

Investor 1-4

Mixed-Use

Commercial

Multi-Family



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3Q21 Earnings Presentation  
November 3, 2021



# 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 continued 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 customers' continued interest in loans and doing business with us, (5) market conditions and investor interest in our contemplated securitization and (6) 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-Q filed with the SEC on May 14, 2020, as well as other cautionary statements we make in our current and periodic filings with the SEC. Such filings are available publicly on our Investor Relations web page at [www.velfinance.com](http://www.velfinance.com).



# 3Q21 Highlights

## Earnings

- Net and Core income<sup>(1)</sup> of \$8.0 million; diluted EPS and Core diluted EPS of \$0.23
  - Strong loan production activity continues to drive loan portfolio and net interest income growth as credit performance improves
- Portfolio NIM<sup>(2)</sup> of 4.97%, an increase of 14 basis points (bps) from 2Q21
- Portfolio net interest income of \$26.6 million, a 9% sequential increase

## Production & Loan Portfolio

- Loan production volume in 3Q21 totaled \$340.7 million in UPB<sup>(3)</sup>, a 33% Q/Q increase from \$256.5 million in the prior quarter, driven by continued strong rental demand and real estate price appreciation
- Loans Held for Investment (HFI) totaled \$2.3 billion in UPB as of September 30, 2021, a 10% Q/Q increase from \$2.1 billion as of June 30, 2021
- Improved loan performance and continued strong resolutions drove a 260 bps Q/Q decrease in nonperforming loans (NPLs) as a % of loans HFI

## Financing & Capital

- Completed the VCC 2021-2 securitization totaling \$205.2 million of UPB, Velocity's second securitization of 2021
- Established an "at the market" (ATM) program with the capacity to issue up to \$50 million of stock, or up to a maximum of 4,000,000 shares
- Upsized and renewed a warehouse financing facility with a key liquidity provider, doubling the maximum capacity to \$200 million and extending the renewal period from one year to two years

<sup>(1)</sup> "Core" income is a non-GAAP measure which excludes non-recurring and/or unusual activities from GAAP net income.

<sup>(2)</sup> Net Interest Margin

<sup>(3)</sup> Unpaid Principal Balance



# 3Q21 Highlights (cont.)

## *Subsequent to Quarter-End*

- Completed the voluntary conversion of all 45,000 outstanding shares of the Company's Series A Convertible Preferred Stock into 11,688,310 shares of Velocity common stock
  - Reclassed \$90 million from mezzanine equity to permanent equity
  - Common shares issued as of October 31, 2021, totaled 32.3 million
- Completed the VCC 2021-3 securitization in October totaling \$204.2 million of UPB, Velocity's third securitization of 2021



# Core Income and Book Value Growth

## Core Income

GAAP Net Income	\$8,022
Non-core earnings adjustments	—
<b>Core Income</b>	<b>\$8,022</b>

## Book Value Per Share



- GAAP Net income and Core income were the same in 3Q21
- Minimal loan sales in 3Q21, as we chose to securitize rather than sell whole loans
- Book value per share as of September 30, 2021, was \$12.05<sup>(3)</sup>, compared to \$11.62<sup>(1)</sup> per share as of June 30, 2021
  - Issuance under ATM program in 3Q21 totaled 10,727 shares for net proceeds of \$137.3 thousand at an average price of \$13.06 per share

<sup>(1)</sup> Based on 20,087,494 common shares outstanding as of June 30, 2021.

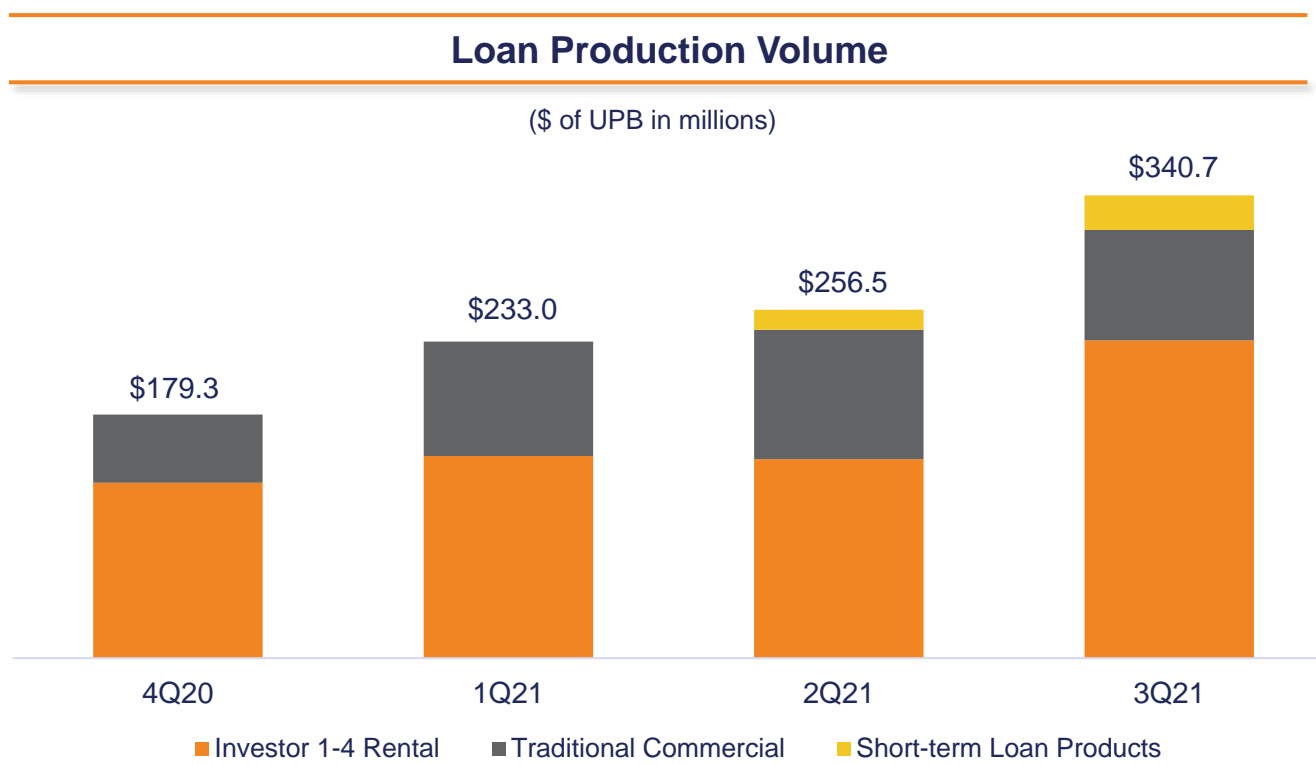
<sup>(2)</sup> Includes an increase to APIC from stock-based compensation.

