

Investor 1-4

Mixed-Use

Commercial

Multi-Family



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2Q20 Earnings Presentation  
August 12, 2020



# Forward-looking statements

Some of the statements contained in this presentation may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, projections, plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," or "potential" or the negative of these words and phrases. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

The forward-looking statements contained in this presentation reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause actual results to differ significantly from those expressed or contemplated in any forward-looking statement.

While forward-looking statements reflect our good faith projections, assumptions and expectations, they are not guarantees of future results. Furthermore, we disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, new information, data or methods, future events or other changes, except as required by applicable law. Factors that could cause our results to differ materially include, but are not limited to: (1) the course and severity of the COVID-19 pandemic, and its direct and indirect impacts (2) general economic conditions and real estate market conditions, (3) regulatory and/or legislative changes, (4) our ability to retain and attract loan originators and other professionals, and (5) changes in federal government fiscal and monetary policies.

For a further discussion of these and other factors that could cause future results to differ materially from those expressed or contemplated in any forward-looking statements, see the section titled "Risk Factors" previously disclosed in our Form 10-K filed with the SEC on April 7, 2020 and Form 10-Q filed with the SEC on May 14, 2020. Such filings are available publicly on our Investor Relations web page at [www.velfinance.com](http://www.velfinance.com).



# 2Q20 Highlights

## Earnings

- Net Income of \$2.1 million and “Core” EPS of \$0.17<sup>(1)</sup>
- Results reflect resiliency of Velocity’s business model, maintaining positive net income despite extreme challenges presented by the pandemic
- Deemed dividend to adjust the redemption value of the preferred stock resulted in a non-cash loss per common share of \$(2.33) during the quarter<sup>(2)</sup>

## Production & Portfolio

- Resolutions of delinquent loans in 2Q20 totaled 102% of delinquent assets resolved, continuing our strong historical track record of net gains on delinquent loan resolutions
- Loans in COVID-19 forbearance plans totaled \$331 million in UPB at June 30, 2020
  - Approximately 81% of the forbearance plans due to resume making full payments in July made their payment or paid in full
- Total net interest margin of 3.18%, an increase of 21 basis points (bps) from 1Q20

## Financing & Capital

- Paid off existing warehouse lines. All loans are now secured with long-term financing.
  - Completed our VCC 2020-2 securitization totaling \$128 million in UPB of assets in June, collateralized by 30-year mortgages
  - Completed our VCC 2020-MC1 securitization totaling \$276 million in UPB in July, collateralized primarily by short-term loans
- Issued and sold \$45 million of convertible preferred stock and warrants and used proceeds to strengthen balance sheet

<sup>(1)</sup> “Core” earnings per share is a non-GAAP measure. Please see the reconciliation to GAAP net income on page 4.

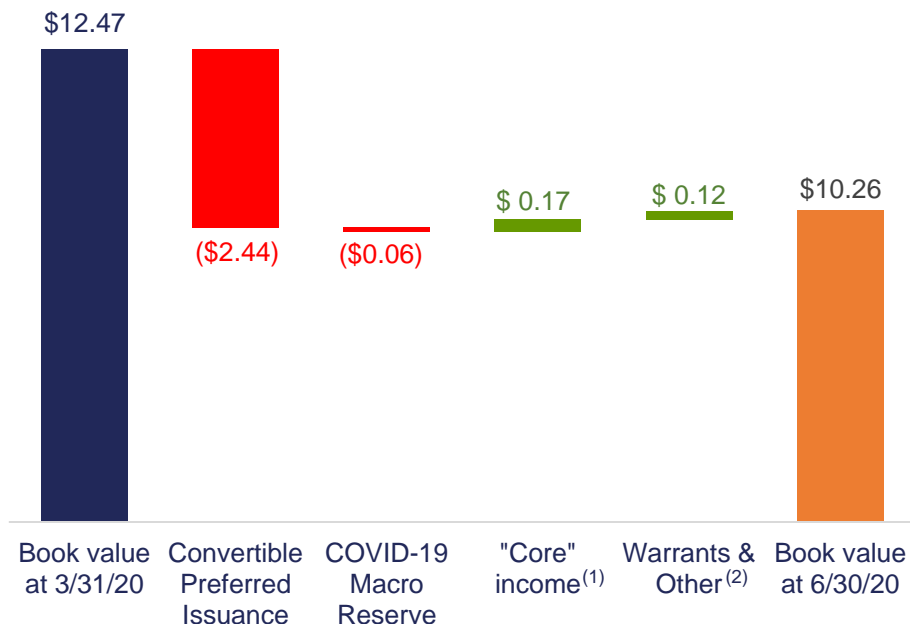
<sup>(2)</sup> Please see the slide 15 in the Appendix of this presentation for more information.

