

Investor 1-4

Mixed-Use

Commercial

Multi-Family



3Q20 Earnings Presentation
November 11, 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.

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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-Q filed with the SEC on May 14, 2020. Such filings are available publicly on our Investor Relations web page at www.velfinance.com.



3Q20 Highlights

Earnings

- Net Income of \$3.5 million and Core Earnings⁽¹⁾ of \$3.9 million; diluted EPS of \$0.11
- Net income growth of 63% from the prior quarter primarily driven by normalization of provision expense
 - Normalized provision expense of \$0.4 million⁽²⁾
- Portfolio net interest margin of 3.77%, an increase of 23 basis points (bps) from 2Q20

Production & Portfolio

- Restarted loan production activities in September to strong demand
 - September loan applications totaled \$226 million in unpaid principal balance (UPB), mirroring pre-COVID levels; loan production totaled \$8 million in UPB
- Resolutions of delinquent loans in 3Q20 were 103.5% of assets resolved, continuing our consistent track record of net gains on delinquent loan and real estate owned (REO) resolutions over and above contractual principal and interest
- Approximately \$335 million in UPB of loans in forbearance were brought current with past due amounts added to principal and will be recovered at liquidation

Financing & Capital

- Finalizing agreements for new warehouse financing lines without mark-to-market provisions
- Expect to complete Velocity's next securitization in the first quarter of 2021, backed by newly originated 30-year loans

⁽¹⁾ "Core" earnings is a non-GAAP measure. Please see the reconciliation to GAAP net income on page 4.
⁽²⁾ Please see slide 16 "CECL Reserve & HFS to HFI Reclasse Reconciliation" in the Appendix of this presentation

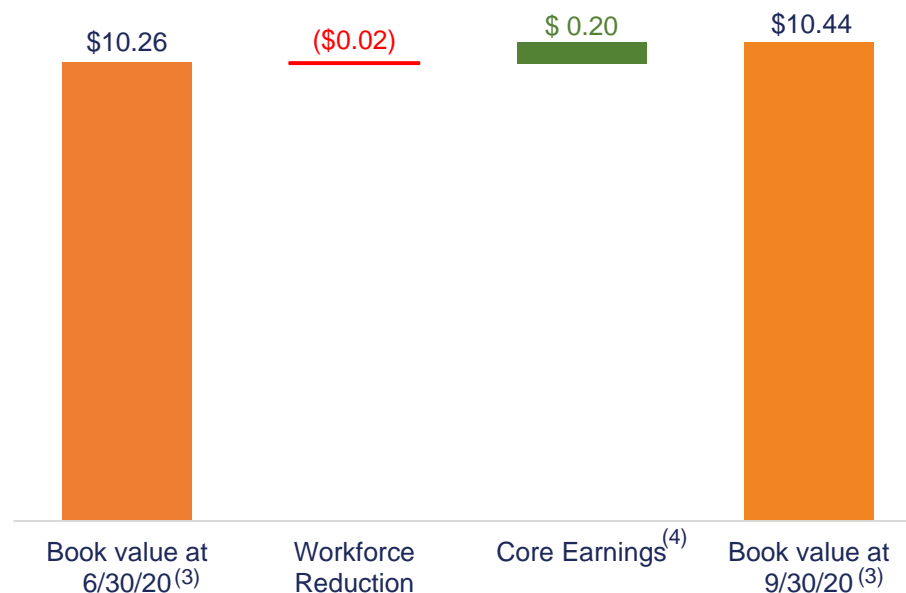


Core Earnings and Book Value

Core Earnings⁽¹⁾

Core earnings	\$3,913
Workforce reduction costs	\$(432) ⁽²⁾
GAAP net income	\$3,481

Book Value Per Share



- 3Q20 core earnings⁽¹⁾ of \$3.9 million, an increase of \$0.5 million from \$3.4 million in 2Q20
- The difference between core earnings and GAAP net income is severance costs related to company-wide workforce reductions resulting from the impacts of the COVID-19 pandemic and streamlining of our loan operations processes
- Book value per share as of September 30, 2020 of \$10.44 per share up from \$10.26 per share as of June 30, 2020⁽²⁾

⁽¹⁾ Core income is a non-GAAP measure. Please see the Company's third quarter earnings press release for a reconciliation of Core income to GAAP net income.

⁽²⁾ Adjusted for taxes based on an effective tax rate of 28%

⁽³⁾ Based on 20,087,494 common shares outstanding as of September 30, 2020 and June 30, 2020, respectively.