<sup>(3)</sup> Based on 20,098,221 common shares outstanding as of September 30, 2021.

# Loan Production

## 3Q21 Production Volume Reached New Quarterly Record as Strong Demand Continues

- Loan production totaled \$340.7 million in UPB for 3Q21, a 32.8% Q/Q increase from \$256.5 million in UPB in 2Q21
  - Driven by strong demand for 1-4 residential rental financing and the introduction of lending products tailored to meeting evolving needs of our customers
- Loan origination volume in October 2021 totaled \$138.5 million in UPB, a new all-time high

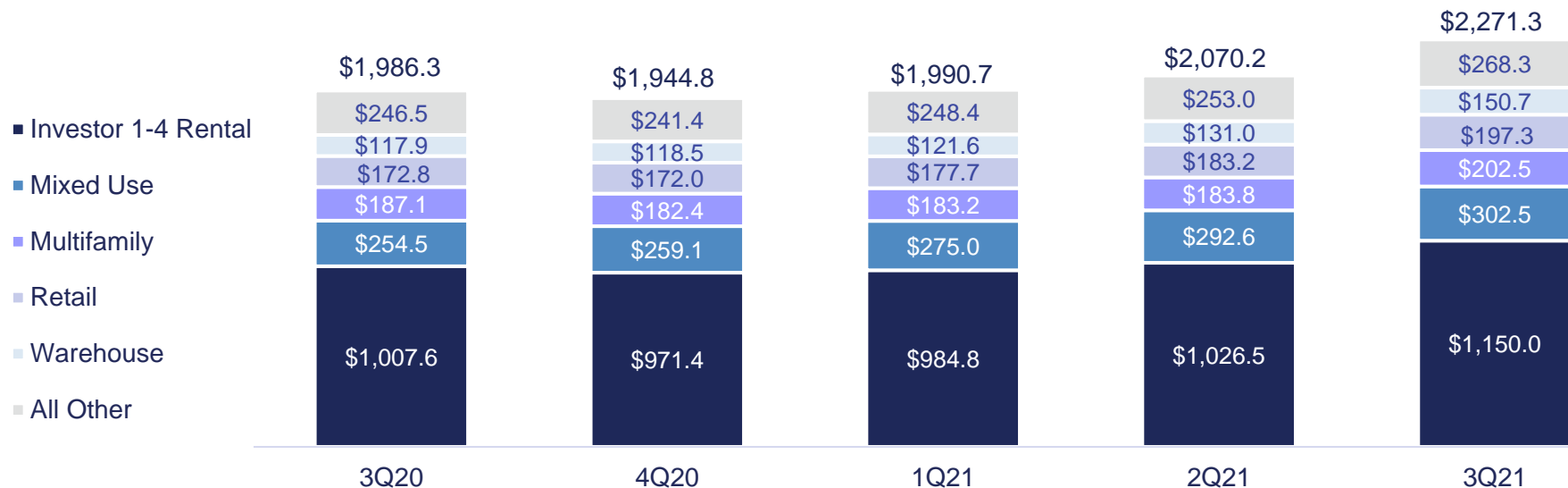


# Loan Portfolio

- Total loan portfolio as of September 30, 2021, was \$2.3 billion in UPB, a 10.0% Q/Q increase from \$2.1 billion in UPB as of June 30, 2021
  - Net Portfolio growth driven by strong production activity and slower prepayment activity
- Solid growth in each property type maintains portfolio diversity and underscores the breath of demand for financing of small balance commercial properties

## Loan Portfolio by Property Type

(UPB in millions)



Loan to Value	66.18%	66.13%	66.28%	66.70%	67.22%
Loan Count	6,029	5,878	5,935	6,125	6,430
W.A. Coupon	8.56%	8.51%	8.42%	8.29%	8.10%
Average Loan Balance <sup>(1)</sup>	\$329.5	\$331.2	\$335.4	\$338.0	\$353.2

<sup>(1)</sup> \$ in thousands.

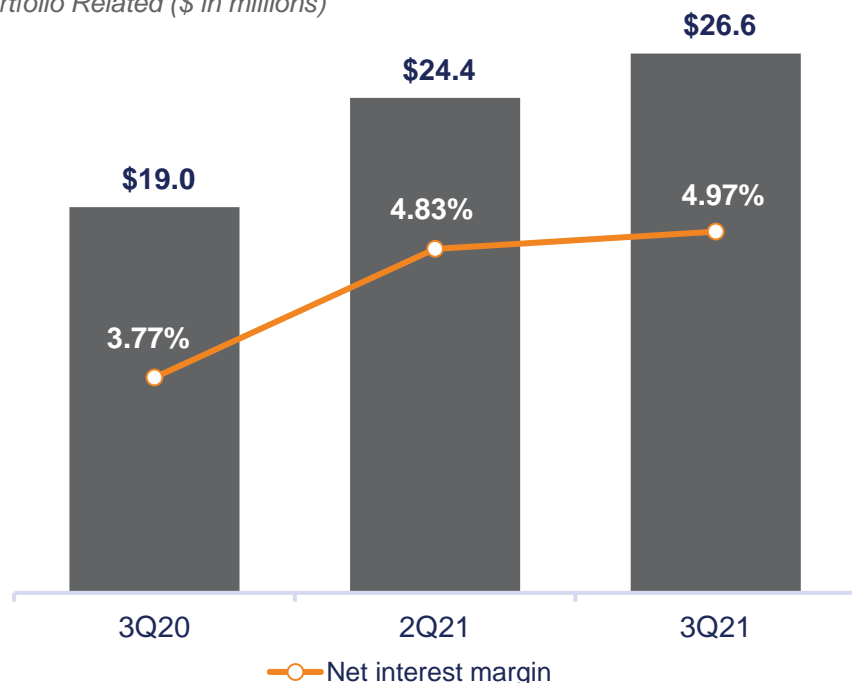
# Net Interest Margin

## Portfolio NIM Improves in 3Q21, Driven by Attractive Securitization Levels

- 3Q21 Portfolio NIM<sup>(1)</sup> was 4.97%, an increase of 14 bps from 4.83% in 2Q21, primarily driven by a 33 bps reduction in the portfolio-related weighted average cost of funds
  - Portfolio net interest income grew 9% Q/Q, or \$2.19 million, driven by portfolio growth from record production volume in 3Q21
  - The portfolio-related weighted average cost of funds decreased as a result of the strong market reception for Velocity's securitizations in 2021