# Earnings and Book Value

## Adjusted “Core” Earnings Per Share

“Core” earnings per share	\$0.17
COVID-19 Reserve	\$(0.06)
Preferred stock deemed dividends	\$(2.44)
GAAP diluted loss per common share	\$(2.33)

## Book Value Per Share



- 2Q20 Core earnings of \$0.17 per share, a decrease from \$0.29 in the prior quarter
- Book value per share at June 30, 2020 of \$10.26 per share from \$12.47 per share at March 31, 2020
- Preferred stock deemed dividends reflects a non-cash transfer from common shareholder’s equity to preferred stock in mezzanine equity reflecting the redemption value of the preferred stock as of June 30, 2020.
- Increase in the macroeconomic model forecast of the CECL loan loss reserve resulting from a more adverse outlook regarding the sustained potential impacts of the COVID-19 pandemic

<sup>(1)</sup> “Core” income per share is a non-GAAP measure. Please see the Company’s second quarter earnings press release for a reconciliation of “Core” income to GAAP net income.

<sup>(2)</sup> Includes fair value of warrants and Increase APIC from stock options

## Financing / Securitization

- Eliminated mark-to market risk with long term, fixed rate securitizations
  - Ability to execute two securitizations in highly disrupted and uncertain market speaks to Velocity's franchise value and extensive track record of strong collateral performance
- In negotiations with various counterparties regarding new warehouse financing lines without mark to market provisions

## Production

- Redesigned origination workflows to incorporate greater system automation while also increasing processing speed and accuracy
  - Retraining operations staff and targeting full operational readiness by the end of August
- Resuming production operations in the first week of September 2020
  - Re-evaluating product guidelines (LTVs, property types, geographies, etc.) and product offerings for the new environment

## Forbearances / Loss Mitigation

- Approximately 81% of the forbearance plans due to resume making full payments in July made their payment or paid in full
  - Loans completing forbearance will be brought current and missed payments will be deferred until the loan is paid off or at maturity
  - Offering of new forbearance plans generally ceased after June 30, 2020<sup>(21)</sup>

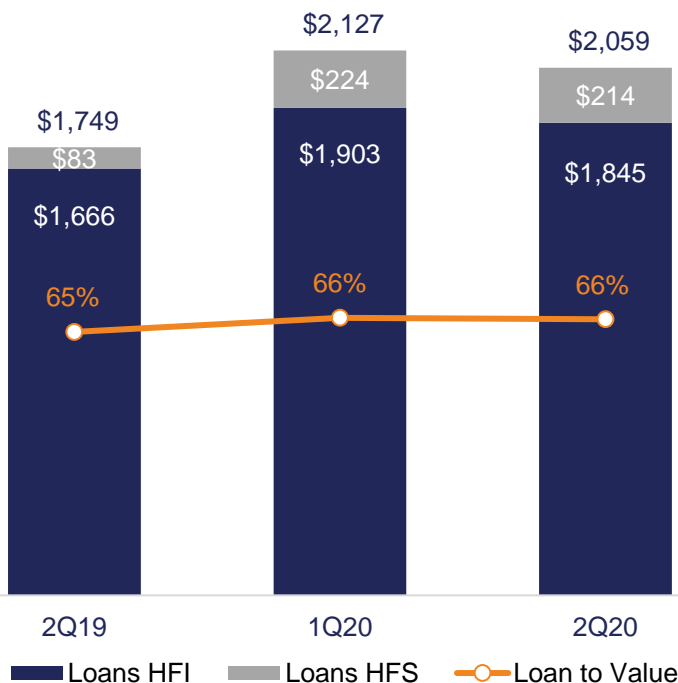
<sup>(1)</sup> Forbearances may be offered as a loss mitigation option on a case-by-case basis going forward

# Loan Portfolio – HFS and HFI

- Total portfolio at June 30, 2020 was \$2.06 billion from \$2.13 billion at March 31, 2020
- Real estate markets remains very active despite COVID-19 pandemic-related issues
  - Receiving strong indications of demand from our broker network for financing of investor properties

