

Second-Party Opinion

Triad Financial Services Affordable Home Loans Framework



Evaluation Summary

Evaluation Date	October 28, 2021
Issuer Location	Jacksonville, Florida, US

Sustainalytics has reviewed the Triad Financial Services Affordable Home Loans Framework and is of the opinion that the components of the Framework are credible and that Triad Financial Services' programme for financing eligible projects under the Framework will fund impactful social projects. Sustainalytics is of the opinion that the principles of impact and transparency that underlie the sustainable investment industry, as well as many of its norms and standards, are applicable to the Financing Program, and that the use of funds in eligible projects aligns with those principles. This opinion is based on the following:



IMPACT Triad originates loans with a social impact theme, namely Affordable Housing. The geographic focus of the originations will be primarily in the US and they will serve low- and moderate-income populations. Sustainalytics considers these originations to deliver overall social benefits.



TRANSPARENCY Triad demonstrates the principle of transparency through both its process for management of proceeds and commitment to ongoing reporting. Triad intends to facilitate financing for affordable manufactured housing across the US. The Company has adequate processes in place to ensure sound management of the Financing Programme and to mitigate key social and environmental risks associated with projects. Furthermore, Triad intends to report annually on the Financing Programme, including the percentage of eligible loans under the US Federal Community Reinvestment Act, the percentage of loans for homes with Energy Star rating and the distribution of originations volume by geography and consumer FICO scores. The reporting will be made available on ECN's website within 60 days of the end of each calendar year. Sustainalytics considers this as aligned with market expectation.

The Sustainable Deposits contribute to the following SDGs:



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Scope of Work and Limitations

Triad Financial Services (“Triad” or the “Company”), a wholly-owned subsidiary of ECN Capital Corp. (“ECN”), has engaged Sustainalytics to review the Triad Financial Services Affordable Home Loans Framework (the “Framework”), dated October 2021, and provide an opinion on the Framework.

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent¹ opinion derived from a review of the Framework against the key principles of impact and transparency that underlie the sustainable investment industry, as well as the Framework’s robustness and credibility against market norms and standards. For the use of proceeds/eligible projects review, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics exchanged information with various members of Triad and ECN’s management team to understand the sustainability impact of their business processes and objectives of the Framework. Triad’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of Triad to ensure that the information provided is complete, accurate or up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with the Framework, when possible. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Triad Financial Services.

Sustainalytics’ Second-Party Opinion is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed through the eligible instruments or products but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Triad Financial Services has made available to Sustainalytics for the purpose of this Second-Party Opinion.

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¹ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Introduction

Triad originates and manages consumer loans for over 250 funding partners to finance manufactured housing projects across 47 states in the US. Founded in 1959, Triad manages over USD 2.8 billion of credit portfolios and operates through a network of over 3,000 manufactured housing dealers. Triad is based out of Jacksonville, Florida. ECN is a financial business service provider headquartered in Toronto and South Florida. ECN has over USD 33 billion in managed and advised credit portfolios across categories such as home improvement loans, manufactured home loans and consumer credit card portfolios.²

Triad has engaged Sustainalytics to review and assess the ESG credentials of the Framework and provide an opinion based on the Framework's alignment with industry expectations and the Company's strategic sustainability priorities. This Framework will be published in a separate document.³

Sustainalytics is providing a Second-Party Opinion on the Framework's social credentials and its alignment with the underlying principles of impact and transparency, which Sustainalytics considers to be key principles of sustainable finance. Sustainalytics notes that these norms are espoused, in whole or in part, by a variety of industry standards and initiatives, including the Global Impact Investing Network's (GIIN) Core Characteristics, the International Capital Market Association's (ICMA) Social Bond Principles 2021 (SBP 2021), the Climate Bonds Initiative (CBI), the Social Loan Principles, and the European Union Expert Group on Sustainable Finance Taxonomy Technical Report (EU Taxonomy).