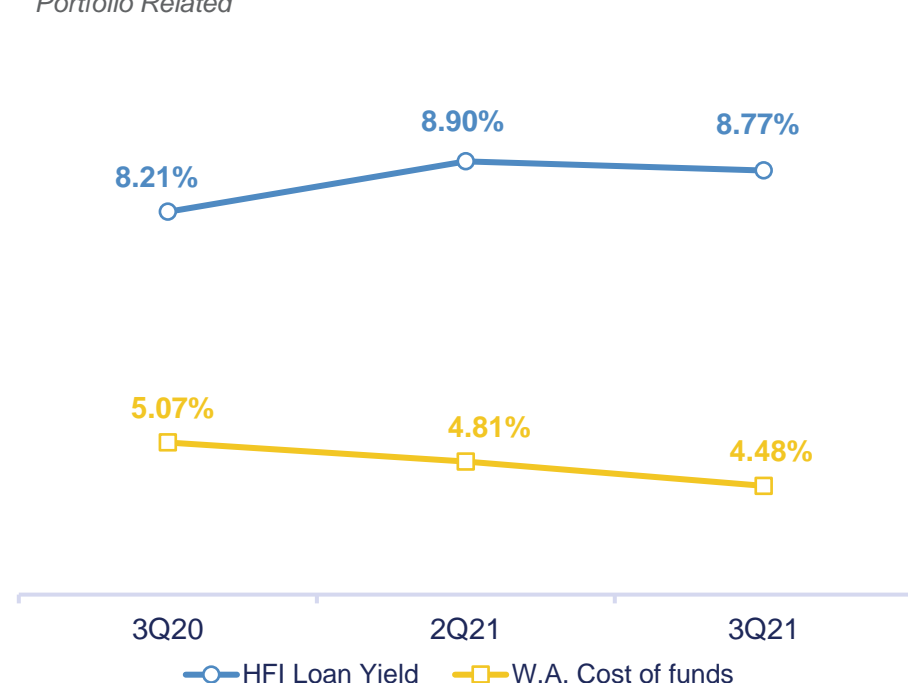
### Portfolio Net Interest Income & NIM<sup>(1)</sup>

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.