⁽⁴⁾ Includes increase to APIC from stock-based compensation



3Q20 Asset Resolution Activity

Resolutions of delinquent loans and REO continue to consistently realize gains

3Q20 Resolution Activity

<i>\$ UPB in millions</i>	<u>\$ UPB</u>	<u>\$ Gain / Loss</u>
Paid in full	\$9.7	\$0.73
Paid current	\$1.6	\$0.02
REO sold	\$1.2	\$(0.31)

Realized net gains of \$0.44 million from 3Q20 resolution activity or 103.5% of UPB resolved

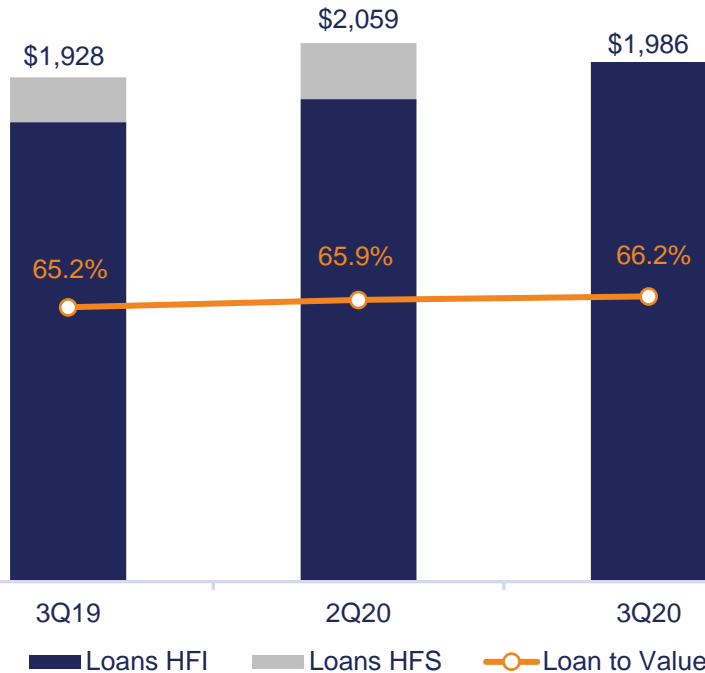
- Nonaccrual loans paid in full during 3Q20 totaled \$9.7 million in UPB with a \$0.73 million net gain on resolution
 - Gains primarily reflect the collection of all default interest, in addition to regular interest and prepayment penalties
- Loans paid current during 3Q20 total \$1.6 million in UPB with a \$0.02 million net gain
 - Gain reflects collection of default interest, in addition to regular interest, and loan remains in our portfolio
- REO sales totaled \$1.2 million for a net loss of \$(0.31) million.

Held for Investment Loan Portfolio

- Total portfolio as of September 30, 2020 was \$1.99 billion in UPB, down from \$2.06 billion in UPB as of June 30, 2020
- Transferred approximately \$214 million in UPB of short-term loans previously accounted for as held for sale (HFS) to the held for investment (HFI) portfolio during the third quarter
 - Driven by completion of the VCC 2020- MC1 securitization which is collateralized primarily by short-term loans secured by 1-4 unit investor properties