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Triad Financial Services Affordable Home Loans Framework

Sustainalytics is of the opinion that the Framework is credible and will fund overall impactful social projects. Sustainalytics further notes the alignment of the Framework with the concepts underpinning the sustainable finance market, namely those of impact and transparency.



Impact

- Under the Framework's affordable home loan programme (the Financing Programme), Triad will finance manufactured home loans for retail borrowers across the US. The Company sources originations from its national network of manufactured housing dealers.
- Triad has identified the social theme, namely Affordable Housing, for eligible projects that aim to deliver positive social benefits by financing affordable manufactured housing projects targeted at low- and moderate-income borrowers.
- Triad has communicated to Sustainalytics that all projects eligible under the Framework will satisfy the requirements of the US Federal Community Reinvestment Act (CRA)⁴ that guarantees credit to homeowners with incomes below 80% of the Average Mean Income (AMI) in their respective geographic area. Such projects are expected to account for approximately 70% of Triad's total loan originations. Sustainalytics views the identification of a target population and the compliance of all eligible projects under the Financing Programme with CRA requirements as aligned with market expectation.

² ECN, "Solutions", at: <https://www.ecncapitalcorp.com/solutions/>

³ The "Triad Financial Services Affordable Homes Framework" will be made available on ECN's website at: <https://www.ecncapitalcorp.com/>

⁴ For further information about CRA, see: https://www.federalreserve.gov/consumerscommunities/cra_about.htm



Transparency

Transparency is recognized as a key principle with regards to sustainable finance, as it provides assurance that investments are delivering positive impact. Sustainalytics highlights the following elements of the Framework that facilitate transparency to clients:

Disclosures regarding management of the Financing Programme

- Under the Financing Programme, Triad originates short-term loans to retail consumers with a good credit profile (with an average FICO⁵ score of 746) to finance manufactured homes in the US.⁶
- Triad performs underwriting for each loan applicant and sells the loan to partner financial institutions without recourse to Triad. As of 2021, Triad manages over USD 2.8 billion of credit portfolios through partnerships with over 250 financial institutions, including banks, credit unions, insurance companies, and government-sponsored enterprises and follows strict compliance standards and underwriting practices as required under various regulations and from partner institutions.⁷
- Triad retains the loan servicing responsibilities on behalf of the financial institutions for a fee. The processes in the Financing Programme are managed and tracked internally by Triad through a technology platform that integrates loan origination and servicing, including collecting, payment processing and reporting.
- Sustainalytics considers this level of disclosure to investors as sufficient to ensure the credibility of the project selection process.

Mitigation of environmental and social risks

While Sustainalytics recognizes that the Financing Programme focusing on Affordable Housing will have positive social impacts, Sustainalytics is aware that such projects could be associated with negative environmental and social risks. These include consumer protection and health and safety risks during the construction and installation of manufactured homes. Sustainalytics is of the opinion that Triad can mitigate such risks through the implementation of the following:

- Triad ensures consumer protection through compliance with all applicable laws and regulations under the Truth-in-Lending Act (“the Act”). As a result of compliance with the Act, Triad provides borrowers with loan cost information and provides borrowers with the right of rescission to protect consumers against high-pressure sales tactics.⁸
- All Triad borrowers also receive a verification call prior to funding to ensure that they understand the terms and conditions of the loan and are fully satisfied with them.⁹ Furthermore, Triad has disclosed that since 2016 it received 42 complaints (from approx. 335,000 processed applications) via the Consumer Financial Protection Bureau and provided a successful resolution to 100% of the complaints received.¹⁰
- As an approved Federal Housing Administration (FHA) lender, Triad is required to comply with various bank regulations, consumer disclosure and fair lending rules and audits from State licensing agencies and their funding partners.¹¹ Triad has direct or indirect oversight from the Federal Deposit Insurance Corporation, Consumer Financial Protection Bureau, National Credit Union Administration, Nationwide Multistate Licensing System & Registry and the FHA, which ensure consumer protection and regulate credit unions.

