

“Breaking the Cycle for the Credit Invisible Hispanic Consumer in America”

Responsible Lending in Subprime Automotive Finance

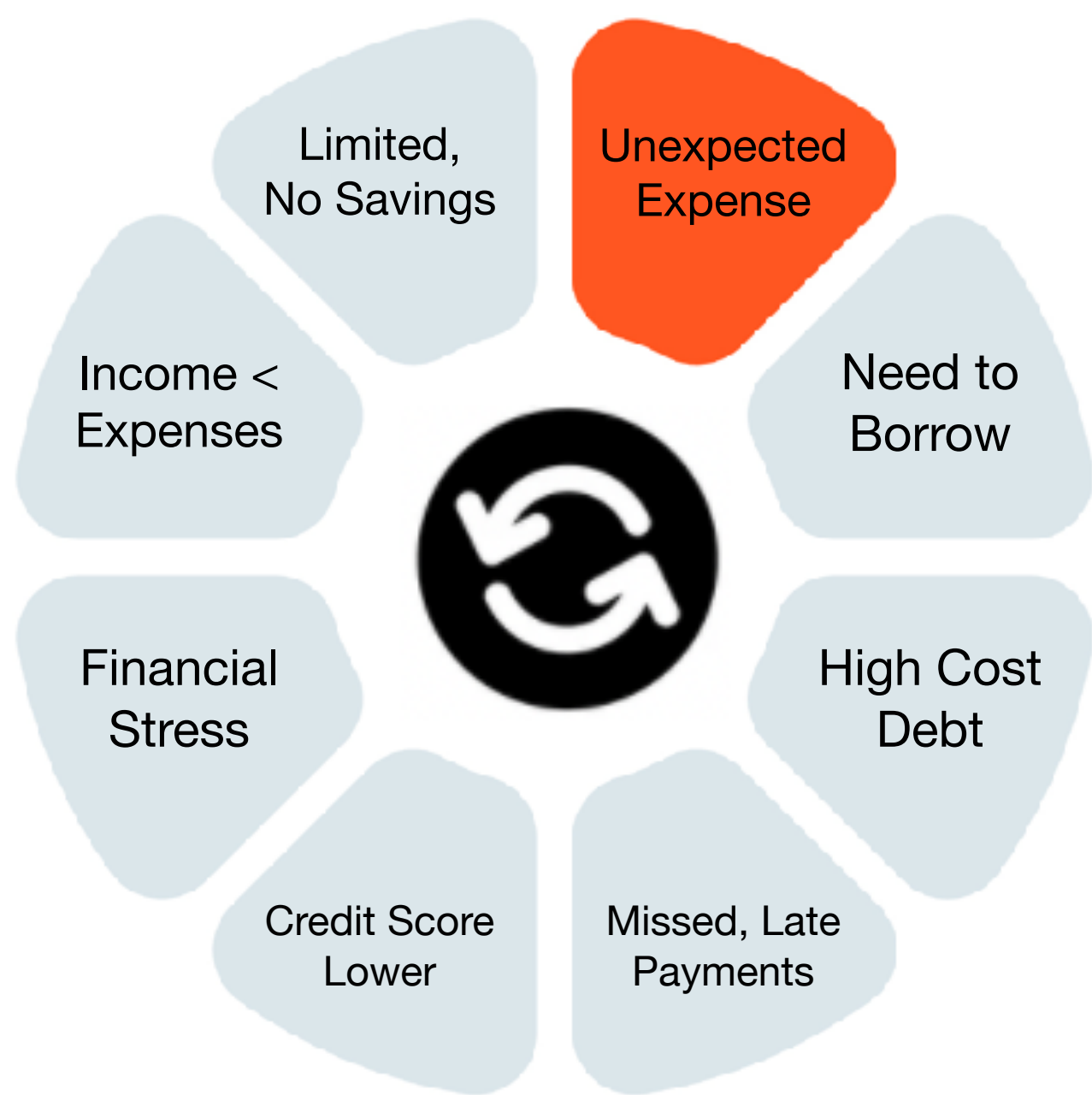
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Founder & Chief Executive Officer



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Context

While the U.S. banking industry is highly concentrated, 45 million people in the United States live in an alternative financial services world, incurring prohibitively high costs because they have no or limited access to traditional credit. This consumer is particularly liquidity constrained and vulnerable to predatory lending. For example, over 12 million Americans use payday loans at an average APR of over 300%, and nearly 1 in 4 of these loans are borrowed more than nine times. The inevitable outcome is a downward spiral, or vicious cycle, which makes the probability of achieving any level of financial independence highly improbable.