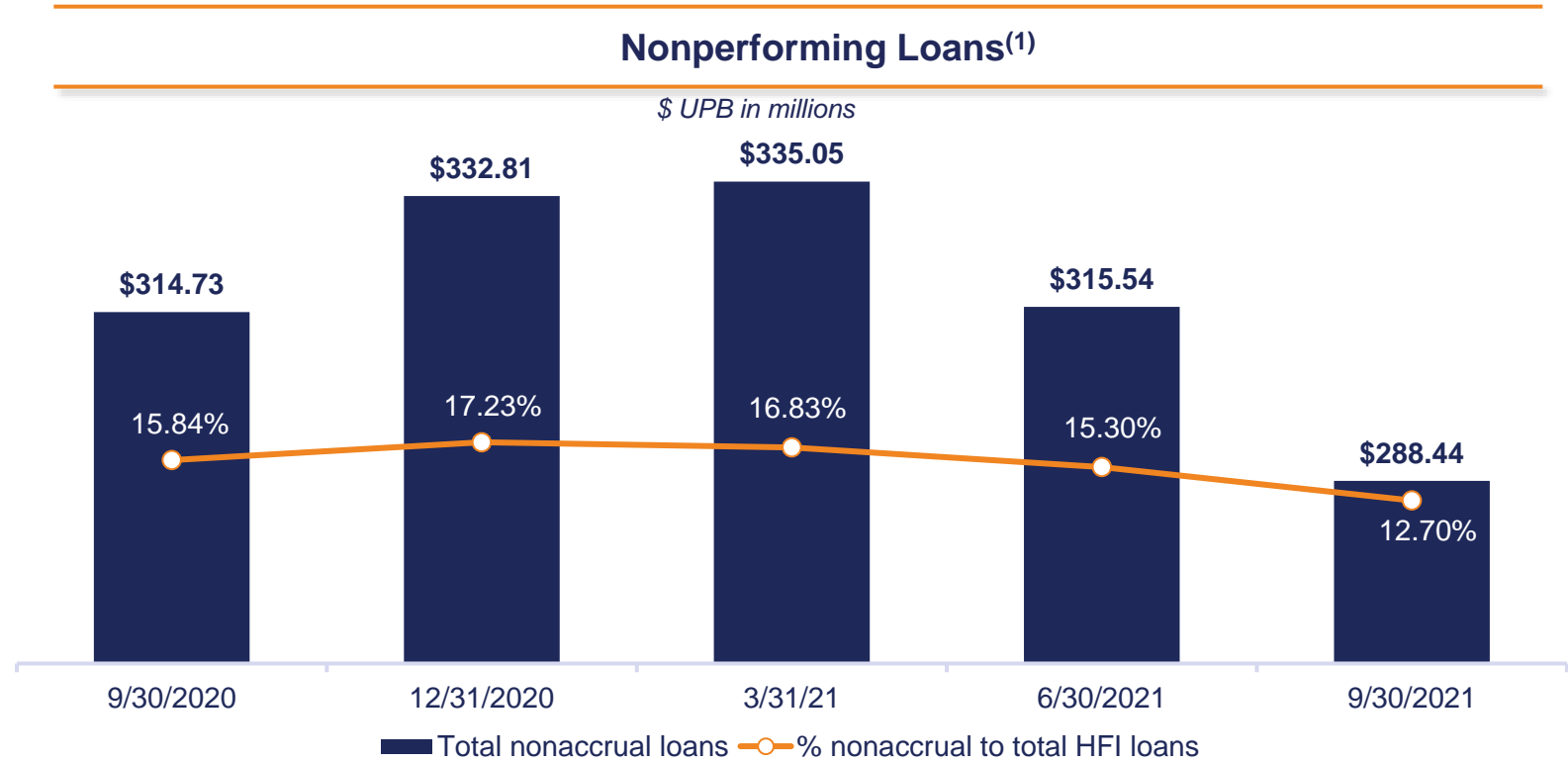




# Loan Investment Portfolio Performance

## Portfolio Performance Continues to Improve

- Total nonperforming loans as of September 30, 2021, totaled \$288.4 million in UPB, or 12.7% of total loans held for investment, compared to \$315.5 million, or 15.3% as of June 30, 2021, and \$314.7 million or 15.8% as of September 30, 2020
  - The Q/Q improvement was driven by a 9% decrease in UPB of loans in foreclosure
  - 3Q21 resolutions represented 19% of nonperforming loan UPB as of June 30, 2021



<sup>(1)</sup> For additional detail, please see page 19 in the Appendix of this presentation.

# 3Q21 Asset Resolution Activity

## Continued Solid Loan Resolution Activity Drives Continued Realization of Gains

### Resolution Activity

#### RESOLUTION ACTIVITIES

##### LONG-TERM LOANS

RESOLUTION ACTIVITY	THIRD QUARTER 2021		SECOND QUARTER 2021	
	UPB \$	Gain / (Loss) \$	UPB \$	Gain / (Loss) \$
<i>(\$ in thousands)</i>				
Paid in full	\$ 13,353	\$ 1,251	\$ 21,925	\$ 1,446
Paid current	7,722	79	14,949	219
REO sold(1)	4,680	31	947	(2)
<b>Total resolutions</b>	<b>\$ 25,755</b>	<b>\$ 1,361</b>	<b>\$ 37,821</b>	<b>\$ 1,663</b>

Resolutions as a % of nonperforming UPB	105.3%	104.4%
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Note (1) There was an REO property held since January 2019 that was sold during the quarter ended September 30, 2021, with a total lifetime loss of \$1.7 million, all of which was recognized in prior periods.

##### SHORT-TERM AND FORBEARANCE LOANS

RESOLUTION ACTIVITY	THIRD QUARTER 2021		SECOND QUARTER 2021	
	UPB \$	Gain / (Loss) \$	UPB \$	Gain / (Loss) \$
<i>(\$ in thousands)</i>				
Paid in full	\$ 8,960	\$ 664	\$ 13,517	\$ 682
Paid current	25,141	29	7,794	59
REO sold	104	47	164	(73)
<b>Total resolutions</b>	<b>\$ 34,205</b>	<b>\$ 740</b>	<b>\$ 21,475</b>	<b>\$ 668</b>

Resolutions as a % of nonperforming UPB	102.2%	103.1%
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<b>Grand total resolutions</b>	<b>\$ 59,960</b>	<b>\$ 2,101</b>	<b>\$ 59,296</b>	<b>\$ 2,331</b>
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Grand total resolutions as a % of nonperforming UPB	103.5%	103.9%
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- Resolution activities on \$60.0 million of UPB in 3Q21 resulted in net gains of \$2.1 million or 103.5% of UPB resolved
- Long-term loan resolutions totaled \$25.76 million in UPB and realized gains of \$1.4 million
  - Gains in 3Q21 were primarily comprised of default interest<sup>(2)</sup> realized when the loans payoff or cure, and prepayment penalties on payoff if the loan is still within the prepayment window
- Short-term loan resolutions totaled \$34.2 million in UPB and realized gains of \$0.74 million
  - Gains in 3Q21 were primarily comprised of default interest<sup>(2)</sup> realized when the loans payoff
  - The UPB of short-term loans that paid current was \$25.1 million in 3Q21, and increase from \$7.8 million in 2Q21

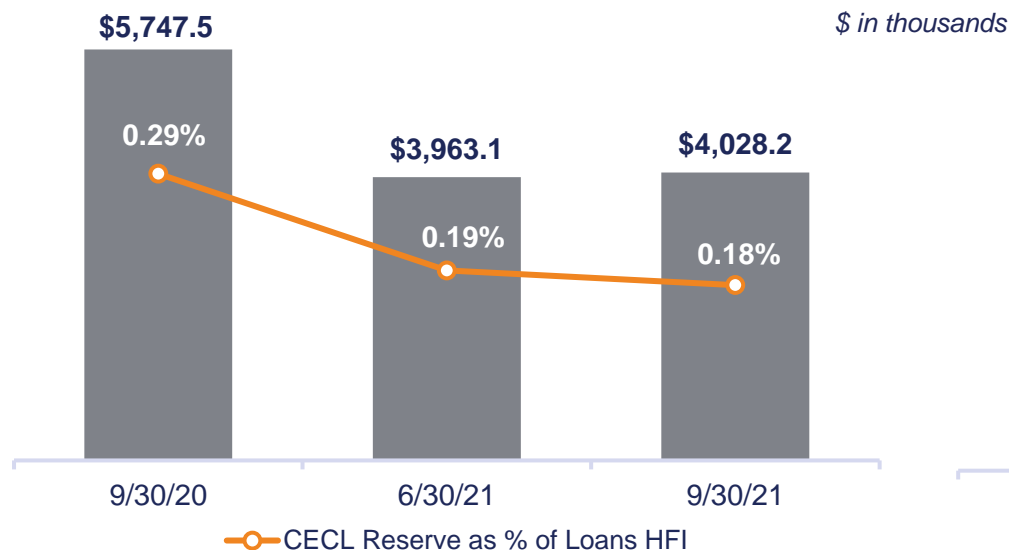
<sup>(2)</sup> Default interest is penalty interest assessed when a borrower becomes delinquent and is over and above contractual interest due.

