

Investor 1-4

Mixed-Use

Commercial

Multi-Family



4Q19 Earnings Presentation
April 08, 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 or similar words or phrases that are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans, or intentions.

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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" the Company previously disclosed in its prospectus filed with the SEC on January 17, 2020, as such risk factors may be updated from time to time in the Company's periodic filings with the SEC as well as the factors described under the heading "Forward-Looking Statements" in the Company's Report on Form 8-K dated April 6, 2020. Such filings are available publicly on our Investor Relations web page at www.velfinance.com.



Earnings Highlights

Fourth Quarter Highlights:

- Net income was \$5.2 million; pro forma diluted earnings per share (EPS) was \$0.44⁽¹⁾
- Pro forma book value per share of \$13.01⁽¹⁾
- Net operating income of \$12.2 million, up 28% from 3Q19⁽²⁾
- Total loan portfolio of \$2.1 billion in UPB at December 31, 2019, an increase of 7% from September 30, 2019, driven by a 15% Q/Q growth in origination volumes
- Net interest margin of 4.32%, an increase of 26 bps from 3Q19
- Completed our 12th securitization (2019-3) totaling \$154 million of securities issued

Full-year 2019 Highlights:

- Net income of \$17.3 million; pro forma diluted earnings per share (EPS) was \$1.47⁽¹⁾
- Net operating income of \$40.0 million, up 23% for the prior year period
- Completed three securitizations during 2019, totaling \$597 million in UPB

Notable Activity After Year End:

- Completed Velocity Financial, Inc.'s (NYSE: VEL) IPO in January; Underwriters fully exercised the “green shoe” option to purchase 1.1 million additional shares
- Completed our first securitization of 2020 (VCC 2020-1) total \$249 million in February
- Reduced outstanding long-term corporate debt by \$75 million
- Entered into an agreement to issue and sell \$45 million of Series A Convertible Preferred Stock and warrants

⁽¹⁾ Pro forma for post-IPO equivalent shares of Members' Equity at December 31, 2019 totaling 11.75 million shares

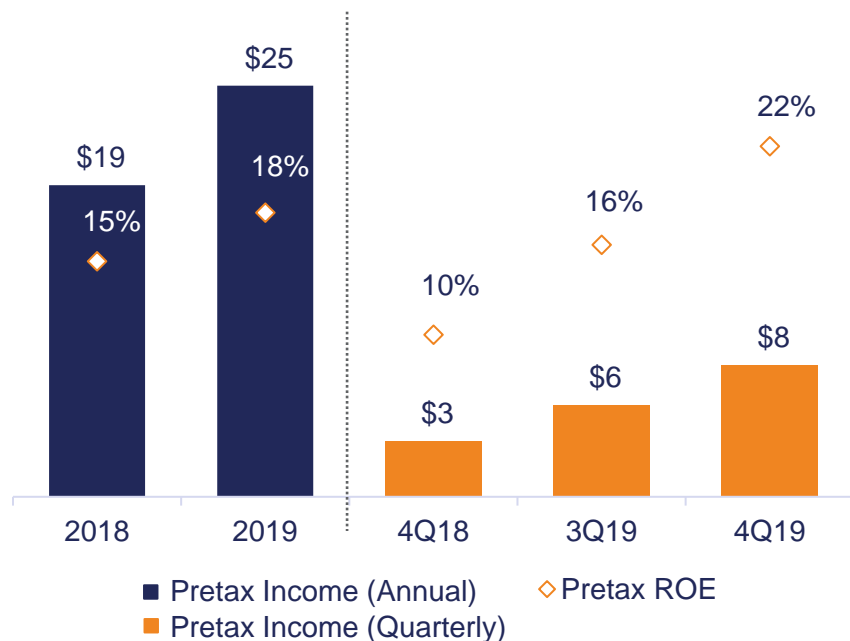
⁽²⁾ Net Operating Income is a non-GAAP measure. Please see the reconciliation to GAAP net income in the appendix of this presentation