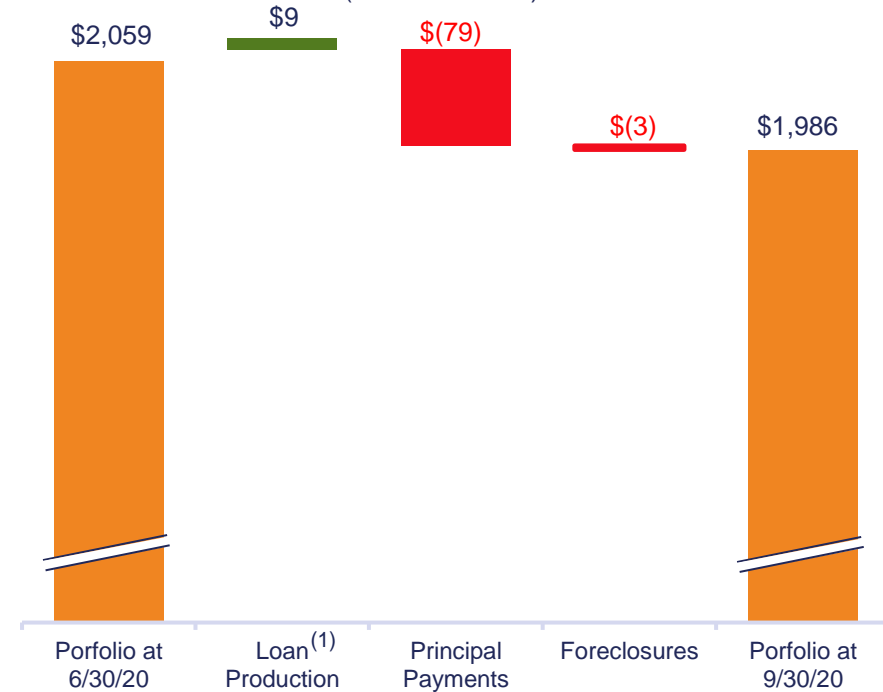
Loan Portfolio Composition

(UPB in millions)



Loan Portfolio Waterfall

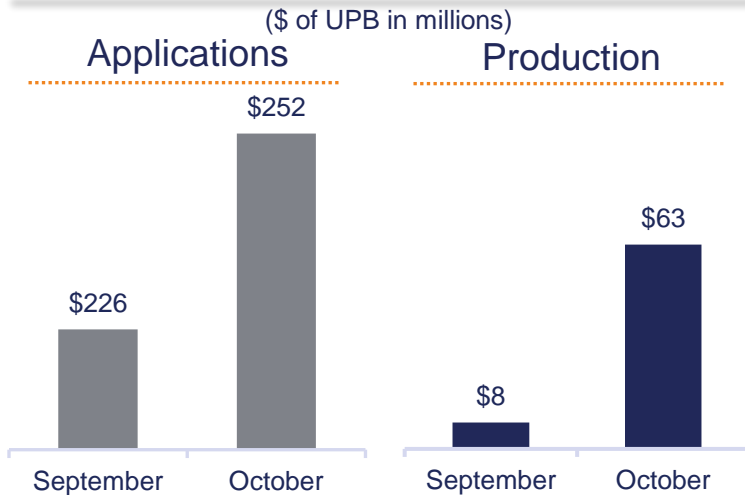
(UPB in millions)



⁽¹⁾ Includes \$974 thousand in UPB of repurchased loans.

Production Re-start Met With Strong Demand

Loan Application & Production Volume



Redesigned Broker Portal significantly enhances ease of use and efficiency



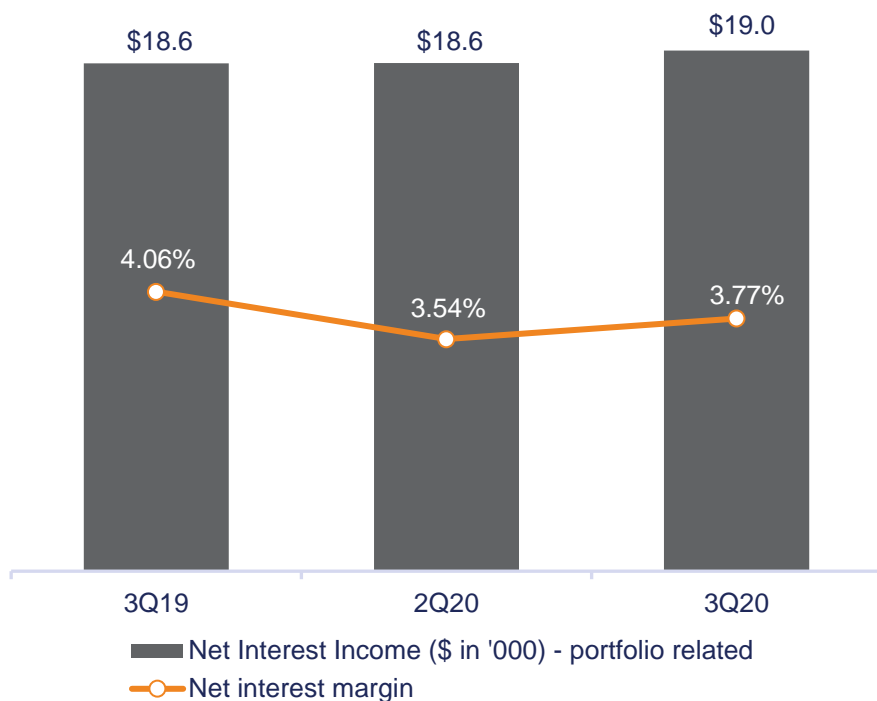
- Re-launched production operations in September
 - Application volume totaled \$226 million in UPB during September and \$256 million in UPB during October
 - Funded production volume totaled \$8 million in UPB during September and \$63 million in UPB during October
- Anecdotal information from longstanding broker relationships suggests significant financing demand from their investor clients
- Utilized the temporary suspension of production operations in 2Q20 to implement significant enhancements to our online Broker Portal, including:
 - Streamlined registration for new brokers
 - Electronic document submission
 - Appraisal order submission
 - Secure chat functionality for real-time interaction with Velocity loan operations
 - Electronic document approval (DocuSign)