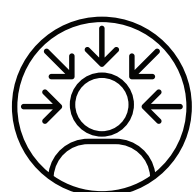


The Tricolor platform *breaks the cycle* and provides a compelling solution for underserved Hispanic consumers, *estimated at 43% of the total US Hispanic population*, faced with the challenge of accessing affordable credit for the purpose of addressing their transportation needs. Clearly, the past year has illuminated on the importance of dependable transportation for this consumer profile, as a large cross section of Tricolor’s target market served on the front lines of the pandemic, given their limited capacity to transition to a remote working environment. Tricolor’s proprietary, AI-enabled technology has demonstrated precision power to identify potentially lower risk borrowers among a pool of underserved consumers with the following characteristics:

Category	Challenge	Reason
No FICO (no SS#)	no bureau data	udocumented status
FICO, thin file	insufficient bureau data to score	largely due to distrust of traditional financial services
Low FICO	unable to secure affordable pricing	often subject to predatory terms which result in artifically low score
Low income	fail to meet PTI, DTI	income gap in America

Key Fundamentals of Our Purpose-Driven Responsible Lending Model

Since its founding in 2007, Tricolor has empowered customers by providing access to affordable financing on high quality, certified vehicles in order to enhance the quality of their lives and ultimately help them to build a better future. For more than a decade, Tricolor has successfully scored no file and thin file Hispanics, as evidenced by six well-received ABS securitizations. The key building blocks to our approach:



Leverage our data-driven understanding of the credit invisible Hispanic consumer to develop a unique **customer-centric approach**.



Leverage our AI-driven technology to provide **affordable financing to low income borrowers**, increasing the probability of their success.



Empower our consumers to achieve the American dream by **establishing bureau credit** and supporting them with **financial literacy** programs.

In 2019, Tricolor was certified as a Community Development Financial Institution (CDFI) by the U.S. Department of Treasury, becoming the only lender among all auto ABS issuers to earn that designation. CDFIs support the American dream: that everyone should have an equal opportunity to achieve prosperity and success through their own talent and hard work. For additional information on CDFIs, please see Appendix B.

Tricolor's mission has been to enhance the life of our customer with access to affordable financing, the opportunity to build credit, and ultimately, a path to a better future. Importantly for us, the CDFI certification validates its core beliefs and purpose-driven aspiration to *do well by doing good*.