Key Performance Metrics

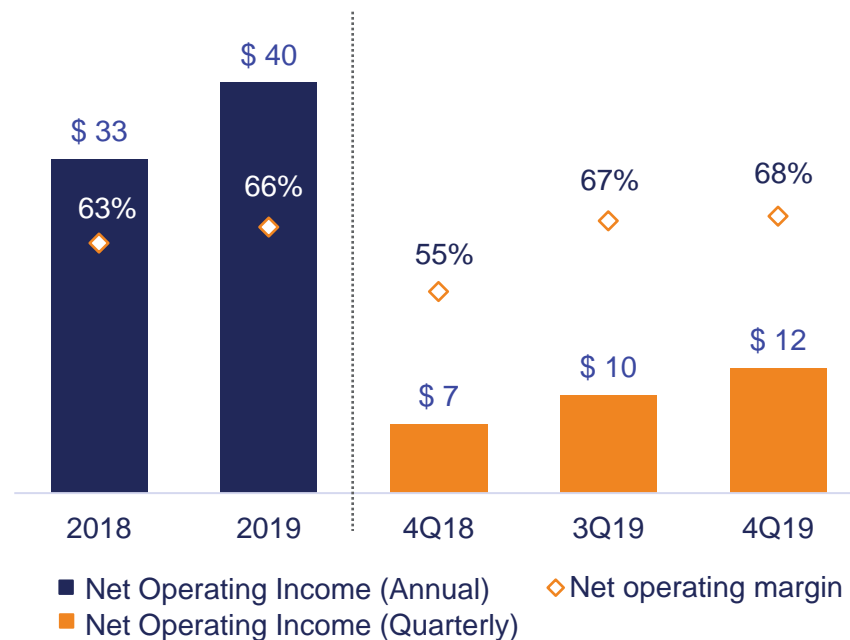
Strong Financial Performance Resulting From Improved Operating Efficiency

- Increase in net income driven primarily by our growing loan portfolio and improved portfolio-related funding costs
- Partial repayment of corporate debt in January will benefit future returns
- Higher net operating income reflects the continued realization of scale efficiencies as the company grows
- Net operating margin in 4Q19 was 68%, compared to 55% in 3Q19

Pre-Tax Income and Pretax Return on Equity



Net Operating Income and Margin ⁽¹⁾



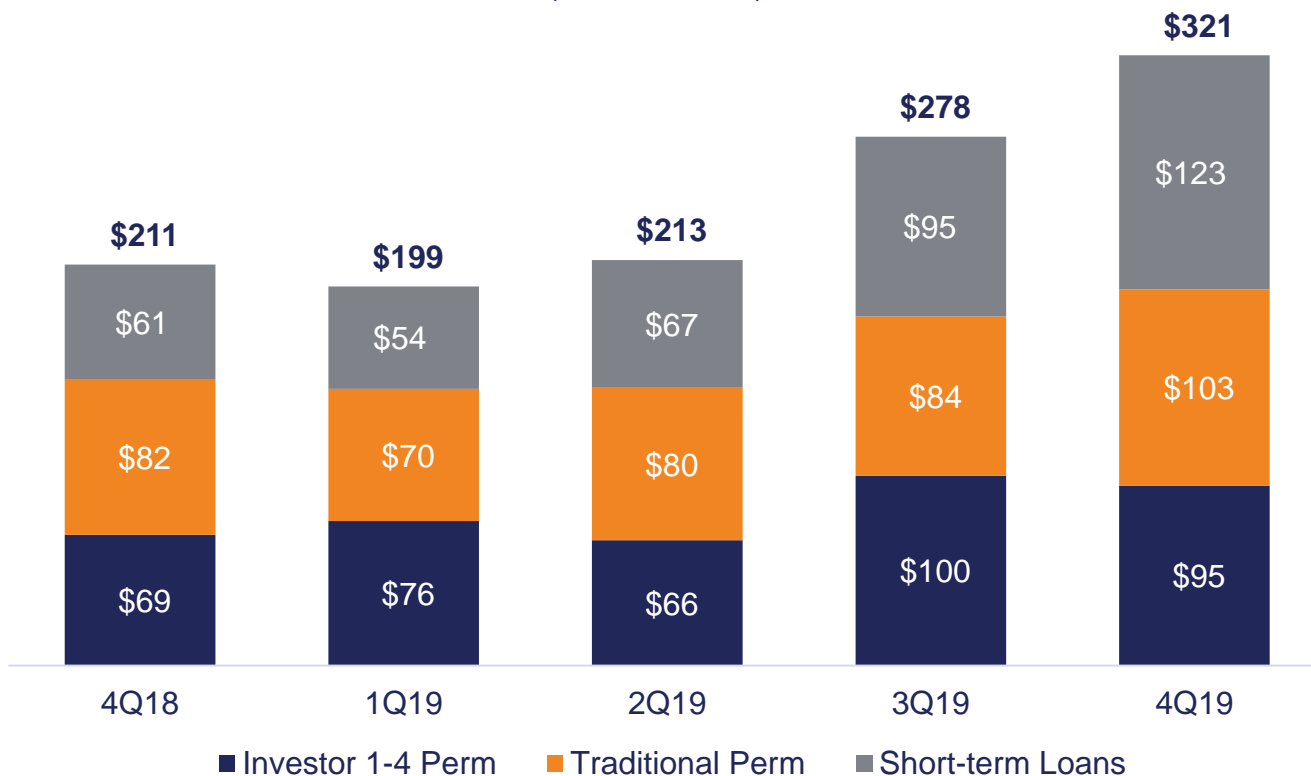
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Quarterly Origination Volume

