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8 UNITED STATES DISTRICT COURT  
9 CENTRAL DISTRICT OF CALIFORNIA

10 EDWARD A. BERG, Individually and )  
11 on Behalf of All Others Similarly )  
Situating, )

12 Plaintiff, )

13 vs. )

14 VELOCITY FINANCIAL, INC., )  
15 CHRISTOPHER D. FARRAR, MARK )  
R. SZCZEPANIAK, CHRISTOPHER J. )  
16 OLTMANN, ALAN H. MANTEL, IAN )  
K. SNOW, JOHN A. PLESS, )  
17 BRANDON KISS, OGDEN PHIPPS, )  
DANIEL J. BALLEEN, JOHN P. )  
18 PITSTICK, JOY L. SCHAEFER, )  
SNOW PHIPPS GROUP, LLC, WELLS )  
19 FARGO SECURITIES, LLC, )  
CITIGROUP GLOBAL MARKETS )  
20 INC., JMP SECURITIES LLC and )  
RAYMOND JAMES & ASSOCIATES, )  
21 INC., )

22 Defendants. )

Case No. 2:20-cv-06780

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF  
THE SECURITIES ACT OF 1933

DEMAND FOR JURY TRIAL

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1 Plaintiff Edward A. Berg (“plaintiff”), individually and on behalf of all others  
2 similarly situated, alleges the following based upon personal knowledge as to  
3 plaintiff’s own acts and upon information and belief as to all other matters based on  
4 the investigation conducted by and through counsel, which included, among other  
5 things, a review of the public Securities and Exchange Commission (“SEC”) filings of  
6 Velocity Financial, Inc. f/k/a Velocity Financial, LLC (“Velocity” or the “Company”),  
7 press releases, analyst and media reports, and other public reports and information  
8 regarding the Company. Plaintiff believes that substantial additional evidentiary  
9 support exists for the allegations set forth herein, which evidence will be developed  
10 after a reasonable opportunity for discovery.

### 11 JURISDICTION AND VENUE

12 1. The claims alleged herein arise under §§11 and 15 of the Securities Act  
13 of 1933 (“ 1933 Act”) [15 U.S.C. §§77k and 77o]. This Court has jurisdiction over  
14 the subject matter of this action pursuant to §22 of the 1933 Act.

15 2. This Court has personal jurisdiction over each of defendants and venue is  
16 proper in this County. Velocity is headquartered in this District and defendants  
17 drafted the Registration Statement and Prospectus issued in connection with  
18 Velocity’s initial public offering (“IPO”) in part here, disseminated the misleading  
19 statements at issue here, and solicited stock purchasers here. The Underwriter  
20 Defendants (as defined below) also have substantial operations and/or conduct  
21 substantial business in California (directly or via agents), and represented Velocity  
22 and all or some of the other defendants in carrying out the IPO.

### 23 NATURE OF THE ACTION

24 3. This is a securities class action on behalf of all purchasers of Velocity  
25 common stock pursuant and/or traceable to the Registration Statement and Prospectus,  
26 as amended, issued in connection with Velocity’s January 2020 IPO (the “Offering  
27 Materials”), seeking to pursue remedies under the 1933 Act against Velocity, certain  
28 of its officers and directors (the “Individual Defendants”), Velocity’s private equity

1 sponsor and controlling shareholder, and the underwriters of the IPO (“Underwriter  
2 Defendants”) (collectively “defendants”).

3         4. Velocity is a real estate finance company headquartered in Westlake  
4 Village, California, that originates and manages loans issued to borrowers nationwide  
5 to finance the purchase of small residential rental and commercial real estate  
6 investment properties. It also securitizes and sells some loans and holds others for  
7 investment purposes. As of the IPO, most of the Company’s loans were  
8 geographically concentrated in California, New York, Florida and New Jersey.  
9 Defendants failed to disclose that at the time of the IPO the Company’s non-  
10 performing loans had dramatically increased in size from the figures provided in the  
11 Offering Materials, as measured by both the amount of unpaid principal balance and  
12 as a percentage of the Company’s overall loan portfolio. In addition, defendants  
13 failed to provide any information to investors regarding the potential impact of the  
14 novel coronavirus on Velocity’s business and operations, despite the fact that the  
15 international spread of the virus had already been confirmed at the time of the IPO.  
16 Instead, the Offering Materials contained generic warnings that market turmoil could  
17 eventually erupt and affect Velocity’s business and told investors that Velocity  
18 “operate[s] in a large and highly fragmented market with substantial demand for  
19 financing and limited supply of institutional financing alternatives.”