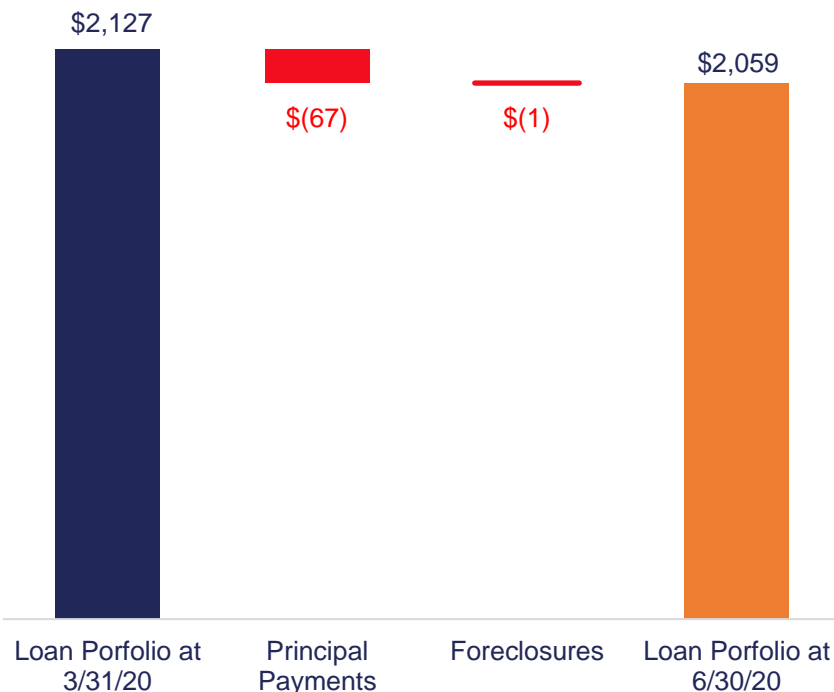
## Loan Portfolio Composition

(UPB in millions)



## Loan Portfolio Waterfall

(UPB in millions)

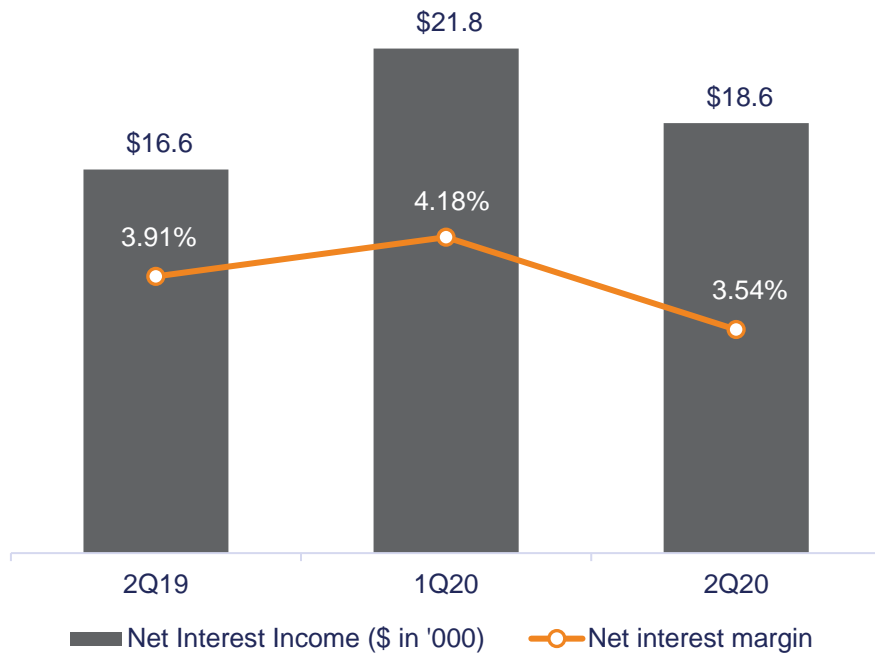


# Net Interest Income and Margin

- 2Q20 Net Interest Income (NII)<sup>(1)</sup> totaled \$18.6 million, a decrease of 15% Q/Q and up 12% Y/Y
- 2Q20 Net Interest Margin (NIM)<sup>(1)</sup> was 3.54%, a decrease of 64 bps Q/Q and 37 bps Y/Y
- The Q/Q decrease in NII and NIM was primarily been driven by increased loan delinquency, partially offset by a decreasing weighted average cost of funds

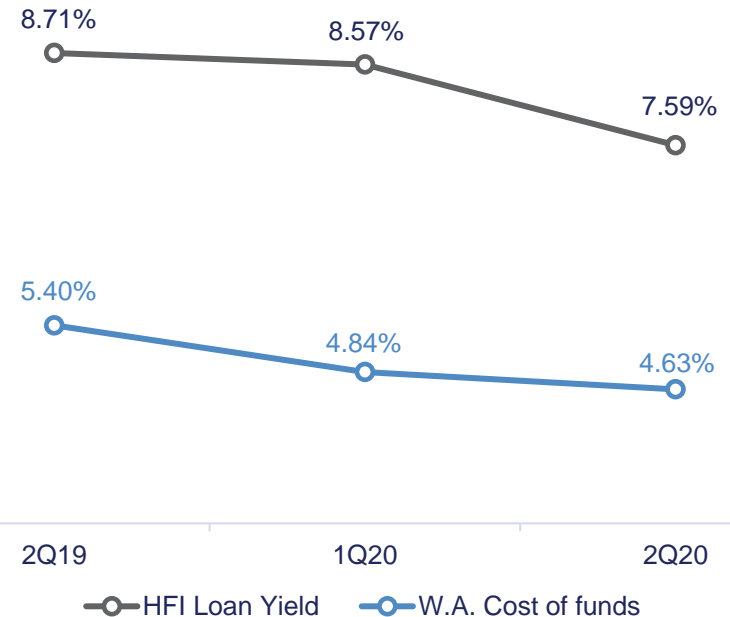
## Portfolio Net Interest Income & NIM<sup>(1)</sup>