Record Production Volume from Our Comprehensive Origination Platform

Loan Production and Product Mix

(UPB in millions)



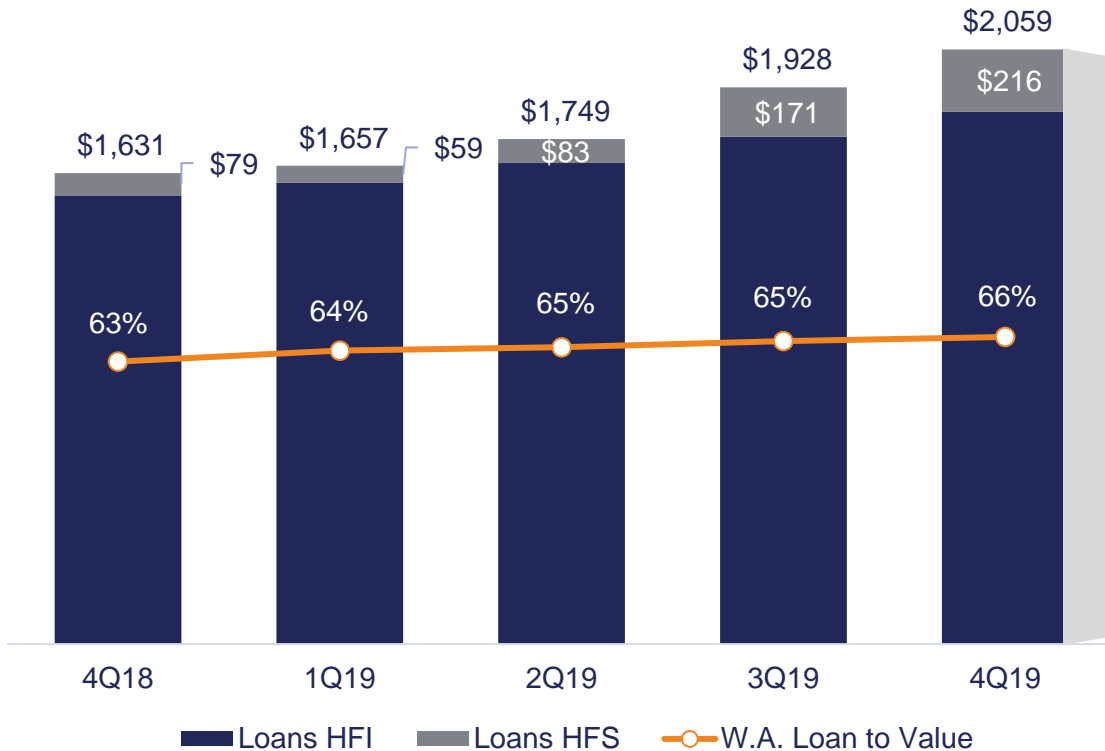
- 2020 loan production through March 20 totaled \$248 million in UPB