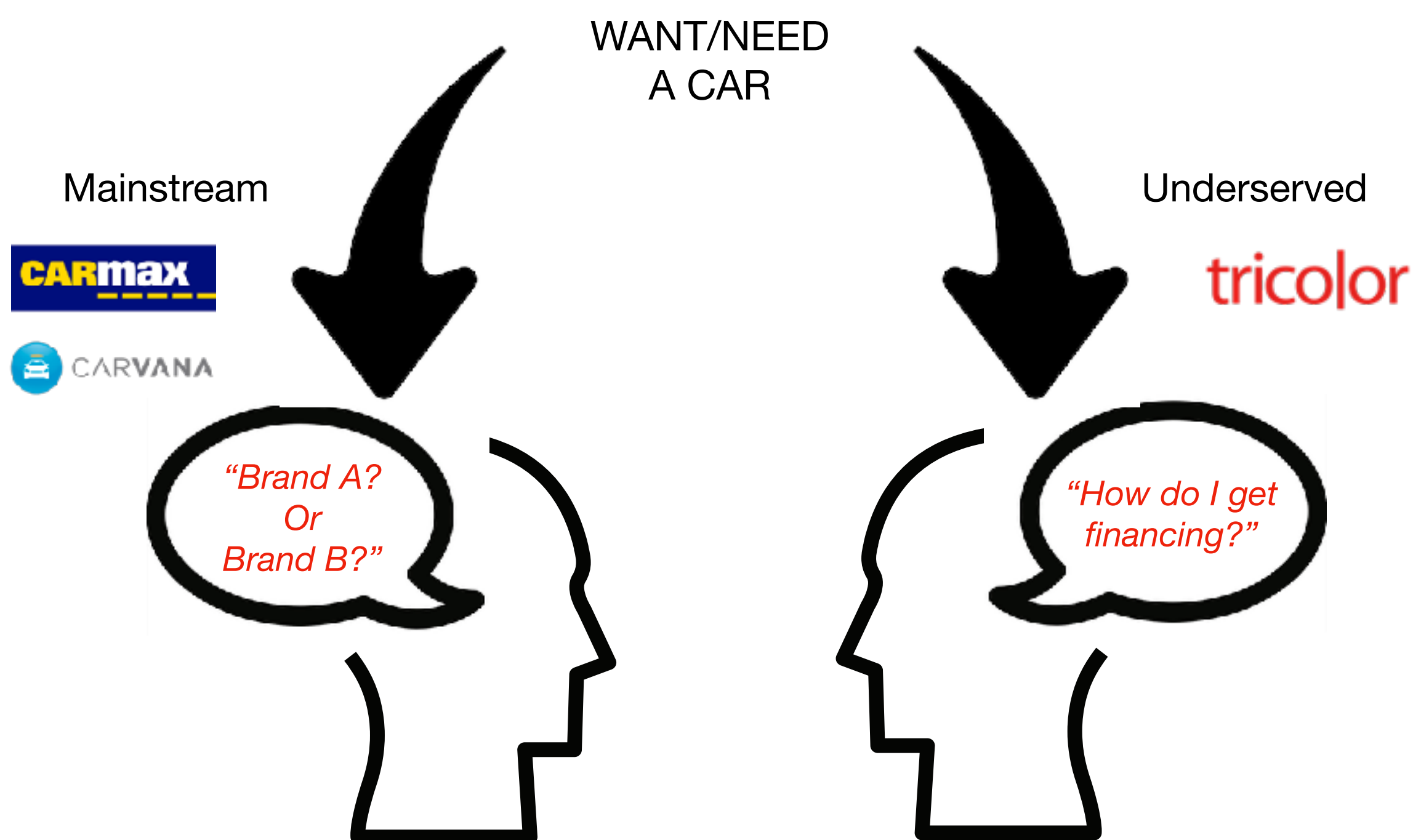
“Community development financial institutions seek to counter social, economic, and political patterns and behaviors that make and keep people poor.”

—The Brookings Institution

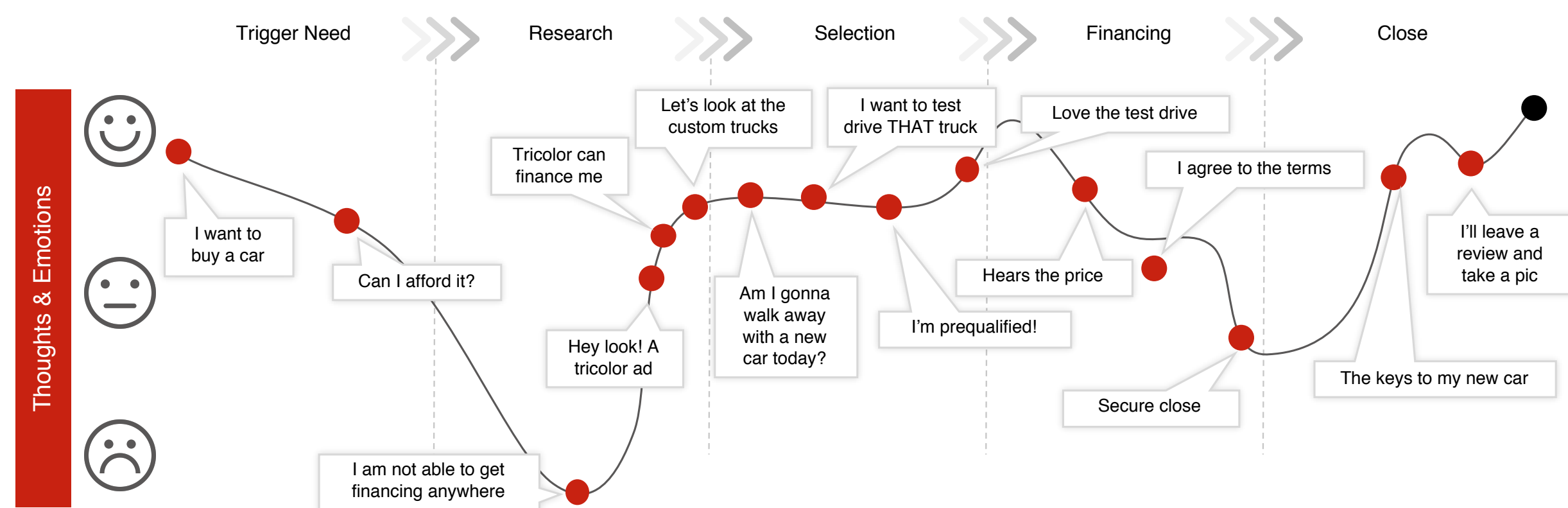
The Tricolor platform empowers the credit invisible Hispanic consumer to break the cycle of predatory lending and create a path to financial independence and a promising future.