# CECL Reserve and Charge-Offs

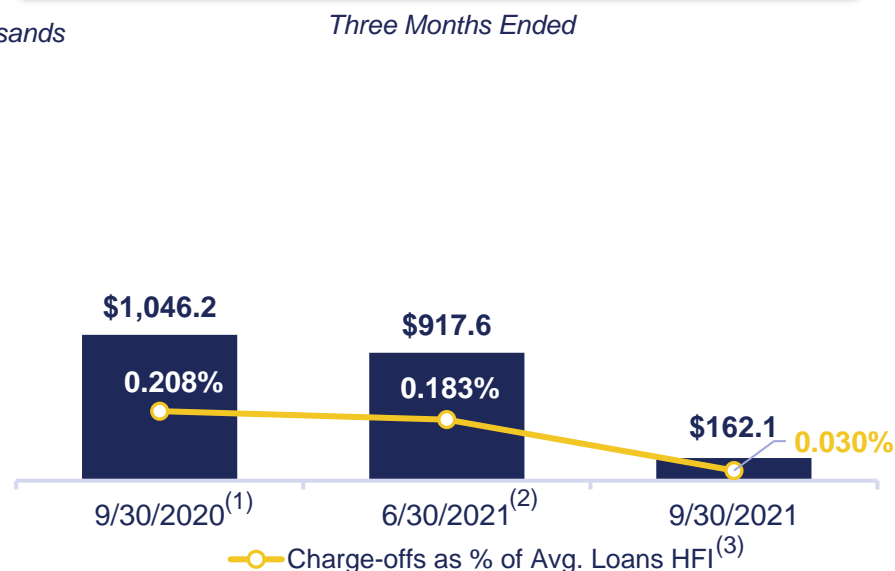
## Minimal Loan Loss Reserve Change as Portfolio Grows, NPLs and Charge-offs Decrease

- Velocity's CECL reserve as a percentage of the HFI portfolio as of September 30, 2021, was 18 bps compared to 19 bps as of June 30, 2021, and 29 bps as of September 30, 2020
  - The reserve remained consistent. An increase in reserve attributable to portfolio growth was mainly offset by a reduction in reserve driven by strong resolutions on nonperforming loans.
- Charge-offs were \$162.1 thousand in 3Q21, compared to \$917.6 thousand in 2Q21, and \$1,046.2 thousand for the same period in the prior year
  - Charge-offs in 3Q21 reflect a reversion to more normalized levels, which have averaged \$358 thousand per quarter over the past eight quarters

### Loan Loss Reserve



### Charge-offs



<sup>(1)</sup> Includes \$787 thousand related to one loan with unusual circumstances.

<sup>(2)</sup> Nearly half, or \$420.5 thousand was related to one loan that transferred to REO, all or part of which could be recovered upon sale of the REO.

<sup>(3)</sup> Annualized



# Outlook for Velocity's Business

## Business Purpose Lending Demand to Remain Strong

- Growth in rents has been robust, particularly in smaller metropolitan areas where demand has spiked as a result of COVID-related demographic changes
  - Prices for small-balance commercial real estate is expected to remain generally well-supported across property types; rising mortgage rates historically lead to increases in our applications
  - Legislative initiatives to expand available housing units and rental properties is a potential tailwind for Velocity long-term
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## Drivers of Financial Performance

- Expect strong demand for small balance commercial loans to continue; particularly for Investor 1-4 Rental financing
  - Revenue growth to remain strong, driven by HFI portfolio growth from organic production volume and favorable securitization markets
  - Further delinquency performance improvement, but at a slower pace than in 3Q21
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## Liquidity and Capital to Support our Strategic Objectives

- The issuance of VCC-2021-3 in October continued the strong market demand for the Velocity's bonds
- \$100 million equity shelf affords the Company an additional option in funding growth and pursuing attractive opportunities
- Total warehouse line capacity reached \$650.0 million as of October 31, 2021, with recent renewal and upsize on one of our five warehouse lines

# Economic Value of Equity

## *Economic Value of Equity is significantly higher than GAAP Book Value of Equity*

We elect to carry our retained interests in securitizations at amortized cost to minimize volatility

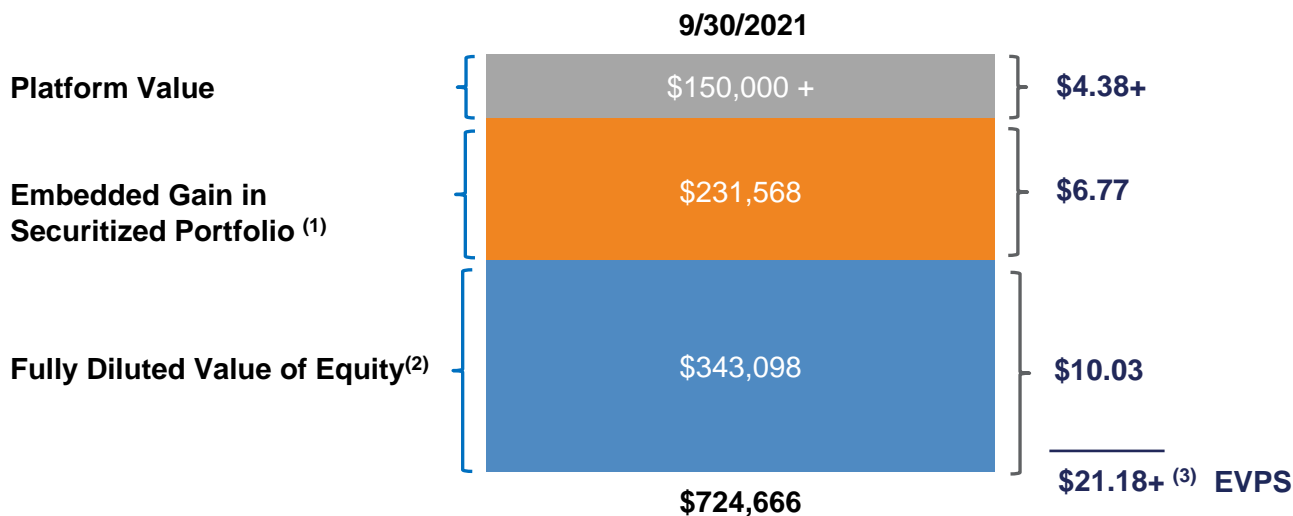
- The graph below reflects our estimate of economic value of equity (a non-GAAP financial measure) by adding the net present value of expected future gains embedded in the securitized portfolio and the value of our unique origination platform – our estimate of economic value of equity does not represent a substitute for GAAP book value of equity

Recent M&A precedents for business purpose lenders demonstrate significant platform/franchise values that investors are ascribing to businesses like Velocity Financial

- These transactions have demonstrated platform values of \$150MM+ based on ~10%+ of annual run rate originations based off October production

### Economic Value of Equity

(\$ in thousands, except per share data)



(1) Embedded gain in portfolio assumes a 10% discount rate of projected securitization earnings and is net of \$52,508,756 of deferred loan origination costs and securitization deal costs.