Strong Organic Production Drives Portfolio Growth

Strict Underwriting Discipline and Low LTVs Result In a High-Quality Portfolio

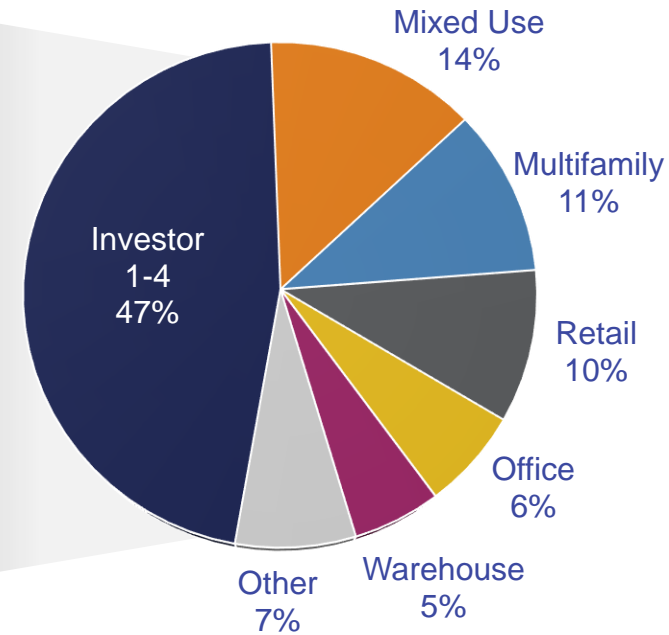
Total Loans

(UPB in millions)



Portfolio Composition⁽¹⁾

(by property type)



⁽¹⁾ At December 31, 2019

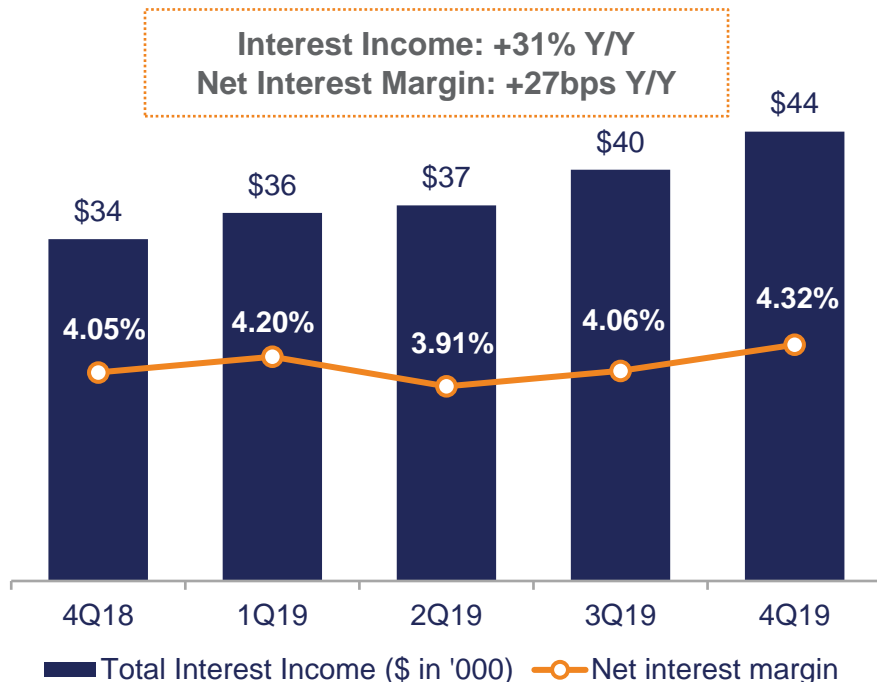
Net Interest Margin

Improving Funding Costs and Higher Yields Driving NIM Improvement

- Net Interest Margin (NIM) rose to 4.32%, an increase of 26 bps from the prior quarter
- Growth reflects structural improvements in securitization-related costs of funds and additional improvement is projected in FY2020 as older, higher-cost, deals continue to pay down
- Increase also driven by growth in the short-term loan portfolio which carry a higher coupon than our 30-year product