Distinct customer centric approach

The retail automotive industry is rapidly transforming as new business models emerge which are challenging the unsavory aspects of the traditional dealership experience. While these strategies present an alternative to a outdated retail model, they also reflect the typical “mainstream” journey which most consumers follow, beginning with the research phase and selecting which brands to consider. In contrast, the journey for the underserved consumer is different; accessing financing is the principal challenge and source of fear and anxiety.



Based upon interaction with financially underserved consumers through our direct-to-consumer interaction, Tricolor has a deep insights into the high and low points of the customer journey for this profile.

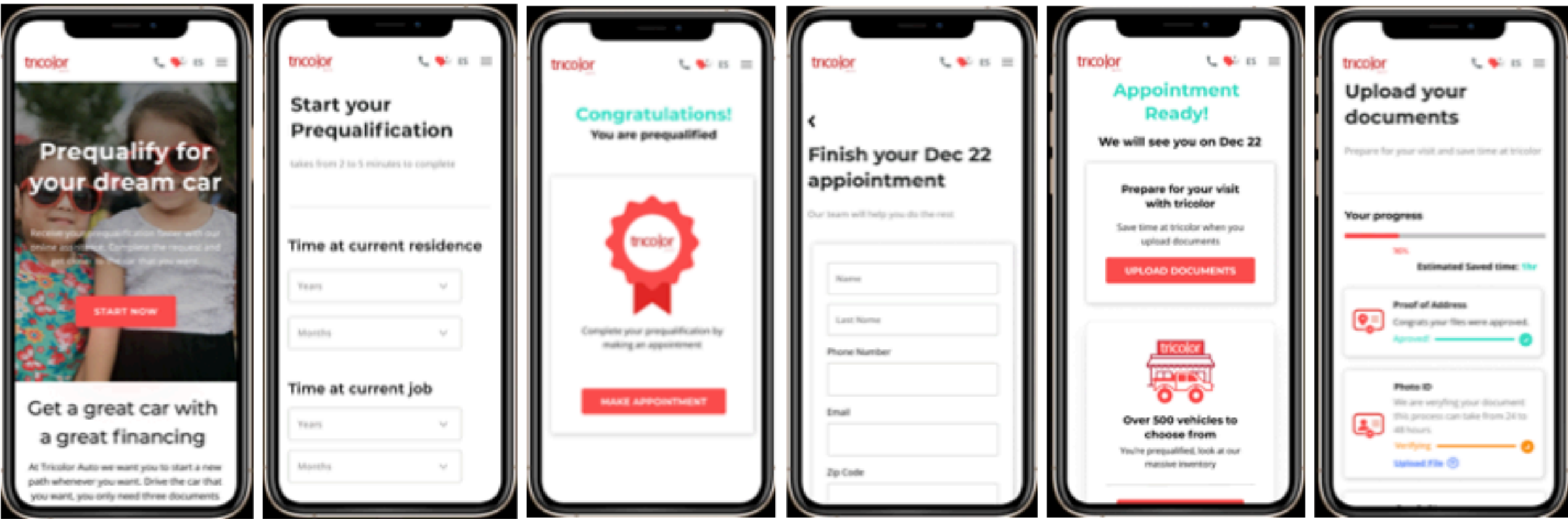


Using data, we create high grade borrower profiles that allows us to place targeted ad campaigns and eliminate fear in the sales cycle



We bring the AI enabled deal structure forward in the sales process to land the right customer on the right vehicle with the right financing.

Tricolor’s digital strategy addresses financing at the front end in order to provide a solution for its target consumer’s problem at the start of the customer experience.