⁵ A FICO score is a credit score created by the Fair Isaac Corporation (FICO), at: <https://www.fico.com/en/about-us#our-company>

⁶ ECN, “2021 Investor Day”, at: <https://www.ecncapitalcorp.com/content/uploads/Investor-day-2021-Full-Deck-FINALJW.pdf>

⁷ ECN, “2021 Investor Day”, at: <https://www.ecncapitalcorp.com/content/uploads/Investor-day-2021-Full-Deck-FINALJW.pdf>

⁸ Office of the Comptroller of the Currency, “Truth in Lending”, at: <https://www.occ.treas.gov/topics/consumers-and-communities/consumer-protection/truth-in-lending/index-truth-in-lending.html>

⁹ *Ibid.*

¹⁰ Triad Financial Services Affordable Homes Framework (2021)

¹¹ The “Triad Financial Services Affordable Homes Framework” available on Triad’s website at: <https://www.ecncapitalcorp.com/>

- Although Triad as a financing entity does not have direct oversight over dealer compliance with environmental, health and safety regulations, it has verification processes in place for vetting them. As part of these processes, the Company annually verifies and certifies each dealer/contractor based on a review of licenses, financial, legal, and public records, complaints lodged and trade references.¹²
- Triad's business conduct, risk mitigation, and operations are also informed by ECN's Human Rights Policy Statement.¹³ The Statement aims to protect the rights of its security holders, employees, customers, vendors, suppliers, competitors, partners, creditors, financiers and service providers.
- Triad complies with all applicable state and federal laws such as the Anti-Money Laundering Act, the Fair Debt Collection Practices Act and the Gramm-Leach-Bliley Act which cover the disclosure of information sharing practices, the safeguard of consumer data, regulations on unfair, deceptive, abusive acts or practices. In addition, the Company also has internal policies and processes to govern discrimination and harassment, information technology (IT), cybersecurity, whistleblower and business continuity/disaster recovery-related matters. It also regularly undertakes compliance audits to ensure adherence to best practices.¹⁴
- Triad's management and employees are bound by ECN's Code of Business Conduct and Ethics, which establishes benchmarks to promote ethical behaviour, compliance with applicable government regulations and protection, the confidentiality of corporate information, and proper usage of corporate assets and opportunities.¹⁵
- Triad's risk management policy is also dictated by ECN's Credit and Risk Committee Mandate ("the Mandate"), which identifies major risks that are inherent to ECN's business activities, including credit risk, market risk, funding risk, reputation, risk, business continuity risk and operational risk. The Mandate then informs risk mitigation strategies in response to the likelihood of each risk.¹⁶

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Triad has implemented adequate measures and is sufficiently positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Reporting

- Triad commits to provide annual reporting which will include the percentage of CRA eligible loans constituting the affordable home loans programme, the percentage of loans for homes with Energy Star rating, the geographical distribution of originations and the distribution of originations volume by consumer FICO scores. The reporting will be made available on ECN's website within 60 days of the end of each calendar year.
- Sustainalytics considers this in alignment with market expectation.

Section 2: Assessment of Triad Financial Service's Sustainability Strategy

Sustainalytics considers the Framework to be aligned with the Company's overall business and sustainability strategy. Triad was founded in 1959 and originates prime and super-prime Manufactured Homes ("MH") loans. The Company was bought by ECN Capital in 2017 as part of ECN's transition from a balance sheet lender to a high return originator and asset manager.

Social sustainability is one of the key mandates of Triad Financial Service's portfolio, given the affordability of manufactured homes. In addition, Triad aims to integrate environmental sustainability in the financing of their MH through Energy Star Rated Homes. One-third of the loans originated by Triad are rated as Energy-Star, which are estimated to save homeowners USD 500 in energy costs per year on average.¹⁷

¹² The "Triad Financial Services Affordable Homes Framework" available on Triad's website at: <https://www.ecncapitalcorp.com/>.