20         5. In fact, the Offering Materials described a halcyon real estate market and  
21 represented that the Company “ha[d] developed the highly-specialized skill set  
22 required to effectively compete in this market,” which supposedly “afforded [it] a  
23 durable business model capable of generating attractive risk-adjusted returns for [its]  
24 stockholders throughout various business cycles.” But this portrayal was materially  
25 misleading, because an increasing proportion of Velocity’s loans had entered non-  
26 accrual status (meaning that they were at least 90 days past due) and the Company  
27 was not uniquely well positioned to weather the brewing storm. At the time of the  
28 IPO, the unpaid principal amount of non-performing loans held on the Company’s



1 Immediately before completing the IPO, Velocity converted into a corporation with  
2 the same senior executives and several of the same directors, as well as two directors  
3 identified in the Offering Materials as director nominees. Velocity operates its  
4 business through subsidiaries and other associated entities, including Velocity  
5 Commercial Capital, LLC, which does business as Velocity Mortgage Capital.

6 10. Defendant Christopher D. Farrar was Velocity's Chief Executive Officer  
7 ("CEO") at the time of the IPO and became a director of the Company in connection  
8 with the IPO.

9 11. Defendant Mark R. Szczepaniak was Velocity's Chief Financial Officer  
10 ("CFO") at the time of the IPO.

11 12. Defendant Christopher J. Oltmann was Velocity's Chief Accounting  
12 Officer ("CAO") at the time of the IPO.

13 13. Defendant Alan H. Mantel was a member of Velocity's pre-IPO Board of  
14 Managers. He was also a Partner at defendant Snow Phipps (defined below).  
15 Immediately before the IPO closed, he became Chairman of the Board of Directors  
16 when Velocity converted from a limited liability company to a corporation.

17 14. Defendant Ian K. Snow was a member of Velocity's pre-IPO Board of  
18 Managers. He was also a co-founding Partner at defendant Snow Phipps and the  
19 managing member of the General Partner of the affiliated Snow Phipps funds that held  
20 its Velocity investment.

21 15. Defendant John A. Pless was a member of Velocity's pre-IPO Board of  
22 Managers. He was also a Partner at defendant Snow Phipps. Immediately before the  
23 IPO closed, he became a member of the Board of Directors when Velocity converted  
24 from a limited liability company to a corporation.

25 16. Defendant Brandon Kiss was a member of Velocity's pre-IPO Board of  
26 Managers. He was also a Managing Director at defendant Snow Phipps.

27 17. Defendant Ogden Phipps was a member of Velocity's pre-IPO Board of  
28 Managers. He was also a co-founding Partner at defendant Snow Phipps.

1           18. Defendant Daniel J. Ballen was a member of Velocity’s pre-IPO Board  
2 of Managers. Immediately before the IPO closed, he became a member of the Board  
3 of Directors when Velocity converted from a limited liability company to a  
4 corporation.

5           19. Defendant John P. Pitstick (“Pitstick”) was identified in the Offering  
6 Materials as a person who would become a member of the Board of Directors when  
7 Velocity converted from a limited liability company to a corporation. He consented to  
8 be named in the Offering Materials as a person about to become a director.

9           20. Defendant Joy L. Schaefer (“Schaefer”) was identified in the Offering  
10 Materials as a person who would become a member of the Board of Directors when  
11 Velocity converted from a limited liability company to a corporation. She also  
12 previously served as an Operating Partner at defendant Snow Phipps. She consented  
13 to be named in the Offering Materials as a person about to become a director.

14           21. The defendants identified in ¶¶10-20 above are referred to herein as the  
15 “Individual Defendants. All of the Individual Defendants, other than defendants  
16 Pitstick and Schaefer (who were named as incoming directors) signed the Registration  
17 Statement for the IPO. Each of the Individual Defendants also reviewed and helped  
18 prepare the Offering Materials and, as directors and/or executive officers of the  
19 Company, participated in the solicitation and sale of the Company’s common stock to  
20 investors in the IPO for their own financial benefit and the financial benefit of  
21 Velocity.

22           22. Defendant Snow Phipps Group, LLC (“Snow Phipps”) is a private equity  
23 firm that specializes in mid-market control investments and takes an active role in  
24 managing its investments. Defendant Snow Phipps sponsored the IPO and was the  
25 controlling shareholder of Velocity immediately prior to the IPO, beneficially owning  
26 more than 60% of the Company’s shares through affiliated funds. Defendant Snow  
27 Phipps continued to be the Company’s largest shareholder after the IPO. Defendant  
28 Snow Phipps also cemented its control over the Company through various shareholder

1 agreements and was entitled to nominate two directors to Velocity’s Board. As  
2 acknowledged in the Offering Materials, “the degree of control on our board of  
3 directors held by Snow Phipps . . . may be greater than their proportionate ownership  
4 of our common stock.”