(2) Fully Diluted Value of Equity assumes 9/30/2021 GAAP Book Value of Equity of \$242.2MM + \$90.0MM from full conversion of preferred stock to common stock, for which Velocity voluntarily converted on October 8, 2021, and \$10.9MM from pro forma exercise of all warrants.

(3) Economic Value of Equity per Share ("EVPS") calculated using 34,212,120 weighted average shares outstanding assuming dilution impact based on Velocity's average stock price for Q3 2021.



# Appendix

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# Vertically Integrated Platform

*Highly Customized Platform Integrates All Functional Areas to Enable Efficient Workflow Execution*



**Sourcing**

- 100% of new loan applications submitted via fully integrated broker portal

**Appraisal**

- Proprietary network of local appraisers with internal licensed appraisers driving valuation process

**Underwriting**

- Uniform credit guidelines, pricing engine, and collaborative real time process

**Securitization**

- Strong institutional ownership with outstanding performance

**Servicing**

- Seamless and instantaneous transfer of loan data with 3<sup>rd</sup> party servicers

**Asset Management**

- Hands on internal asset managers focused on minimizing credit losses



# Velocity Financial, Inc. Balance Sheet

	Quarter Ended				
	9/30/2021	6/30/2021	3/31/2021	12/31/2020	9/30/2020
	Unaudited	Unaudited	Unaudited	Audited	Unaudited
<i>(In thousands)</i>					
<b>Assets</b>					
Cash and cash equivalents	\$ 35,497	\$ 27,741	\$ 20,434	\$ 13,273	\$ 19,210
Restricted cash	9,586	7,921	6,808	7,020	7,821
Loans held for sale, net	0	7,916	0	13,106	0
Loans held for investment, at fair value	1,360	1,370	1,364	1,539	3,327
Loans held for investment	2,265,922	2,057,046	1,983,435	1,924,489	1,977,236
Net deferred loan costs	29,775	26,707	25,070	23,600	23,850
Total loans, net	2,297,057	2,093,039	2,009,869	1,962,734	2,004,413
Accrued interest receivables	11,974	11,094	11,169	11,373	13,134
Receivables due from servicers	57,058	73,517	77,731	71,044	44,466
Other receivables	870	10,169	3,879	4,085	402
Real estate owned, net	17,905	20,046	14,487	15,767	14,653
Property and equipment, net	3,348	3,625	3,891	4,145	4,446
Deferred tax asset	17,026	13,196	9,246	6,654	1,832
Other assets	6,843	7,257	7,325	6,779	16,489
<b>Total Assets</b>	<b>\$ 2,457,164</b>	<b>\$ 2,267,605</b>	<b>\$ 2,164,839</b>	<b>\$ 2,102,874</b>	<b>\$ 2,126,866</b>
<b>Liabilities and members' equity</b>					
Accounts payable and accrued expenses	\$ 79,360	\$ 70,049	\$ 65,003	\$ 63,361	\$ 61,859
Secured financing, net	163,449	164,053	129,666	74,982	74,776
Securizations, net	1,623,674	1,558,163	1,453,386	1,579,019	1,670,930
Warehouse & repurchase facilities	258,491	151,872	203,314	75,923	19,541
Total Liabilities	2,124,974	1,944,137	1,851,369	1,793,285	1,827,106
<b>Mezzanine Equity</b>					
Series A Convertible preferred stock	90,000	90,000	90,000	90,000	90,000
<b>Stockholders' Equity</b>					
Stockholders' equity	242,190	233,468	223,470	219,589	209,760
<b>Total Liabilities and members' equity</b>	<b>\$ 2,457,164</b>	<b>\$ 2,267,605</b>	<b>\$ 2,164,839</b>	<b>\$ 2,102,874</b>	<b>\$ 2,126,866</b>
Book value per share	\$ 12.05	\$ 11.62	\$ 11.12	\$ 10.93	\$ 10.44
Shares outstanding	20,098	20,087	20,087	20,087	20,087





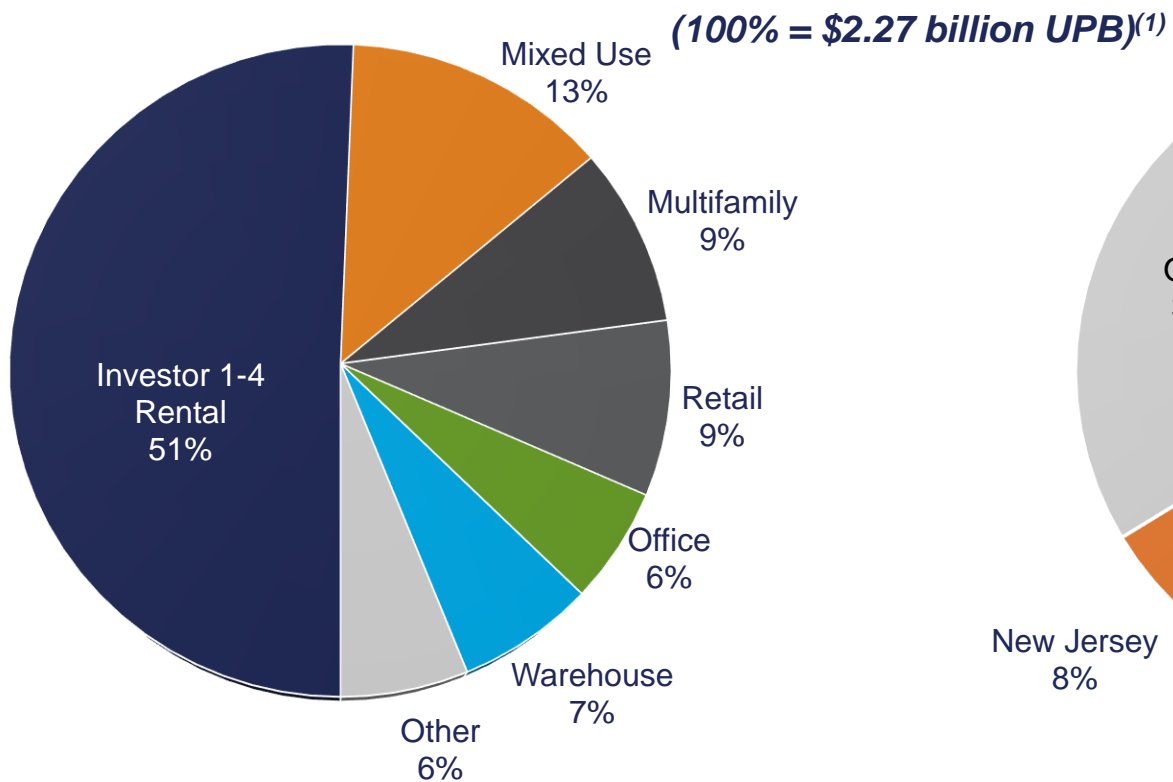
# Velocity Financial, Inc. Income Statement