Net Interest Income and Margin

- 3Q20 Net Interest Income (NII)⁽¹⁾ totaled \$19.0 million, an increase of 2% Q/Q and 3% Y/Y
- 3Q20 Net Interest Margin (NIM)⁽¹⁾ was 3.77%, an increase of 23 bps Q/Q, and a decrease of 29 bps Y/Y
- The Q/Q increase in NII and NIM was primarily driven by a decrease in new nonperforming loans

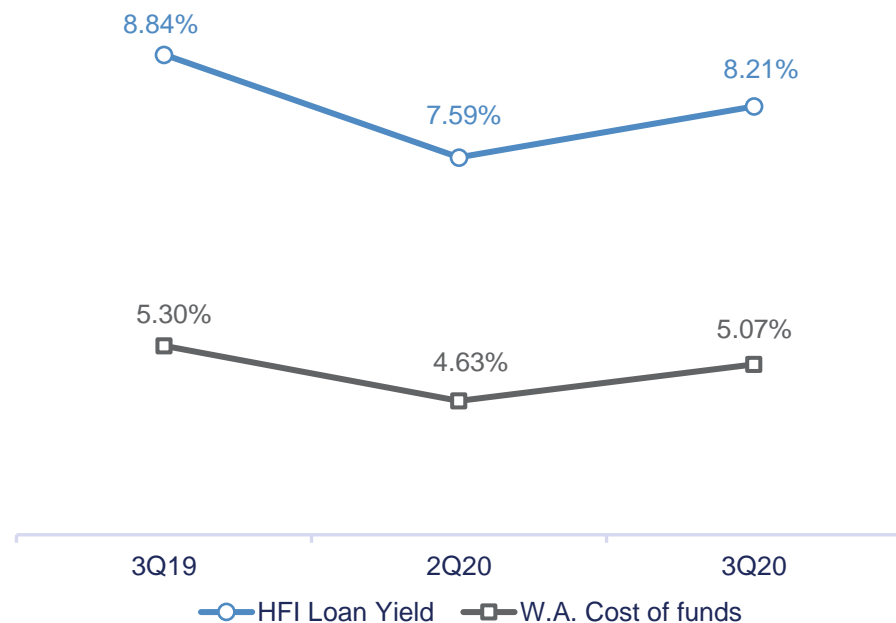
Portfolio Net Interest Income & NIM⁽¹⁾

Portfolio Related (\$ in Millions)



Portfolio Yield and Cost of Funds

Portfolio Related



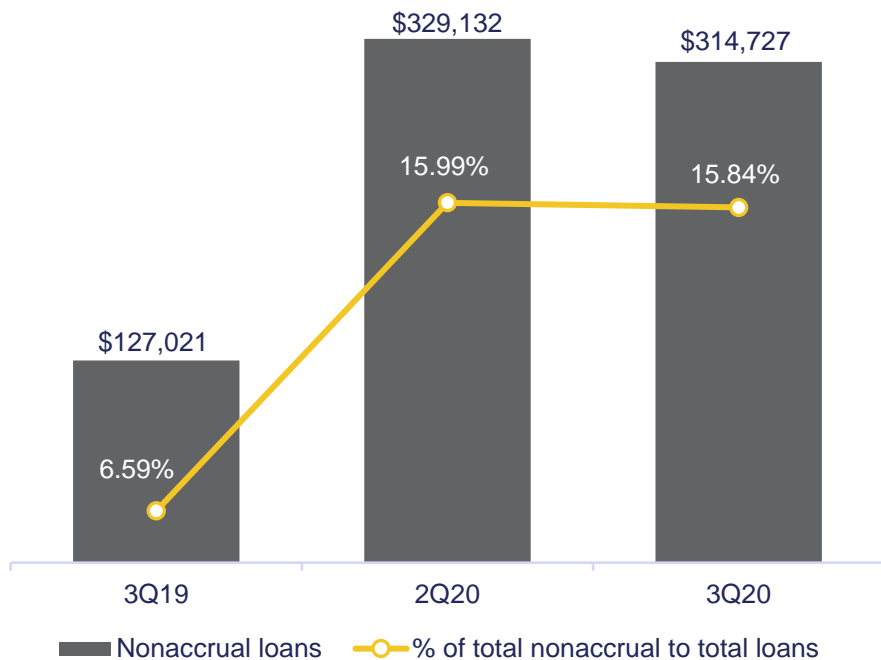
⁽¹⁾ Net Interest Income and Net Interest Margin related to the loan portfolio only; excludes corporate debt.