5 23. Defendants Wells Fargo Securities, LLC, Citigroup Global Markets Inc.,  
6 JMP Securities, LLC and Raymond James & Associates, Inc. (the “Underwriter  
7 Defendants”) served as underwriters for the IPO. Collectively, they sold more than  
8 8.3 million Velocity shares in the IPO at \$13 per share and shared over \$7.5 million in  
9 underwriting discounts and commissions. Their failure to conduct adequate due  
10 diligence in connection with the IPO and the preparation of the Offering Materials  
11 was a substantial factor leading to the harm complained of herein.

## 12 **SUBSTANTIVE ALLEGATIONS**

### 13 **Velocity’s Business**

14 24. Based in Westlake Village, California, Velocity is a real estate finance  
15 company that issues, manages, and securitizes loans used by borrowers to finance the  
16 purchase of investment properties – primarily single-family rental homes with one to  
17 four units and small commercial properties. It originates loans nationwide across a  
18 network of 3,000 independent mortgage brokers that refer borrowers who require  
19 financing to Velocity.

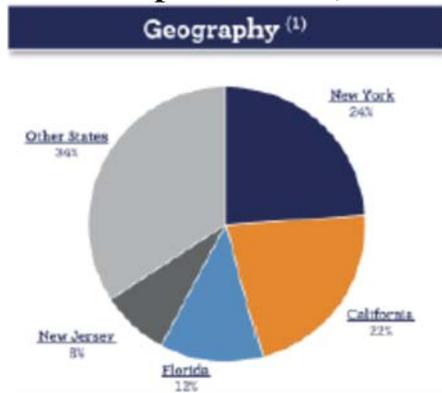
20 25. As a real estate lender, Velocity’s underwriting guidelines and practices  
21 are of the utmost importance to its business and financial performance. The Company  
22 portrayed itself to investors as a disciplined lender in the underserved niche market of  
23 small commercial properties and residential rental units. Velocity’s portfolio  
24 contained an average loan balance of only \$323,000 as of September 30, 2019. Many  
25 established real estate lenders focus on financing large real estate purchases because  
26 of the risks and complexities associated with lending to individual investors and small  
27 businesses. However, Velocity assured prospective shareholders that it implemented a  
28 hands-on, data-driven approach to provide effective due diligence in its underwriting

1 processes, weed out potentially troublesome borrowers, and construct a high-quality  
 2 loan portfolio to maximize potential yields.

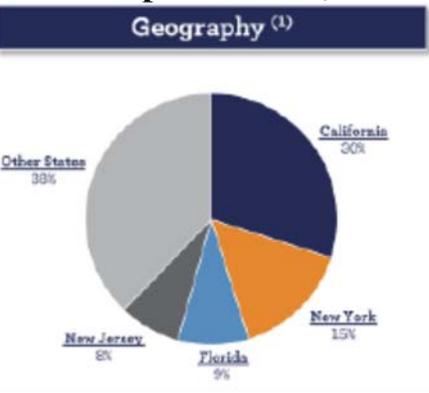
3 26. In the lead up to the IPO, the Company rapidly expanded its loan  
 4 portfolio. As of September 30, 2019, the Company claimed to have a total net loan  
 5 portfolio worth \$1.9 billion, an increase of \$300 million over the preceding nine  
 6 months and an increase of 90% over the Company’s \$1 billion loan portfolio as of  
 7 December 31, 2016. This allowed the Company to generate \$113 million in interest  
 8 income for the nine months ended September 30, 2019, with a healthy 8.82% portfolio  
 9 yield. Importantly, Velocity had grown its loan portfolio while also consistently  
 10 increasing its portfolio yield every year since 2016. Furthermore, Velocity non-  
 11 performing loans had an unpaid principal balance of only \$118 million, or just 6.13%  
 12 of the Company’s overall portfolio. Velocity’s ability to continue to grow its loan  
 13 portfolio and generate profitable, performing loans was critical to its future business  
 14 and prospects.

15 27. The following charts adapted from the Offering Materials show the  
 16 geographic dispersion and original amount of loans held for investment and sale as of  
 17 September 30, 2019:

18 **Loans Held For Investment**  
 19 **As of September 30, 2019**



21 **Loans Held For Sale**  
 22 **As of September 30, 2019**





28. The Company's primary product is a 30-year amortizing term loan with a three-year fixed-rate period, which floats at a spread to the prime rate thereafter (subject to a floor equal to the starting fixed rate), used to finance long-term real estate investments. Borrowers use this product to finance stabilized long-term real estate investments. In March 2017, the Company began originating short-term interest-only loans used for acquiring, repositioning or improving the quality of one-to-four unit residential investment properties. This product is an interim solution for borrowers and/or properties that do not meet the investment criteria of the Company's primary 30-year product.