Portfolio Related (\$ in Millions)



## Portfolio Yield and Cost of Funds

Portfolio Related



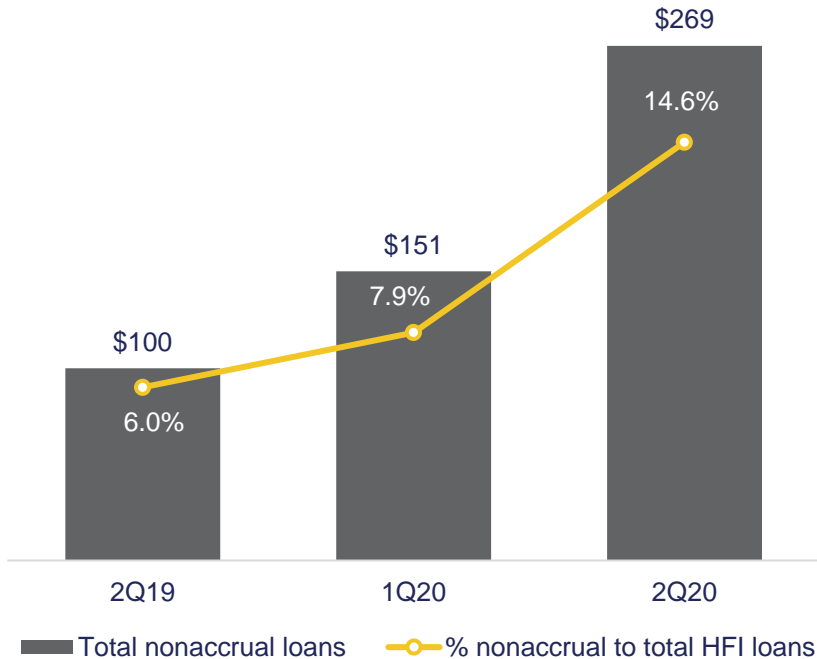
<sup>(1)</sup> Net Interest Income and Net Interest Margin related to the loan portfolio only; excludes corporate debt.

# HFI Loan Portfolio Performance

- Nonaccrual loans at June 30, 2020 totaled \$269 million in UPB, or 14.6% of total loans held for investment, up from 7.9% at March 31, 2020 and 6.0% at March 31, 2019
- Charge-offs were \$75 thousand in 2Q20, continuing the historical trend of extremely low loss severity despite higher delinquencies