Loan Portfolio Performance

- Total nonaccrual loans as of September 30, 2020 totaled \$315 million in UPB, or 15.8% of total loans held for investment, down from 16.0% as of June 30, 2020, and an increase from 6.6% as of September 30, 2019
- Charge-offs were \$1.05 million in 3Q20, primarily due to one loan totaling \$787 thousand that resulted from an unusual circumstance not indicative of worsening credit conditions
 - Adjusted for the unusual circumstances loan, charge-offs were \$259 thousand and in-line with historical levels

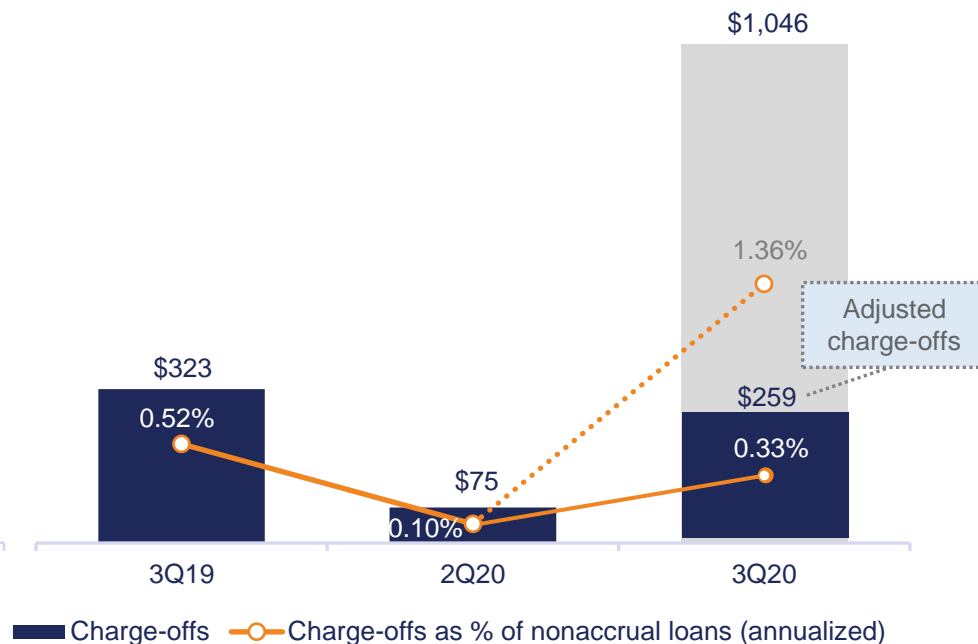
Nonaccrual Loans

\$ UPB in thousands



Charge-offs

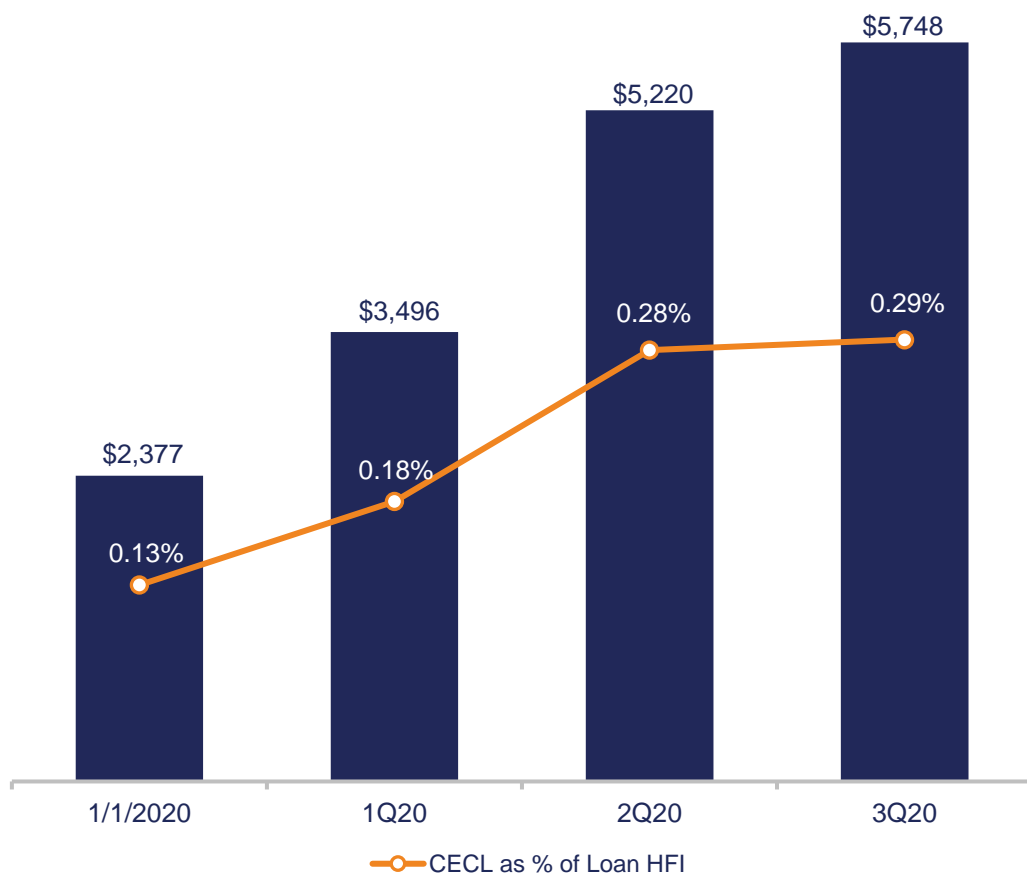
\$ thousands



CECL Reserve and Charge-Offs

CECL reserve increase driven by growth of HFI portfolio from transfer of short-term loans; improved macroeconomic outlook drives reduction of macroeconomic reserve

CECL Reserve



- Velocity's CECL reserve increased 1 bps Q/Q to 29 bps of HFI loans at September 30, 2020, from 28 bps at June 30, 2020
- The increase to the CECL reserve in 3Q20 was primarily driven by the transfer of \$214 million in UPB of short-term loans to the HFI portfolio
 - \$1.2 million of the \$1.6 million provision expense was an income statement reclass from other income driven by transfer of loans from HFS to HFI loans. Adjusted provision expense for 3Q20 was \$0.4 million
 - Transfer of HFS loans to HFI resulted from the issuance of the 2020-MC1 securitization



Expectations for the Future

Expect continued strong demand for our products

- Market opportunities have expanded for Velocity as a result of recent and fundamental shifts in real estate demand
- Transaction volumes following the restart of our production operations have exceeded our estimates and we expect market demand for the financing solutions we provide to remain strong for the foreseeable future

Improved Performance from Loan Portfolio

- While economic risks persist, we expect steady improvement in portfolio performance, aided by continued strong real estate values
- Velocity's historical track record of resolving delinquent loans at net gains is expected to continue

Profitability and Growth

- Expect to see production volume consistent with pre-COVID level by 2Q21, driving strong growth in net interest income
- Reduce liquidity risk by growing warehouse capacity and the diversity of financing providers, while mitigating mark-to-market risk



Appendix



Velocity Financial, Inc. Balance Sheet

(Unaudited)