29. Velocity also holds loans in its investment portfolio and securitizes and sells loans. As of September 30, 2019, one-to-four unit residential rental loans comprised 46.8% of the Company's "held for" investment loan portfolio, with mixed-use and multi-family properties representing 13.7% and 11.1%, respectively (and no other category exceeding 10%). By geography, the principal balance of Velocity's loans held for investment were concentrated 23.6% in New York, 22.2% in California, 12.3% in Florida, and 8.2% in New Jersey.

30. By contrast, Velocity has historically aggregated and sold to institutional investors its short-term interest-only loans. During the nine months ended September 30, 2019 and September 30, 2018, the Company originated \$215.6 million and \$89.4 million of loans held for sale and sold \$114.0 million and \$28.1 million of loans held for sale, respectively. The Offering Materials stated that the Company was evaluating

1 long-term financing alternatives for such loans and might retain such loans in the  
2 future to earn a longer term spread.

### 3 **Velocity's IPO**

4 31. Velocity filed the Registration Statement on Form S-1 with the SEC on  
5 October 18, 2019. Following several amendments, the Registration Statement was  
6 declared effective by the SEC on January 16, 2020. On January 17, 2020, the  
7 Company filed its final Prospectus, dated January 16, 2020 (which incorporated and  
8 formed part of the final Registration Statement), with the SEC.

9 32. Together, the Offering Materials were used to sell over 8.3 million shares  
10 of Velocity common stock to the investing public (including the full exercise of the  
11 Underwriter Defendants' over-allotment option) at a price of \$13 per share, generating  
12 over \$108 million in gross offering proceeds.

### 13 **The Materially Misleading Offering Materials**

14 33. The Offering Materials were negligently prepared and, as a result,  
15 contained untrue statements of material fact, omitted material facts necessary to make  
16 the statements contained therein not misleading, and failed to make necessary  
17 disclosures required under the rules and regulations governing their preparation.

18 34. For example, the Offering Materials highlighted the Company's  
19 purportedly "disciplined" underwriting policies and practices, which they claimed  
20 "differentiated" Velocity's business from its competitors. They listed Velocity's  
21 "Customized Technology and Proprietary Data Analytics," which purportedly  
22 positioned Velocity "for sustainable, long-term growth" at the time of the IPO, as one  
23 of the Company's key "Competitive Advantages." The Offering Materials continued  
24 in pertinent part:

25 *Our underwriting approach focuses on generating attractive*  
26 *returns while minimizing credit losses and is enhanced by automation*  
27 *through the extensive use of customized systems to power automation*  
28 *and drive our use of data analytics. We apply the same disciplined due*

1 *diligence and underwriting process to all loans we review, regardless of*  
 2 *whether they are originated or acquired.* Our asset-driven underwriting  
 3 philosophy encompasses property level due diligence, including lease  
 4 and rent reviews, local market liquidity and trend assessment and a  
 5 rigorous valuation process. In addition, we perform individual borrower  
 6 diligence, including credit review, evaluation of experience and asset  
 7 verification. *We believe our extensive access to proprietary data gives*  
 8 *us a differentiated perspective and underwriting ability.*<sup>1</sup>

9 35. The Offering Materials emphasized the growth of the Company’s loan  
 10 portfolio in the lead-up to the IPO and the consistent increase in the Company’s  
 11 portfolio yield. The following chart of Velocity’s “key performance metrics” was  
 12 provided in the Offering Materials:

Key Performance Metrics	Nine Months Ended		Year Ended December 31,		
	September 30, 2019	2018	2018	2017	2016
	(\$ in thousands)				
Average loans(1)	\$1,715,172	\$1,387,535	\$1,429,877	\$1,167,999	\$944,437
Portfolio yield(2)	8.82%	8.76%	8.72%	8.38%	8.30%
Average debt — portfolio related(3)	\$1,529,009	\$1,192,289	\$1,234,818	\$ 965,987	\$802,683
Average debt — total company(4)	\$1,660,837	\$1,319,883	\$1,362,412	\$1,090,532	\$914,467
Cost of funds — portfolio related(5)	5.34%	5.01%	5.07%	4.93%	4.66%
Cost of funds — total company(6)	5.76%	5.53%	5.57%	5.62%	5.56%
Net interest margin — portfolio related(7)	4.06%	4.46%	4.34%	4.30%	4.34%
Net interest margin — total company(8)	3.24%	3.50%	3.41%	3.13%	2.92%
Charge-offs(9)	0.03%	0.03%	0.03%	0.09%	0.13%
Pre-tax return on equity(10)(11)	15.8%	15.8%	14.3%	10.8%	9.9%
Return on equity(11)	11.1%	8.6%	7.8%	10.8%	9.9%

20 (Footnotes omitted.)