(\$ in thousands)

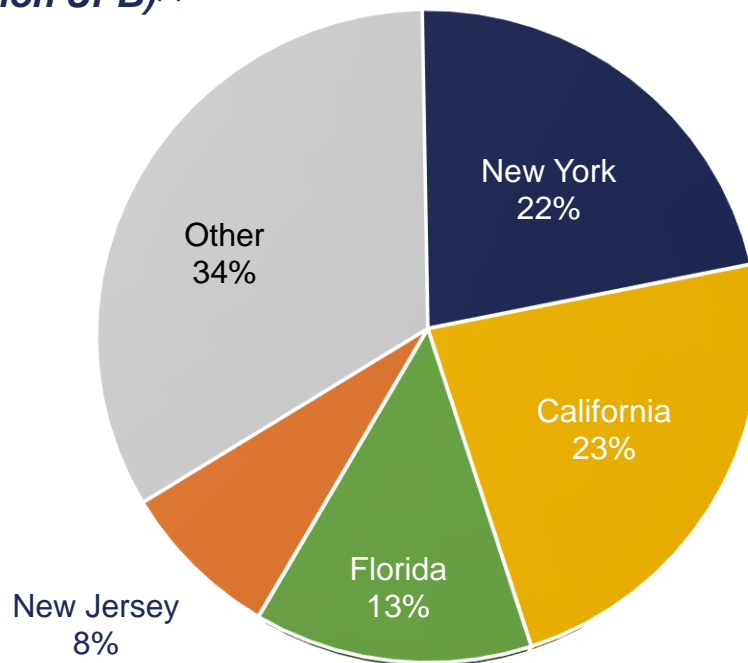
	Quarter Ended				
	9/30/2021	6/30/2021	3/31/2021	12/31/2020	9/30/2020
	Unaudited	Unaudited	Unaudited	Audited	Unaudited
<b>Revenues</b>					
Interest income	\$ 46,923	\$ 44,978	\$ 40,707	\$ 41,556	\$ 41,374
Interest expense - portfolio related	20,321	20,566	20,832	21,442	22,347
Net interest income - portfolio related	26,602	24,412	19,875	20,114	19,027
Interest expense - corporate debt	4,488	4,309	7,350	1,900	1,913
Net interest income	22,114	20,103	12,525	18,214	17,114
Provision for loan losses	228	(1,000)	105	406	1,573
Net interest income after provision for loan losses	21,886	21,103	12,420	17,808	15,541
Other operating income					
Gain on disposition of loans	306	2,391	2,839	4,855	(51)
Unrealized gain/(loss) on fair value loans	0	20	(2)	32	379
Other income (expense)	33	21	(36)	(196)	1,021
Other operating income (expense)	339	2,432	2,801	4,691	1,349
Total net revenues	22,225	23,535	15,221	22,499	16,890
<b>Operating expenses</b>					
Compensation and employee benefits	4,738	4,546	5,186	4,135	5,692
Rent and occupancy	447	430	463	424	415
Loan servicing	2,014	1,922	1,867	1,977	2,168
Professional fees	736	795	533	1,415	1,051
Real estate owned, net	1,186	1,039	509	217	898
Other operating expenses	2,177	1,918	2,059	2,578	1,641
Total operating expenses	11,298	10,650	10,617	10,746	11,865
Income before income taxes	10,927	12,885	4,604	11,753	5,025
Income tax expense	2,905	3,432	1,208	2,177	1,544
<b>Net income</b>	<b>\$ 8,022</b>	<b>\$ 9,453</b>	<b>\$ 3,396</b>	<b>\$ 9,576</b>	<b>\$ 3,481</b>
Less: Deemed dividends on preferred stock		-	-	-	-
Less: Undistributed earnings allocated to participating securities	3,030	\$ 3,571	\$ 1,281	n.a.	n.a.
<b>Net income (loss) allocated to common shareholders</b>	<b>\$ 4,992</b>	<b>\$ 5,882</b>	<b>\$ 2,115</b>	<b>\$ 9,576</b>	<b>\$ 3,481</b>
<b>Basic earnings (loss) per share</b>	<b>\$ 0.25</b>	<b>\$ 0.29</b>	<b>\$ 0.11</b>	<b>\$ 0.48</b>	<b>\$ 0.17</b>
<b>Diluted earnings (loss) per common share</b>	<b>\$ 0.23</b>	<b>\$ 0.28</b>	<b>\$ 0.10</b>	<b>\$ 0.29</b>	<b>\$ 0.11</b>
Basic weighted average common shares outstanding	20,090	20,087	20,087	20,087	20,087
Diluted weighted average common shares outstanding	34,212	33,960	33,407	32,793	32,435