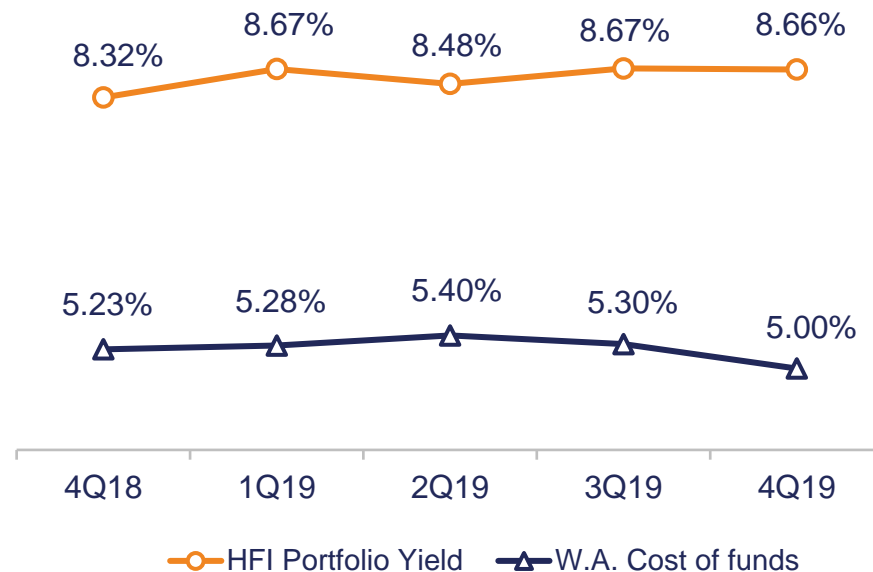
Interest Income and Net Interest Margin

Portfolio Related (\$ in Millions)