21 36. The Offering Materials also stated that Velocity’s total loan portfolio had  
 22 continued to increase in the fourth quarter of 2020 – the quarter immediately prior to  
 23 the IPO – and that, despite the Company’s rapid growth in loan originations, its non-  
 24 performing loans as a proportion of total loans had remained within a moderate range  
 25 during the quarter with a midpoint of just 6.7%. The Offering Materials stated in  
 26 pertinent part:

27 <sup>1</sup> Emphasis has been added unless otherwise noted.

1 ***Estimates for the Year Ended December 31, 2019***

2 ***We expect to report total loan originations of at least \$1,009.0***  
3 ***million for the year ended December 31, 2019***, compared to total loan  
4 originations of \$737.3 million for the year ended December 31, 2018,  
5 and \$554.7 million for the year ended December 31, 2017.

6 ***We expect to report total loans, as measured by unpaid principal***  
7 ***balance, of at least \$2,055.0 million as of December 31, 2019***,  
8 compared to total loans, as measured by unpaid principal balance, of  
9 \$1,928.2 million as of September 30, 2019, and \$1,631.3 million as of  
10 December 31, 2018. ***We expect to report non-performing loans***  
11 ***between 6.50% and 6.90% of total loans, as measured by unpaid***  
12 ***principal balance, as of December 31, 2019***, compared to non-  
13 performing loans of 6.13% as of September 30, 2019, and of 5.85% as of  
14 December 31, 2018. Non-performing loans includes all loans that are 90  
15 or more days past due, in bankruptcy or in foreclosure.

16 ***We expect to report net income between \$16.8 million and \$18.6***  
17 ***million for the year ended December 31, 2019***, compared to net income  
18 of \$10.5 million for the year ended December 31, 2018, and \$14.0  
19 million for the year ended December 31, 2017.

20 37. The statements in ¶¶34-36 above were materially false and misleading  
21 because, as of the date of the IPO, a significantly higher proportion of Velocity's total  
22 loan portfolio had become non-performing. Indeed, the unpaid principal amount of  
23 non-performing loans had approximately ***doubled*** year over year and was accelerating  
24 at the time of the IPO. ***Nearly 10%*** of Velocity's entire loan portfolio was on track to  
25 enter non-accrual status within months of the IPO as the Company's recent loan  
26 originations seasoned – with grave, adverse implications for the Company's net  
27 income, earnings and portfolio yield. Notably, non-accrual occurs after 90 days of  
28 delinquency, meaning that the high proportion of non-accrual loans acknowledged

1 after the IPO had already entered delinquency as of the IPO. Furthermore, these  
2 adverse trends were the result of Velocity’s rapid growth in its loan portfolio prior to  
3 the IPO and deficiencies in the Company’s underwriting practices and procedures that  
4 existed at the time of the IPO. Although the rapid loan growth was highlighted to  
5 investors in the Offering Materials, defendants misleadingly failed to disclose the  
6 rapidly expanding proportion of these loans then entering non-accrual status and the  
7 adverse implications for the Company’s business and financial results.

8 38. In addition, the Offering Materials favorably described the Company’s  
9 market as of the IPO, stating that Velocity “operate[s] in a large and highly  
10 fragmented market with substantial demand for financing and limited supply of  
11 institutional financing alternatives.” They also represented that the Company “ha[d]  
12 developed the highly-specialized skill set required to effectively compete in this  
13 market,” claiming the Company had “a durable business model capable of generating  
14 attractive risk-adjusted returns for [its] stockholders throughout various business  
15 cycles.”

16 39. Under the heading “**Our Market Opportunity**,” the Offering Materials  
17 also favorably portrayed the market conditions facing the Company and Velocity’s  
18 unique ability to capitalize on these market conditions, stating in pertinent part:

19 We believe that there is a substantial and durable market  
20 opportunity for investor real estate loans across 1-4 unit residential rental  
21 and small commercial properties, and that our institutionalized approach  
22 to serving these fragmented market segments underpins our long-term  
23 business strategy. Our growth to date has validated the need for scaled  
24 lenders with dedication to individual investors who own ten or fewer  
25 properties, a base which we believe represents the vast majority of  
26 activity across our core market.

