things are lining up for the rest of this year and into 2027.

That concludes our prepared remarks, and we'll now open it up for questions.

Operator: Thank you. If you have a question, please press star one on your telephone keypad to raise your hand and join the queue. If you wish to remove yourself from the queue, simply press star one again. One moment, please, for your first question.

Your first question comes from the line of Chris Muller of Citizens Capital Markets. Your line is open.

Chris Muller: Hey, guys. Thanks for taking the questions, and congrats on another really solid quarter here. So I guess the government-insured multifamily originations jumped in the quarter. Can you just refresh my memory on this product, and will we see more of this going forward, or was 2Q an outlier with that?

Chris Farrar: Sure. Hi Chris. Yes, so that is our Century Health & Housing division that produces HUD multifamily loans. Those are very large in terms of average UPB and tend to be very lumpy. I would say in prior years, with the way the Fed moved rates around, their volumes kind of slowed down for a while. Things have kind of stabilized there and normalized, I would say, in terms of market rate expectations. And so now we're starting to see better traction. It was a nice quarter for them, but their pipeline looks very robust, and we expect to see levels kind of like this going forward.

So I don't think it's necessarily an outlier; I think it will be something similar to that on a go-forward basis.

Chris Muller: Got it. That's helpful. And then the $222 million of loan sales, I assume that's separate from the NPL securitization. And if that's true, can you just give some details on those sales? Just what percent of par and anything you could provide would be helpful.

Chris Farrar: Sure. Mark, do you want to cover those?

Mark Szczepaniak: Sorry, I had to take my phone off mute. What were the $222 million in loan sales that you're referring to, Chris?

Chris Muller: I was looking at the bridge portfolio, trying to see what slide that was, slide 19.

Mark Szczepaniak: Okay. So that's part of the actual MC2 security. So as we said, the MC2 security, we actually sold the loans into the trust. So unlike previous REMIC securitizations, where when the loans go into the trust, we have a consolidation accounting where the loans stay on our books because we have to consolidate that trust as a DIE as part of Velocity. The MC2 security was structured in such a way where we are not the primary beneficiary of that 2026-MC2 trust. So the loans that were transferred to the trust come off our books. They're actually sold into the trust. That's why now we have, I mentioned, retained a $30 million security, a CMBS, from all of our other securitizations. We don't really have a security because the trust consolidates on our books, right? So the loans stay on our books, and the certificates that are issued to outside investors just become debt because it all consolidates within Velocity. The MC2 trust does not consolidate on Velocity's books, so the loans that were transferred into it are actually considered sales. They actually came off our books, and because we retained an interest in that trust, we now have a CMBS security on the balance sheet; you'll see it'll say retained interest in securitization.

Chris Muller: Got it.

Mark Szczepaniak: So that's what the loan sales are. It's all part of that MC2 Trust.

Chris Farrar: Yes, then I would add the Century activity on top of that.

Mark Szczepaniak: Right. Because you got about $136 million in the MC2, and you had $80 or $ 80-some million on the Century deal as a held for sale loan that was sold to outside investors.

Chris Muller: Got it. That clears it up and that was all very helpful. Appreciate you guys taking the questions today and congrats again on another really solid quarter.

Mark Szczepaniak: Thanks, Chris.

Operator: Your next question comes from the line of Doug Harter of BTIG. Your line is open.

Doug Harter: Thanks. I think you mentioned that we expect a little bit faster loan growth in the second half. Wondering if you could size that?

Chris Farrar: Wondering if we could, what, Doug? I'm sorry, tailed off.

Doug Harter: Size that the change in pace in loan growth.

Chris Farrar: Got it. Size it, yes. We don't give formal forward guidance, but I can say that July was the best month we've had in terms of submissions, so we've seen volume really pick up just recently in the last 45 days. And that's kind of typical in terms of seasonality; the second half of the year tends to be really good for us. We definitely think we'll beat last year's volumes, but we don't have formal guidance in terms of how much that looks like or what size that is.

Doug Harter: Great. And talk about how you're thinking about capacity to continue to grow the balance sheet. Obviously, you're retaining capital and compounding that way, but how do you think about the ability to kind of be more efficient with the current balance sheet?

Chris Farrar: It's something that we keep an eye on, and it's largely driven by how much growth we achieve. The portfolio obviously throws off nice cash flows. But to your point, depending on how aggressively we grow, we will need to access more capital potentially, and we have a forward plan on that. We update that regularly. Fortunately, the markets are all open to us right now, both on the equity and debt side. So I would think as we grow and as we move forward, we will either tap equity or debt markets, depending on where we are and where the best execution is. We won't get much more than 10x leverage. We are a levered finance company, but don't want to really exceed that. That will probably be somewhat of a governor in terms of whether we raise equity or debt.

Doug Harter: Great, appreciate the answers. Thank you.

Chris Farrar: Sure.

Operator: With no further questions, that concludes our conference call. Thank you for your participation. You may now disconnect.