	Quarter Ended				
	9/30/2020	6/30/2020	3/31/2020	12/31/2019	09/30/2019
<i>(In thousands)</i>					
Assets					
Cash and cash equivalents	\$ 19,210	\$ 9,803	\$ 7,649	\$ 21,465	\$ 8,849
Restricted cash	7,821	6,735	4,483	6,087	3,152
Total loans, net	2,004,413	2,077,119	2,148,595	2,080,787	1,949,311
Accrued interest receivables	13,134	17,793	14,470	13,295	12,450
Receivables due from servicers	44,466	36,028	37,884	49,659	38,349
Other receivables	402	4,609	2,516	4,778	7,585
Real estate owned, net	14,653	15,648	16,164	13,068	15,806
Property and equipment, net	4,446	4,718	4,964	4,680	4,903
Deferred tax asset	1,832	5,556	10,111	8,280	4,127
Other assets	16,489	9,042	10,519	12,667	17,219
Total Assets	\$ 2,126,866	\$ 2,187,051	\$ 2,257,354	\$ 2,214,766	\$ 2,061,751
Liabilities and members' equity					
Accounts payable and accrued expenses	\$ 61,859	\$ 55,938	\$ 58,591	\$ 56,146	\$ 41,957
Secured financing, net	74,776	74,571	74,364	145,599	145,285
Securitizations, net	1,670,930	1,599,719	1,576,431	1,438,629	1,377,733
Warehouse & repurchase facilities	19,541	160,796	297,537	421,548	349,115
Total Liabilities	1,827,106	1,891,024	2,006,924	2,061,922	1,914,090
Mezzanine Equity					
Series A Convertible preferred stock	90,000	90,000	-	-	-
Stockholders' Equity					
Stockholders' equity	209,760	206,027	250,430	152,844	147,661
Total Liabilities and members' equity	\$ 2,126,866	\$ 2,187,051	\$ 2,257,354	\$ 2,214,766	\$ 2,061,751
Book value per share	\$ 10.44	\$ 10.26	\$ 12.47	n.a.	n.a.
Shares outstanding	20,087	20,087	20,087	n.a.	n.a.



Velocity Financial, Inc. Income Statement

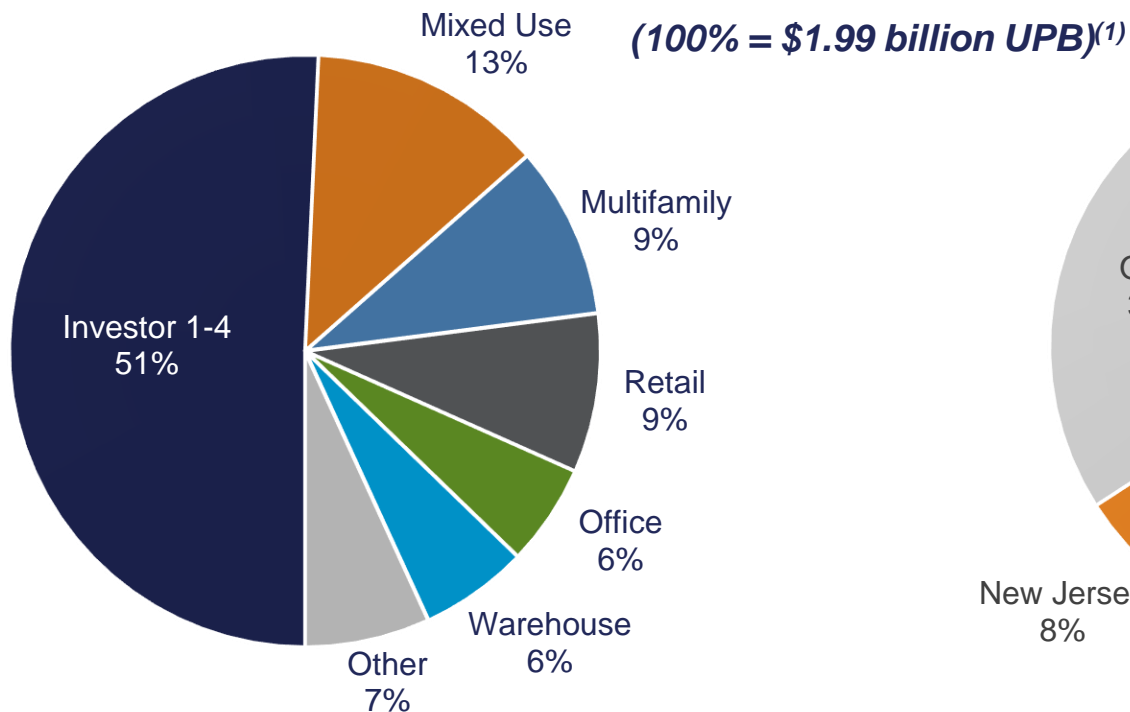
(Unaudited)

(\$ in thousands)