¹³ ECN, "Human Rights Policy Statement", at: <https://www.ecncapitalcorp.com/content/uploads/ECN-Capital-Statement-on-Human-Rights-FINAL.pdf>

¹⁴ ECN, "2021 Investor Day", at: <https://www.ecncapitalcorp.com/content/uploads/Investor-day-2021-Full-Deck-FINALJW.pdf>

¹⁵ ECN, "Code of Business Conduct and Ethics", at: <https://www.ecncapitalcorp.com/content/uploads/Code-of-Business-Conduct-and-Ethics-Upload-Version.pdf>

¹⁶ ECN, "Credit & Risk Committee Mandate", (2016), at: <https://www.ecncapitalcorp.com/content/uploads/ECN-Capital-Corp.-CreditRisk-Mandate.pdf>

¹⁷ Triad Financial Services Affordable Home Loans Framework (2021)

Triad's sustainability strategy also draws from and is in line with ECN's strategy. In 2020, ECN established its ESG Management Committee (the "Committee"),¹⁸ which reports directly to the Board of Directors. The Committee has been engaging with various stakeholders such as shareholders, standard setters, rating agencies, sustainability organizations, and ESG experts and in 2021, it plans to incorporate the learnings into its strategy and begin implementing measures to improve policies and data collection across all of ECN's operations. Furthermore, ECN's operations are guided by the policies and standards set under its Environmental Health and Safety Management system.¹⁹ Since 2020, ECN also complies with SASB disclosure guidelines for the consumer finance industry addressing customer privacy, data security and selling practices.²⁰

Based on the above commitments and investments, Sustainalytics is of the opinion that Triad's Framework is aligned with its sustainability strategy and that the initiatives outlined in the Framework will further the Company's action on its key social priorities. Sustainalytics highlights that Triad currently does not have time-bound targets for sustainability and encourages the Company to develop and report on the same.

Section 3: Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The Triad Financial Services Affordable Home Loans Framework advances the following SDG goal:

Use of Proceeds Category	SDG
Affordable Homes	SDG 11. Sustainable Cities and Communities

Conclusion

The Triad Financial Services Affordable Home Loans Framework will advance the sustainability objectives of the Company by financing projects with positive social impact. In Sustainalytics' view, the processes for management of the affordable home loan programme (the Financing Programme), the mitigation of key environmental and social risks and the reporting commitments, are sufficiently covered by the Framework.

Based on the above, Sustainalytics is of the opinion that the Framework will deliver overall positive social benefits, based on the principles of impact and transparency, and that the Framework is credible.

¹⁸ ECN Capital Corp. "Notice of Annual Meeting of Shareholders & Management Information Circular", (2021), at: https://www.ecncapitalcorp.com/content/uploads/AGM_-_2021_Circular.pdf

¹⁹ ECN Capital Corp. "Notice of Annual Meeting of Shareholders & Management Information Circular", (2021), at: https://www.ecncapitalcorp.com/content/uploads/AGM_-_2021_Circular.pdf

²⁰ ECN capital Corp. "2021 Investor Day ESG Update", at: <https://www.ecncapitalcorp.com/content/uploads/ESG-FINALJW.pdf>

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The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

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Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. The firm works with hundreds of the world’s leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. The world’s foremost issuers, from multinational corporations to financial institutions to governments, also rely on Sustainalytics for credible second-party opinions on green, social, and sustainable bond frameworks. In 2020, Climate Bonds Initiative named Sustainalytics the “Largest Approved Verifier for Certified Climate Bonds” for the third consecutive year. The firm was also recognized by Environmental Finance as the “Largest External Reviewer” in 2020 for the second consecutive year. For more information, visit www.sustainalytics.com.