# HFI Loan Portfolio

## Portfolio by Property Type



## Portfolio by State



<sup>(1)</sup> As of September 30, 2021



# HFI Portfolio Delinquency Trends

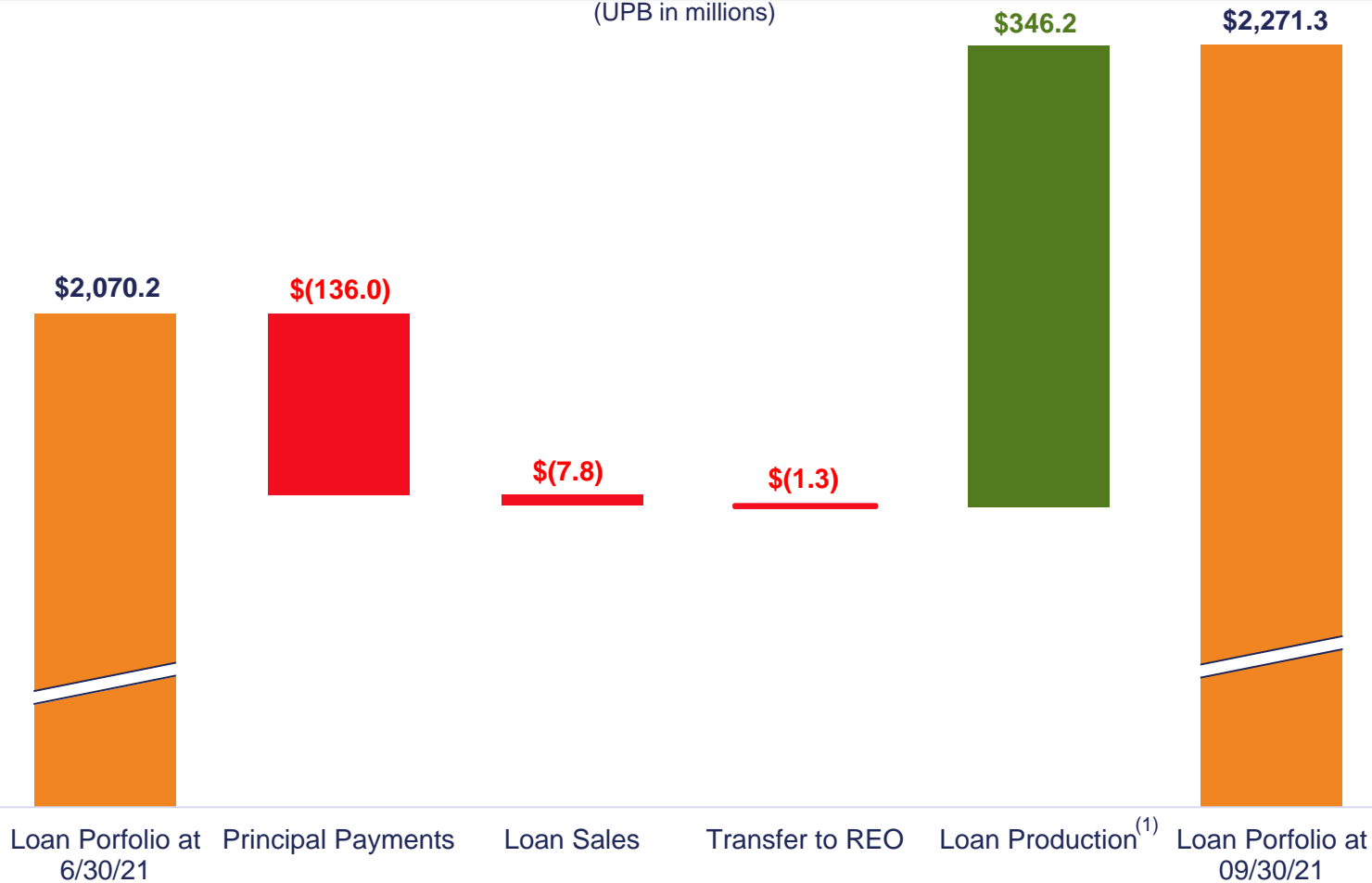
(\$ in thousands)	September 30, 2020		December 31, 2020		March 31, 2021		June 30, 2021		September 30, 2021	
	\$	%	\$	%	\$	%	\$	%	\$	%
<b>Performing/Accruing:</b>										
Current	\$ 1,474,076	74.2%	\$ 1,445,131	74.9%	\$ 1,528,684	76.8%	\$ 1,645,019	79.8%	\$ 1,878,555	82.7%
30-59 days past due	108,601	5.5%	89,284	4.6%	67,100	3.4%	69,165	3.4%	81,893	3.6%
60-89 days past due	74,351	3.7%	62,694	3.2%	59,700	3.0%	32,484	1.6%	22,410	1.0%
90+ days past due	14,589	0.7%	1,953	0.1%	152	0.0%	152	0.0%	-	0.0%
<b>Total Performing</b>	<b>1,671,617</b>	<b>84.2%</b>	<b>1,599,062</b>	<b>82.9%</b>	<b>1,655,636</b>	<b>83.2%</b>	<b>1,746,820</b>	<b>84.7%</b>	<b>1,982,858</b>	<b>87.3%</b>
<b>Nonperforming/Nonaccrual:</b>										
<90 days past due	23,502	1.2%	20,778	1.1%	18,076	0.9%	20,740	1.0%	23,195	1.0%
90+ days past due	119,248	6.0%	82,004	4.2%	72,303	3.6%	50,637	2.4%	48,365	2.1%
Bankruptcy	8,646	0.4%	12,655	0.7%	15,226	0.8%	17,659	0.9%	19,983	0.9%
In foreclosure	163,331	8.2%	217,376	11.2%	229,443	11.5%	226,506	11.0%	196,893	8.7%
<b>Total nonperforming loans</b>	<b>314,727</b>	<b>15.8%</b>	<b>332,813</b>	<b>17.2%</b>	<b>335,048</b>	<b>16.8%</b>	<b>315,542</b>	<b>15.3%</b>	<b>288,436</b>	<b>12.7%</b>
<b>Total loans held for investment</b>	<b>\$ 1,986,343</b>	<b>100%</b>	<b>\$ 1,931,875</b>	<b>100%</b>	<b>\$ 1,990,684</b>	<b>100%</b>	<b>\$ 2,062,362</b>	<b>100%</b>	<b>\$ 2,271,294</b>	<b>100%</b>



# Loan Portfolio Rollforward

## Loan Portfolio Waterfall

(UPB in millions)



<sup>(1)</sup> Includes \$5.6 million in UPB of repurchased loans