27 40. Moreover, the Offering Materials relied in substantial part on outdated  
28 information in describing the condition of the residential and commercial real estate

1 markets and industry demand. In a section entitled “1-4 Unit Residential Rental  
2 Properties,” for example, the Offering Materials presented “statistical and economic  
3 market data and industry forecasts and projections” derived from a market study,  
4 prepared in connection with the IPO, based on data available as of September 2019.  
5 Likewise, in a section entitled “Small Commercial Properties,” the Offering Materials  
6 presented information of a similar type also derived from a market study, prepared in  
7 connection with the IPO, based on data available as of September 2019.

8 41. By the effective date of the Offering Materials, however, the coronavirus  
9 was already quickly spreading around the world and invading the United States,  
10 threatening to disrupt the locations where Velocity maintained offices and had  
11 historically originated most of its loans. It was misleading for the Offering Materials  
12 to describe a robust market and strong demand for real estate investor loans when  
13 those conditions were evidently not realistic given the evolving nature of  
14 developments and circumstances arising from the fast-spreading coronavirus. Rather,  
15 those conditions were short-lived and temporary, and the coronavirus presented  
16 uncertainties and risks that rendered unreasonable the Offering Materials’  
17 representations that the Company’s operations were uniquely positioned to weather  
18 the worsening storm.

19 42. Yet the Offering Materials failed to disclose any information concerning  
20 the onset of the coronavirus, including whether the coronavirus was adversely  
21 impacting the real estate market or the Company’s business, operations or financial  
22 condition. Nor did the Offering Materials disclose how the coronavirus might  
23 adversely impact the real estate market or the Company. Instead, the Offering  
24 Materials contained generic risk warnings, applicable to any company operating in the  
25 real estate industry, that “conditions that negatively impact this market may reduce  
26 demand for our loans and may adversely impact our business, results of operations  
27 and financial condition” and, further, that “difficult conditions in the real estate  
28 markets, the financial markets and the economy generally may adversely impact our

1 business results of operations and financial condition.” This language did not  
2 adequately warn purchasers of common stock in connection with the IPO of the issues  
3 Velocity was then facing as a result of the coronavirus.

4 43. The undisclosed adverse facts and circumstances detailed above  
5 presented known trends, uncertainties and risks that required disclosure in the  
6 Offering Materials. Specifically, Item 303 of SEC Regulation S-K required the  
7 Company to disclose “any known trends or uncertainties that have had or that  
8 [Velocity] reasonably expects will have a material favorable or unfavorable impact on  
9 net sales or revenues or income from continuing operations.” Moreover, Item 105 of  
10 Regulation S-K required disclosure in the Offering Materials of “the most significant  
11 factors that ma[d]e an investment in [the IPO] speculative or risky,” and an  
12 explanation of “how the risk affect[ed] [Velocity] or the securities being offered.”  
13 The Offering Materials failed to disclose material facts necessary to apprise common  
14 stock purchasers of the true risks inherent in investing in the Company

15 44. These issues arose from circumstances existing before the IPO, which  
16 were known by defendants and were in fact quickly worsening at the time of the IPO  
17 the material adverse effects on the Company’s business and financial results, yet  
18 defendants fail to disclose them to investors until after the IPO.

19 45. On March 31, 2020, Velocity stated that it would delay the filing of its  
20 2019 annual report “due to the current economic environment, including  
21 circumstances related to the novel coronavirus (COVID-19) global outbreak.”

22 46. On April 6, 2020, Velocity announced that it had sold \$45 million in  
23 preferred stock and warrants to its two largest shareholders, including defendant Snow  
24 Phipps, and amended the terms of its warehouse facilities in order to improve the  
25 Company’s balance sheet and liquidity profile, citing coronavirus as a factor that  
26 could materially and adversely affect its financial results.

27 47. On April 7, 2020, Velocity filed its 2019 annual report on Form 10-K,  
28 which belatedly provided extensive risk warnings and disclosures relating to the

1 coronavirus, including a description of uncertainties facing the business. These risks  
2 should have been provided to investors in the Offering Materials but were not.

3 48. On April 8, 2020, Velocity issued a release providing the Company's  
4 financial and operational results for the fourth quarter and full year 2019. The release  
5 stated that the Company had suspended all loan origination operations due to market  
6 volatility. Velocity also stated that it was experiencing enhanced delinquencies in its  
7 loan portfolio and had implemented various strategies to attempt to "address this  
8 challenge." In presentation materials accompanying the results, Velocity also stated  
9 that its non-performing loans had increased 20% during the quarter to 6.88% of the  
10 Company's total loan portfolio, at the top of the range provided in the Offering  
11 Materials. The Company further stated that even "[h]igher delinquencies are expected  
12 from the COVID-19 pandemic."