Portfolio Yield and Cost of Funds

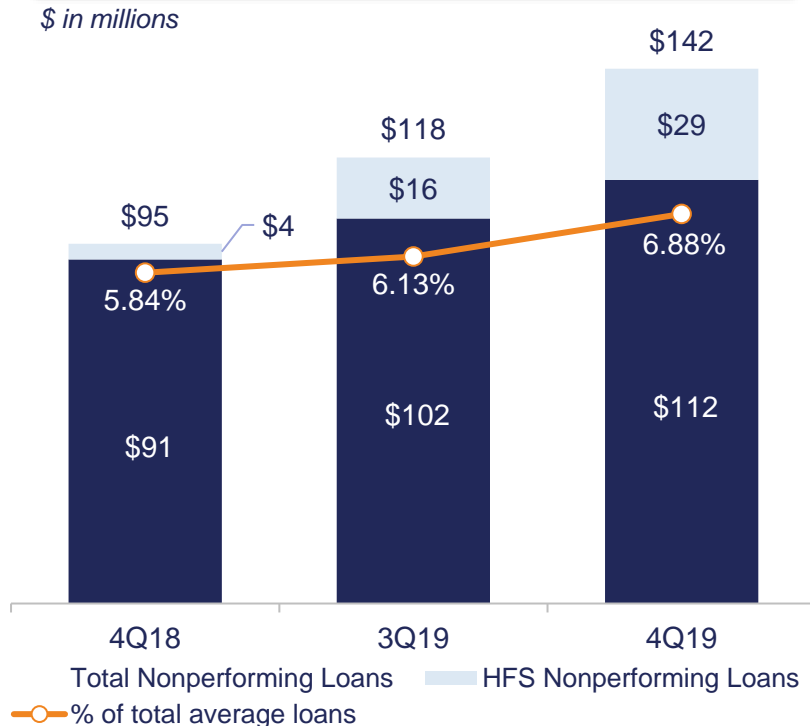
Portfolio Related



Loan Portfolio Performance

- Nonperforming loans totaled \$142 million in UPB at December 31, 2019, or 6.88% of total loans (held for sale and held for investment), up 20% from September 30th driven by normal portfolio seasoning
- Significant success historically resolving nonperforming loans prior to foreclosure sale, due primarily to our low LTVs and hands on management of nonperforming loans by our in-house special servicing team
- Higher delinquencies are expected from the COVID-19 pandemic; to prepare, our responses will include:
 - Transitioning a portion of loan production operations staff to bolster special servicing capacity
 - Expanding loss mitigation options to include forbearance and modifications
 - Expanding efforts to re-analyze property valuations
 - More intensive outreach efforts to borrowers as they become delinquent to assess their situation and develop resolution strategies

Nonperforming Loans



Nonperforming Loan Resolutions

\$ UPB in millions

- From the January 1, 2013 to December 31, 2019, we have realized a \$6 million net gain resolving our nonperforming loans
- Velocity Financial's loans are business-purposed loans
 - Allow for a broader array of loss mitigation strategies than consumer-purposed mortgages
 - Borrower has personal liability, and in most cases, significant equity in the real estate

\$7.9 Million
Gain from Loan Resolutions
—
\$(1.9) Million
REO Losses
=
\$6.0 Million
Net Gain



Appendix



Velocity Financial, Inc. Balance Sheet

(Unaudited)

	Quarter Ended				
	12/31/2019	09/30/2019	06/30/2019	03/31/2019	12/31/2018
<i>(In thousands)</i>					
Assets					
Cash and cash equivalents	\$ 21,465	\$ 8,849	\$ 14,105	\$ 16,948	\$ 15,008
Restricted cash	6,087	3,152	1,542	1,986	1,669
Loans held for sale, net	214,467	170,440	82,308	58,123	78,446
Loans held for investment, at fair value	2,960	2,936	2,974	2,971	3,463
Loans held for investment					
Unpaid principal balance	1,839,886	1,753,289	1,662,483	1,594,624	1,547,942
Allowance for loan losses	(1,680)	(1,680)	(1,680)	(1,679)	(1,885)
Provision for loan losses	(1,139)	(897)	(559)	(348)	(201)
Charge-offs	579	466	143	111	407
Loans held for investment	1,837,646	1,751,178	1,660,387	1,592,708	1,546,263
Net deferred loan costs	25,714	24,757	23,346	21,874	21,145
Total loans, net	2,080,787	1,949,311	1,769,015	1,675,676	1,649,317
Accrued interest receivables	13,295	12,450	11,326	10,788	10,096
Receivables due from servicers	49,659	38,349	33,618	35,395	40,473
Other receivables	4,778	7,585	3,321	1,190	974
Real estate owned, net	13,068	15,806	14,221	12,996	7,167
Property and equipment, net	4,680	4,903	5,045	5,254	5,535
Deferred tax asset	8,280	4,127	3,228	1,778	517
Other assets	12,667	17,219	15,383	7,365	4,479
Total Assets	\$ 2,214,766	\$ 2,061,751	\$ 1,870,804	\$ 1,769,376	\$ 1,735,235
Liabilities and members' equity					
Accounts payable and accrued expenses	\$ 56,146	\$ 41,957	\$ 30,832	\$ 39,731	\$ 26,797
Secured financing, net	145,599	145,285	127,061	127,179	127,040
Securitizations, net	1,438,629	1,377,733	1,261,456	1,338,032	1,202,202
Warehouse and repurchase facilities	422,688	349,859	280,710	97,059	216,725
Debt issuance costs	(1,140)	(744)	(750)	(586)	(794)
Total Liabilities	2,061,922	1,914,090	1,699,309	1,601,415	1,571,970
Class C preferred units	-	-	27,399	26,929	26,465
Members' equity	152,844	147,661	144,096	141,032	136,800
Total Liabilities and members' equity	\$ 2,214,766	\$ 2,061,751	\$ 1,870,804	\$ 1,769,376	\$ 1,735,235