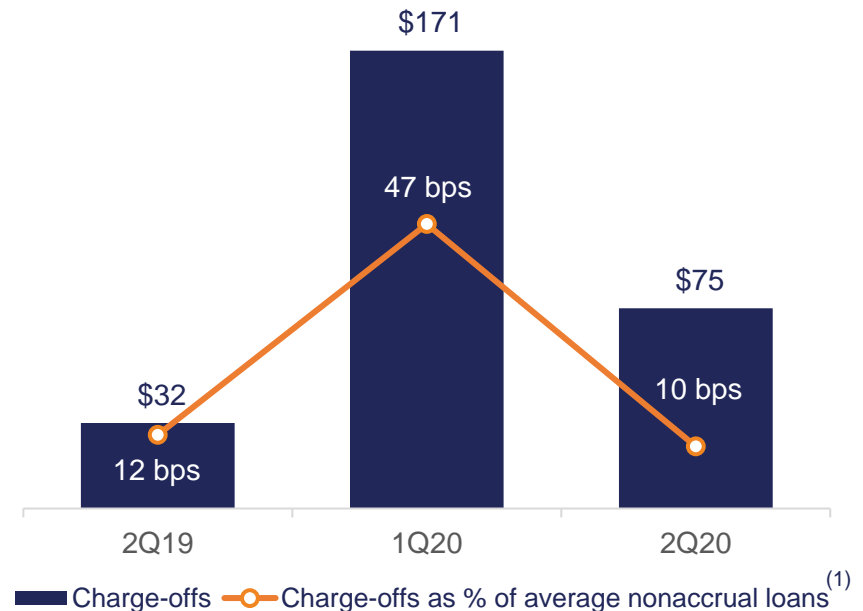
## Nonaccrual Loans<sup>(1)</sup>

\$ UPB in millions



## Charge-offs

\$ thousands



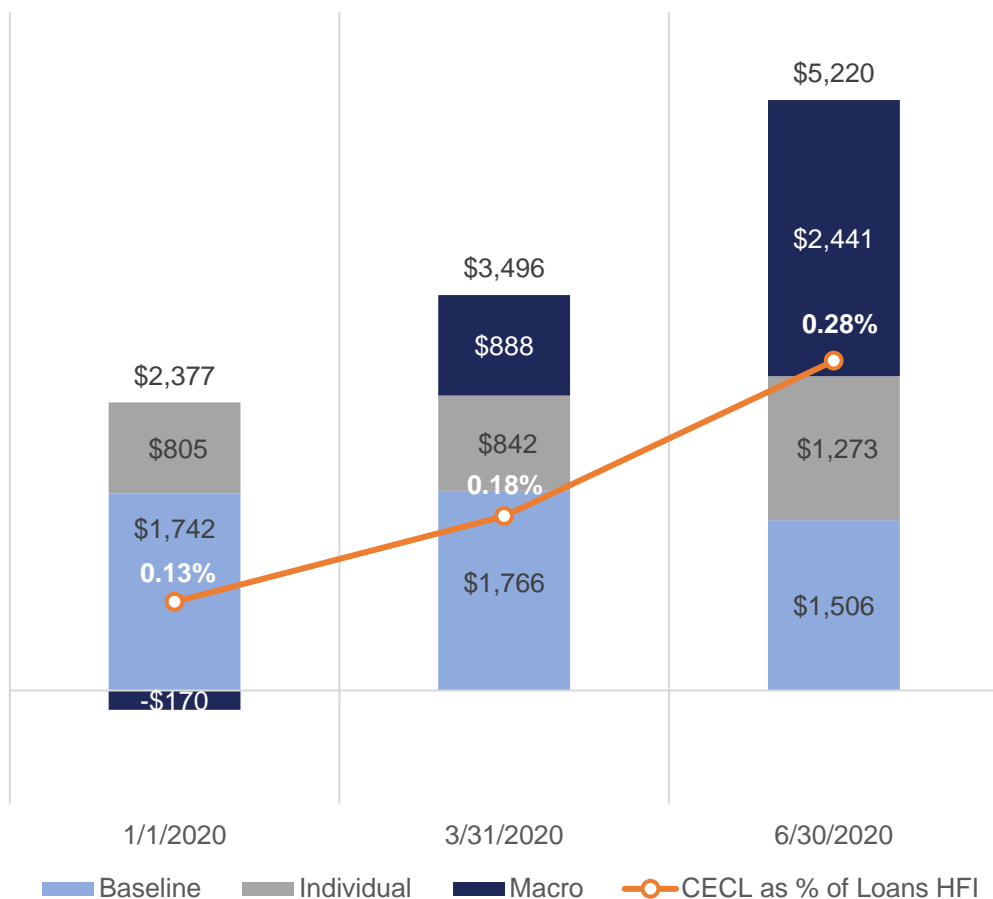
<sup>(1)</sup> Annualized



# CECL Reserve and Charge-Offs

**Strengthening the CECL reserve to address the COVID-19 pandemic; model assumes more severe macroeconomic environment going forward**

## CECL Reserve



- Velocity's CECL reserve increased 10 bps Q/Q to 28 bps of HFI loans at June 30, 2020, from 18 bps at March 31, 2020
- The increase to the CECL reserve in 2Q20 was driven by a more-adverse economic forecast that included the following key assumptions:
  - Deeper recession and longer recovery
  - Resurgence of COVID-19 infections, consumer avoidance of retail, restaurants and travel; persistent fears of contagion
  - Consumer demand adversely impacted by the expiration / reduction of Federal fiscal aid
  - Trade / geopolitical tensions with China
  - Potential second wave of contagion in the Fall/Winter



# 2Q20 Asset Resolution Activity

**Continued positive 2Q20 P&L trend in resolutions of delinquent loans and REO assets**

## 2Q20 Resolution Activity

<i>\$ UPB in millions</i>	<u>\$ UPB</u>	<u>\$ Gain / Loss</u>
Paid in full	\$6.7	\$0.34
Paid current	\$19.6	\$0.21
REO sold	\$1.4	\$0.04

Realized net gains of \$0.59 million from 2Q20 resolution activity or 102% of UPB resolved

- Nonaccrual loans paid in full during 2Q20 totaled \$6.7 million in UPB with a \$0.34 million net gain on resolution
  - Gains primarily reflect the collection of all default interest, in addition to regular interest and prepayment penalties
  
- Loans paid current during 2Q20 total \$19.6 million in UPB with a \$0.21 million net gain
  - Gain reflects collection of default interest, in addition to regular interest, and loan remains in our portfolio
  
- REO sales totaled \$1.4 million for a net gain of \$0.04 million.