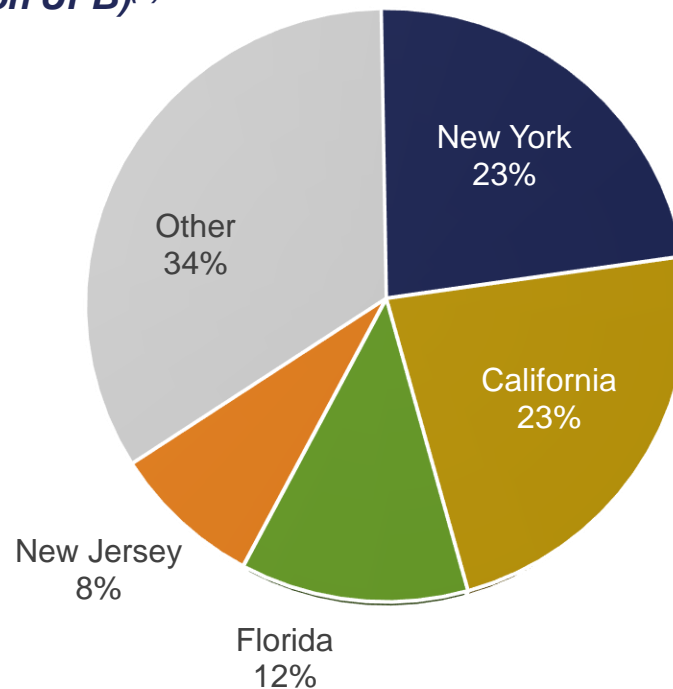
	Quarter Ended				
	9/30/2020	6/30/2020	3/31/2020	12/31/2019	09/30/2019
Revenues					
Interest income	\$ 41,374	\$ 39,755	\$ 44,637	\$ 44,124	\$ 40,379
Interest expense - portfolio related	22,347	21,189	22,848	22,689	21,827
Net interest income - portfolio related	19,027	18,566	21,789	21,435	18,552
Interest expense - corporate debt	1,913	1,894	6,342	4,070	3,842
Net interest income	17,114	16,672	15,447	17,365	14,710
Provision for loan losses	1,573	1,800	1,289	242	338
Net interest income after provision for loan losses	15,541	14,872	14,157	17,123	14,372
Other operating income (expense)	1,349	(1,339)	1,620	833	(212)
Total net revenues	16,890	13,533	15,777	17,956	14,160
Operating expenses					
Compensation and employee benefits	5,692	5,863	5,041	3,992	3,712
Rent and occupancy	415	448	455	426	369
Loan servicing	2,168	1,754	2,239	1,939	1,957
Professional fees	1,051	588	1,184	469	398
Real estate owned, net	898	408	1,134	1,300	485
Other operating expenses	1,641	1,847	1,998	1,688	1,563
Total operating expenses	11,865	10,908	12,051	9,814	8,484
Income before income taxes	5,025	2,625	3,727	8,142	5,676
Income tax expense	1,544	484	1,148	2,960	1,796
Net income	\$ 3,481	\$ 2,141	\$ 2,579	\$ 5,182	\$ 3,880
Less deemed dividends on preferreds stock		\$ 48,955			
Net loss allocated to common shareholders		\$ (46,814)			
Basic earnings (loss) per share	\$ 0.17	\$ (2.33)	\$ 0.13	n.a.	n.a.
Diluted earnings (loss) per common share	\$ 0.11	\$ (2.33)	\$ 0.13	n.a.	n.a.
Basic wighted average common shares outstanding	20,087	20,087	20,087	n.a.	n.a.
Diluted weighted average common shares outstanding	32,435	20,087	20,087	n.a.	n.a.

Total Loan Portfolio

Portfolio by Property Type



Portfolio by State



⁽¹⁾ As of September 30, 2020



CECL Reserve & HFS to HFI Reclass Reconciliation

CECL Reserve Reconciliation (Balance Sheet):	3Q 2020
<i>(\$ in thousands)</i>	
Beginning Balance 6/30/2020	\$ (5,220)
Add: Reserve for short-term loans transferred to HFI	(1,166)
3Q20 CECL provision	(407)
Deduct: 3Q20 charge-offs	<u>1,046</u>
Ending Balance 9/30/2020	<u>\$ (5,748)</u>

Income Statement (HFS to HFI Reclass):	3Q 2020
Interest Income	
Provision for Loan Loss	\$ (1,166)
Other Income	
Reversal of HFS LOCOM Valuation	<u>1,307</u>
Net P&L Impact	<u>\$ 141</u>