Velocity Financial, Inc. Income Statement

(Unaudited)

(\$ in thousands)

	Quarter Ended				Year Ended		
	12/31/2019	09/30/2019	06/30/2019	03/31/2019	12/31/2018	12/31/2018	
Revenues							
Interest income	\$ 44,124	\$ 40,379	\$ 36,884	\$ 36,143	\$ 33,560	\$ 157,531	\$ 124,722
Interest expense - portfolio related	22,689	21,827	20,324	19,062	17,807	83,903	62,597
Net interest income - portfolio related	21,435	18,552	16,560	17,081	15,753	73,628	62,125
Interest expense - corporate debt	4,070	3,842	3,353	3,353	3,337	14,618	13,322
Net interest income	17,365	14,710	13,207	13,728	12,416	59,010	48,803
Provision for loan losses	242	338	212	348	221	1,139	201
Net interest income after provision for loan losses	17,123	14,372	12,995	13,380	12,195	57,871	48,602
Other operating income							
Gain on disposition of loans	1,497	56	863	1,995	27	4,410	1,201
Unrealized gain/(loss) on fair value loans	42	(17)	(25)	(8)	(59)	(9)	241
Other income (expense)	(706)	(251)	(530)	(266)	122	(1,752)	1,365
Total other operating income (expense)	833	(212)	308	1,721	90	2,649	2,807
Total revenues	17,956	14,160	13,303	15,101	12,285	60,520	51,409
Operating expenses							
Compensation and employee benefits	3,992	3,712	3,801	4,006	3,828	15,512	15,105
Rent and occupancy	426	369	398	338	336	1,531	1,320
Loan servicing	1,939	1,957	1,637	1,863	1,817	7,395	6,009
Professional fees	469	398	534	656	1,235	2,056	3,040
Real estate owned, net	1,300	485	561	301	285	2,648	1,373
Provision for held for sale loan losses	7	-	-	-	-	7	-
Other operating expenses	1,681	1,563	1,393	1,336	1,370	5,973	5,313
Total operating expenses	9,814	8,484	8,324	8,500	8,871	35,122	32,160
Income before income taxes	8,142	5,676	4,979	6,601	3,414	25,398	19,249
Income tax expense	2,960	1,796	1,444	1,906	1,475	8,106	11,618
Net income	\$ 5,182	\$ 3,880	\$ 3,535	\$ 4,695	\$ 1,939	\$ 17,292	\$ 7,631



Adjusted Financial Metric Reconciliation to GAAP

	Quarter Ended					Year Ended	
	12/31/2019	09/30/2019	06/30/2019	03/31/2019	12/31/2018	12/31/2019	12/31/2018
<i>Reconciliation of Velocity Financial Inc. Net Income to Net Operating Income</i>							
GAAP Net Income	\$ 5,182	\$ 3,880	\$ 3,535	\$ 4,695	\$ 1,939	\$ 17,292	\$ 7,631
Income tax expense	2,960	1,796	1,444	1,906	1,475	8,106	11,618
Interest expense - corporate debt	3,657	3,400	3,190	3,190	3,190	13,437	12,759
Amortization expense - corporate debt deal costs	412	442	163	163	147	1,181	562
Net Operating Income	\$ 12,211	\$ 9,518	\$ 8,332	\$ 9,954	\$ 6,751	\$ 40,015	\$ 32,570



Loan Portfolio Delinquency Status

<i>\$ UPB in millions</i>	HFI	HFS	Grand Total
CURRENT	\$ 1,559.37	\$ 167.97	\$ 1,727.34
30 DPD	123.70	14.08	137.79
60 DPD	48.06	4.55	52.61
Total Performing	\$ 1,731.14	\$ 186.60	\$ 1,917.74
90+ DPD	\$ 24.79	\$ 9.17	\$ 33.97
BK	8.69	0.82	9.51
FC	78.67	19.47	98.13
Total NPL	\$ 112.15	\$ 29.46	\$ 141.61
Total Loans	\$ 1,843.29	\$ 216.05	\$ 2,059.34
Charge-offs			\$ 0.11