# Expectations for the Future

## Demand for Our Products

- Real estate values have held up better than expectations and we believe that considerable demand for financing of investor properties exists
- Restarting lending at a measured pace with more attractive risk adjusted returns

## Managing Through Higher Delinquencies

- Our special servicing group is prepared to address the growing population of delinquent loans through enhanced operational efficiencies and increased headcount
- We expect that Velocity's historical track record of resolving delinquent loans at net gains will continue

## Profitability and Growth

- Portfolio growth from new production expected to drive increased net interest income
- Attractive ROE's and improved risk profile resulting from revised product offerings for the new environment
- Mark-to-market removed from warehouse agreements, reducing risk and potential volatility



# Appendix

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# Velocity Financial, Inc. Balance Sheet

(Unaudited)

	Quarter Ended				
	6/30/2020	3/31/2020	12/31/2019	09/30/2019	6/30/2019
<i>(In thousands)</i>					
<b>Assets</b>					
Cash and cash equivalents	\$ 9,803	\$ 7,649	\$ 21,465	\$ 8,849	\$ 14,105
Restricted cash	6,735	4,483	6,087	3,152	1,542
Loans held for sale, net	212,344	223,123	214,467	170,440	82,308
Loans held for investment, at fair value	2,956	2,987	2,960	2,936	2,974
Loans held for investment	1,836,065	1,895,684	1,837,646	1,751,178	1,660,387
Net deferred loan costs	25,754	26,801	25,714	24,757	23,346
Total loans, net	2,077,119	2,148,595	2,080,787	1,949,311	1,769,015
Accrued interest receivables	17,793	14,470	13,295	12,450	11,326
Receivables due from servicers	36,028	37,884	49,659	38,349	33,618
Other receivables	4,609	2,516	4,778	7,585	3,321
Real estate owned, net	15,648	16,164	13,068	15,806	14,221
Property and equipment, net	4,718	4,964	4,680	4,903	5,045
Deferred tax asset	5,556	10,111	8,280	4,127	3,228
Other assets	9,042	10,519	12,667	17,219	15,383
<b>Total Assets</b>	<b>\$ 2,187,051</b>	<b>\$ 2,257,354</b>	<b>\$ 2,214,766</b>	<b>\$ 2,061,751</b>	<b>\$ 1,870,804</b>
<b>Liabilities and members' equity</b>					
Accounts payable and accrued expenses	\$ 55,938	\$ 58,591	\$ 56,146	\$ 41,957	\$ 30,832
Secured financing, net	74,571	74,364	145,599	145,285	127,061
Securitizations, net	1,599,719	1,576,431	1,438,629	1,377,733	1,261,456
Warehouse & repurchase facilities and other	160,796	297,537	421,548	349,115	279,960
Total Liabilities	1,891,024	2,006,924	2,061,922	1,914,090	1,699,309
<b>Mezzanine Equity</b>					
Class C preferred units		-	-	-	27,399
Series A Convertible preferred stock	90,000	-	-	-	-
<b>Stockholders' Equity</b>					
Stockholders' equity	206,027	250,430	152,844	147,661	144,096
<b>Total Liabilities and members' equity</b>	<b>\$ 2,187,051</b>	<b>\$ 2,257,354</b>	<b>\$ 2,214,766</b>	<b>\$ 2,061,751</b>	<b>\$ 1,870,804</b>



# Velocity Financial, Inc. Income Statement

(Unaudited)

(\$ in thousands)

	Quarter Ended				
	6/30/2020	3/31/2020	12/31/2019	09/30/2019	06/30/2019
<b>Revenues</b>					
Interest income	\$ 39,755	\$ 44,637	\$ 44,124	\$ 40,379	\$ 36,884
Interest expense - portfolio related	21,189	22,848	22,689	21,827	20,324
Net interest income - portfolio related	18,566	21,789	21,435	18,552	16,560
Interest expense - corporate debt	1,894	6,342	4,070	3,842	3,353
Net interest income	16,672	15,447	17,365	14,710	13,207
Provision for loan losses	1,800	1,289	242	338	212
Net interest income after provision for loan losses	14,872	14,157	17,123	14,372	12,995
Other operating income (expense)	(1,339)	1,620	833	(212)	308
Total net revenues	13,533	15,777	17,956	14,160	13,303
<b>Operating expenses</b>					
Compensation and employee benefits	5,863	5,041	3,992	3,712	3,801
Rent and occupancy	448	455	426	369	398
Loan servicing	1,754	2,239	1,939	1,957	1,637
Professional fees	588	1,184	469	398	534
Real estate owned, net	408	1,134	1,300	485	561
Other operating expenses	1,847	1,998	1,688	1,563	1,393
Total operating expenses	10,908	12,051	9,814	8,484	8,324
Income before income taxes	2,625	3,727	8,142	5,676	4,979
Income tax expense	484	1,148	2,960	1,796	1,444
<b>Net income</b>	<b>\$ 2,141</b>	<b>\$ 2,579</b>	<b>\$ 5,182</b>	<b>\$ 3,880</b>	<b>\$ 3,535</b>
Less deemed dividends on preferreds stock	\$ 48,955				
<b>Net loss allocated to common shareholders</b>	<b>\$ (46,814)</b>				
<b>Diluted loss per common share</b>	<b>\$ (2.33)</b>	<b>\$ 0.13</b>			
<b>Diluted weighted average common shares outstanding</b>	<b>\$ 20,087</b>	<b>\$ 20,087</b>	-	-	-