13 49. On May 13, 2020, Velocity issued a release and investor presentation and  
14 held an earnings call providing the Company's financial and operational results for the  
15 first quarter of 2020 – the *same quarter* in which the IPO was conducted. The  
16 Company stated that its net income decreased 50% sequentially during the quarter to  
17 just \$2.6 million. The Company also confirmed that the suspension of loan  
18 originations would continue for an indeterminate length of time, effectively halting all  
19 potential growth in the Company's loan portfolio. In addition, the Company stated  
20 that its proportion of non-performing loans had accelerated to \$174 million, nearly  
21 double the unpaid principal amount year over year, and constituted 8.17% of the  
22 Company's total portfolio, 252 basis points over the prior year. Velocity's portfolio  
23 yield also fell 32 basis points sequentially to 8.57% due in substantial part to the rising  
24 number of non-performing loans.

25 50. During the earnings call to discuss the results, Velocity executives further  
26 stated that the proportion of non-performing loans had continued to substantially  
27 increase and stood at a staggering **9.9%** of the Company's total portfolio by the end of  
28 April 2020. Management also confirmed that these adverse results were known and

1 expected as of the IPO, which they characterized as largely due to ordinary portfolio  
2 “seasoning” above and beyond any effects of the COVID-19 pandemic, even though  
3 they were not disclosed in the Offering Materials. The Company also increased its  
4 loan loss reserve by more than 50%, largely due to expected losses from the COVID-  
5 19 pandemic, indicating that the adverse trends and significant loan deterioration were  
6 likely to continue.

7 51. Velocity’s stock price declined significantly subsequent to the IPO. By  
8 May 15, 2020, Velocity stock closed at just \$2.53 per share – more than **80% below**  
9 the price investors paid for Velocity shares in the IPO just four months previously.

#### 10 **CLASS ACTION ALLEGATIONS**

11 52. Plaintiff brings this action as a class action on behalf of all purchasers of  
12 Velocity common stock pursuant and/or traceable to the Offering Materials (the  
13 “Class”). Excluded from the Class are defendants and their families; the officers,  
14 directors and affiliates of defendants and members of their immediate families; the  
15 legal representatives, heirs, successors or assigns of any of the foregoing; and any  
16 entity in which any defendant has or had a controlling interest.

17 53. The members of the Class are so numerous that joinder is impracticable.  
18 Velocity common stock is actively traded on the NYSE and millions of shares were  
19 sold in the IPO. While the exact number of Class members is unknown to plaintiff at  
20 this time and can only be ascertained through discovery, plaintiff believes there are  
21 hundreds, if not thousands, of members in the Class. Record owners and other Class  
22 members may be identified from records procured from or maintained by the  
23 Company or its transfer agent and may be notified of the pendency of this action using  
24 a form of notice similar to that customarily used in securities class actions.

25 54. Common questions of law and fact exist as to all Class members and  
26 predominate over any questions solely affecting individual Class members, including:

27 (a) whether defendants violated the 1933 Act, as alleged herein;

28

1 (b) whether the Offering Materials misrepresented and/or omitted  
2 material information in violation of the 1933 Act; and

3 (c) whether and to what extent Class members have sustained  
4 damages, as well as the proper measure of damages.

5 55. Plaintiff's claims are typical of the claims of the Class, as all Class  
6 members were similarly affected by defendants' conduct.

7 56. Plaintiff will fairly and adequately protect the interests of Class members  
8 and has retained counsel competent and experienced in securities class actions.

9 57. A class action is superior to all other available methods for the fair and  
10 efficient adjudication of this controversy. Because the damages suffered by individual  
11 Class members may be relatively small, the expense and burden of individual  
12 litigation make it exceedingly difficult, if not impossible and impracticable, for Class  
13 members to individually redress the wrongs alleged. There will be no difficulty in  
14 managing this action as a class action.

15 **COUNT I**

16 **For Violation of §11 of the 1933 Act**  
17 **Against All Defendants**

18 58. Plaintiff repeats, incorporates, and realleges each and every allegation set  
19 forth above as if fully set forth herein.

20 59. This Count is brought under §11 of the 1933 Act [15 U.S.C. §77k], on  
21 behalf of the Class, against all defendants. This Count does not allege, and does not  
22 intend to allege, fraud or fraudulent intent, which is not a required element of §11, and  
23 any implication of fraud or fraudulent intent is hereby expressly disclaimed.

24 60. The Registration Statement for the IPO, which was incorporated in and  
25 formed part of the Offering Materials, contained inaccurate and misleading statements  
26 of material fact, omitted facts necessary to render statements therein non-misleading,  
27 and omitted to state material facts required to be stated therein.