# Velocity Financial, Inc. – Earnings (Loss) Per Share

Three Months Ended

**June 30, 2020**

**Basic EPS:**

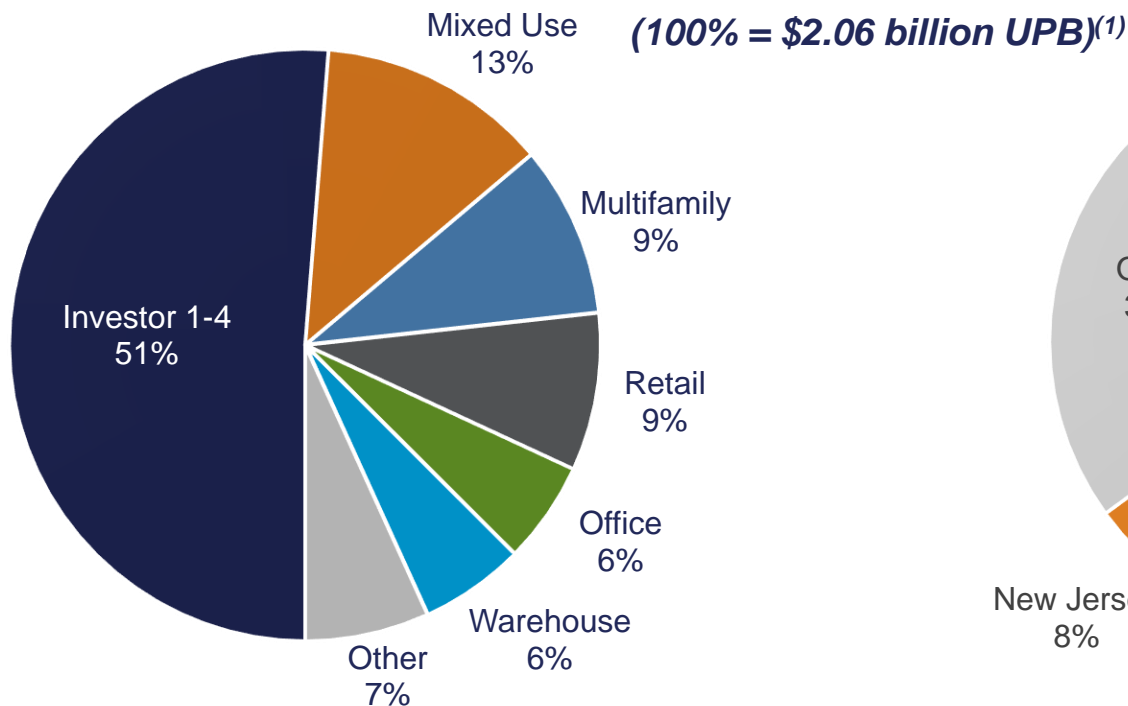
Net income	\$	2,141
Less deemed dividends on preferred stock		48,955
Less dividends on common stock		-
Net loss allocated to common stock	\$	(46,814)
Less earnings allocated to participating stock		-
Net loss allocated to common stock	\$	(46,814)
Weighted average common shares outstanding		20,087
Basic loss per common share	\$	<b>(2.33)</b>

**Diluted EPS:**

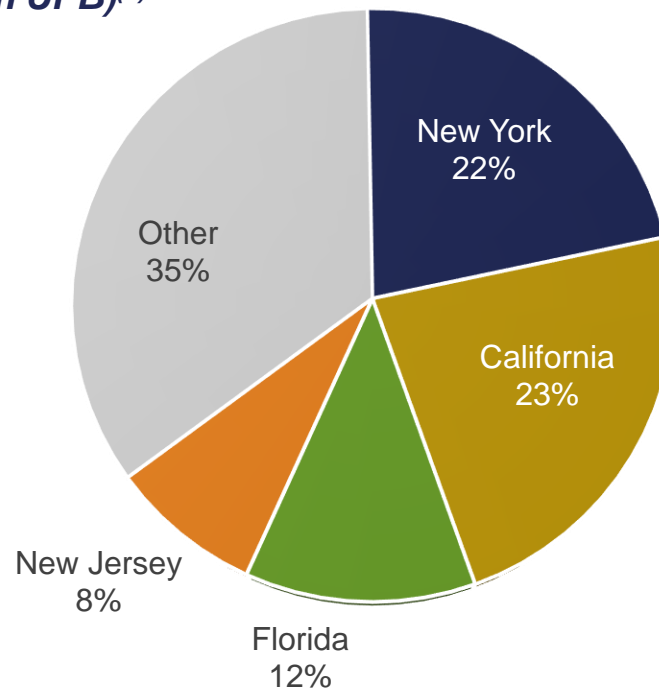
Net loss allocated to common shareholders	\$	(46,814)
Weighted average common shares outstanding		20,087
Add dilutive effects for assumed conversion of Series A stock		-
Add dilutive effect for warrants		-
Add dilutive effects for stock options		-
Weighted average diluted common shares outstanding		20,087
Diluted loss per common share	\$	<b>(2.33)</b>

# Total Loan Portfolio

## Portfolio by Property Type



## Portfolio by State



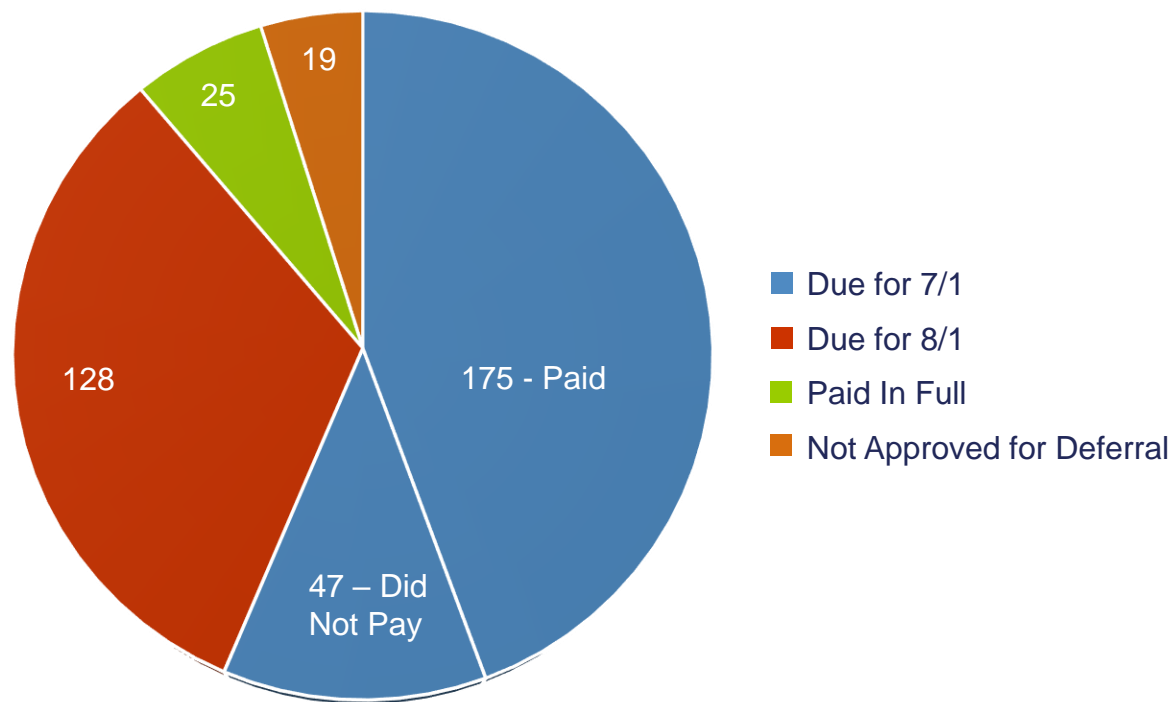
<sup>(1)</sup> At June 30, 2020



# COVID-19 Forbearance Plans

## Forbearance Plans for Payment Effective Date April 1, 2020<sup>(1)</sup>

(100% = 394 loans)



<sup>(1)</sup> The chart above shows the population of COVID-19 forbearances. 175 of the loans had the principal and interest deferred for the three payments from April to June 2020, deferred and the paid to date of the loans were brought current as of 7/1/2020. 128 loans had the principal and interest deferred for the four or five payments from April to July, or August (as applicable), deferred and the paid to date of the loans were brought current as of 8/1/2020.