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1           61. Velocity is the registrant for the IPO. Defendants were responsible for  
2 the contents and dissemination of the Offering Materials. Defendant Snow Phipps  
3 was the controlling shareholder and private equity sponsor of Velocity at the time of  
4 the IPO. The Individual Defendants signed or authorized the signing of the  
5 Registration Statement and/or were designated as director-nominees, including by  
6 defendant Snow Phipps. The Underwriter Defendants marketed and underwrote the  
7 IPO and sold stock to plaintiff and the Class.

8           62. As the issuer of the shares, Velocity is strictly liable to plaintiff and the  
9 Class for the Registration Statement's material misstatements and omissions.  
10 Signatories of the Registration Statement, and possibly other defendants, may also be  
11 strictly liable to plaintiff and the Class for such material misstatements and omissions.  
12 None of the defendants made a reasonable investigation or possessed reasonable  
13 grounds to believe that the statements in the Registration Statement were complete,  
14 accurate or non-misleading.

15           63. By reason of the conduct alleged herein, defendants violated §11 of the  
16 1933 Act. Plaintiff and the Class members purchased common stock pursuant and/or  
17 traceable to the Registration Statement and have sustained damages as a result. The  
18 value of the stock has declined substantially subsequent and due to defendants'  
19 violations. At the time of their purchases, plaintiff and other members of the Class  
20 were without knowledge of the facts concerning the wrongful conduct alleged herein.

21           64. Less than one year has elapsed from the time that plaintiff discovered, or  
22 reasonably could have discovered, the facts upon which these claims are based to the  
23 time that plaintiff filed this action. Less than three years has elapsed between the time  
24 that the securities upon which this Count is brought were offered to the public and the  
25 time plaintiff filed this action.

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**COUNT II**

**For Violation of §15 of the 1933 Act  
Against Velocity, the Individual Defendants and Snow Phipps**

65. Plaintiff repeats, incorporates, and realleges each and every allegation set forth above as if fully set forth herein.

66. This Count is brought under §15 of the 1933 Act [15 U.S.C. §77o], against Velocity, the Individual Defendants and Snow Phipps. This Count does not allege, and does not intend to allege, fraud or fraudulent intent, which is not a required element of §15, and any implication of fraud or fraudulent intent is hereby expressly disclaimed.

67. As detailed herein, each of defendants committed primary violations of the 1933 Act by committing conduct in contravention of §11 of the 1933 Act.

68. The Individual Defendants were each control persons of Velocity by virtue of their positions as directors, senior officers and/or significant shareholders of the Company. They each had direct and/or indirect business and/or personal relationships with other directors, officers and/or major shareholders of the Company. The Company also controlled the Individual Defendants, given the influence and control the Company possessed and exerted over the Individual Defendants and all of its employees.

69. Defendant Snow Phipps was the controlling shareholder of the Company at the time of the IPO and sponsored the IPO. Immediately prior to the IPO, Snow Phipps beneficially owned a majority of Velocity's stock and entered into shareholder agreements with Velocity in order to cement and expand its control over the Company. In addition, Snow Phipps possessed the ability to nominate two directors to the Velocity Board and controlled the actions of the Individual Defendants affiliated with Snow Phipps, including the managers and directors of Velocity appointed by Snow Phipps to do its bidding on the Board.



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Attorneys for Plaintiff

**CERTIFICATION OF NAMED PLAINTIFF  
PURSUANT TO FEDERAL SECURITIES LAWS**

EDWARD A. BERG (“Plaintiff”) declares:

1. Plaintiff has reviewed a complaint and authorized its filing.
2. Plaintiff did not acquire the security that is the subject of this action at the direction of plaintiff’s counsel or in order to participate in this private action or any other litigation under the federal securities laws.
3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.
4. Plaintiff has made the following transaction(s) during the Class Period in the securities that are the subject of this action:

<u>Security</u>	<u>Transaction</u>	<u>Date</u>	<u>Price Per Share</u>
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*See attached Schedule A.*

5. Plaintiff has not sought to serve or served as a representative party in a class action that was filed under the federal securities laws within the three-year period prior to the date of this Certification except as detailed below:

None.

6. Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff’s pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.  
Executed this <sup>29</sup>\_\_\_\_\_ day of July, 2020.

DocuSigned by:

*Edward A. Berg*

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EDWARD A. BERG

**SCHEDULE A****SECURITIES TRANSACTIONS**

<b>Stock</b>		
<b><u>Date Acquired</u></b>	<b><u>Amount of Shares Acquired</u></b>	<b><u>Price</u></b>
01/17/2020	200	\$13.97
02/28/2020	300	\$12.97
03/05/2020	500	\$12.72
04/03/2020	500	\$2.40

Prices listed are rounded to two decimal places.