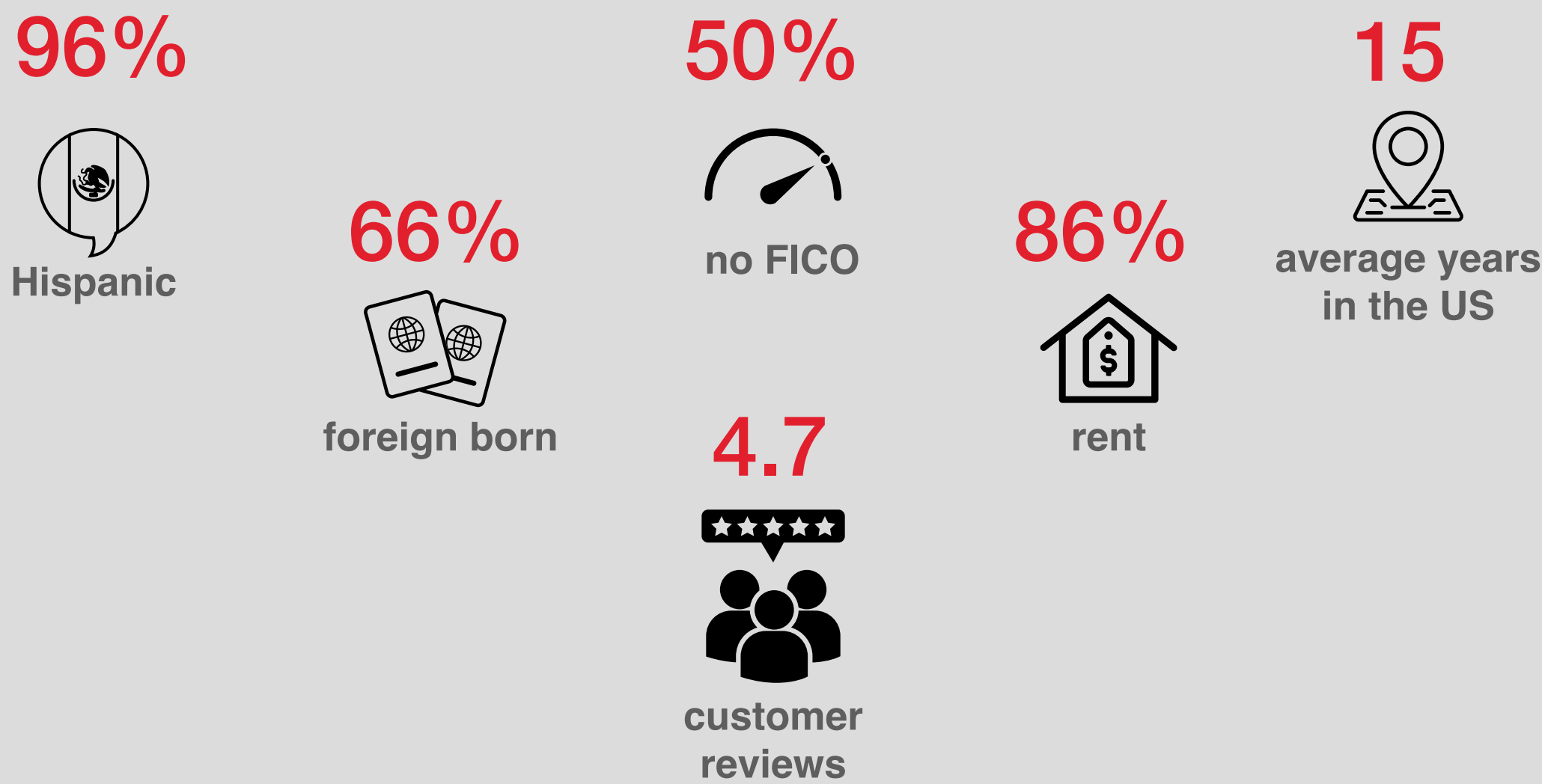


78% of Hispanics do not see brands trying to connect to them, based on the 2019 Hispanic Digital Consumption Survey by H Code Media, the largest Hispanic Digital media company in the US. Hispanics have a 3X greater purchase intent in response to a brand trying to connect with them through a culturally targeted approach, according to a study by the Association of National Advertisers (ANA).

Mission-driven approach validated by strong customer reviews. Tricolor believes this data-driven, customer-centric approach recognizes its target market’s unique challenges as it relates to financing the purchase of a major asset. It utilizes proprietary technology to “score the unscorable” and provide a compelling value proposition. As the Company gains traction with its capital markets platform, it will continue to drive down its interest rates to the consumer as it achieves a lower cost of capital.

Tricolor customers feel validated and understood, and as a result, emotionally connect to the brand, evidenced by 4.7 star ratings across both Google and Facebook reviews.

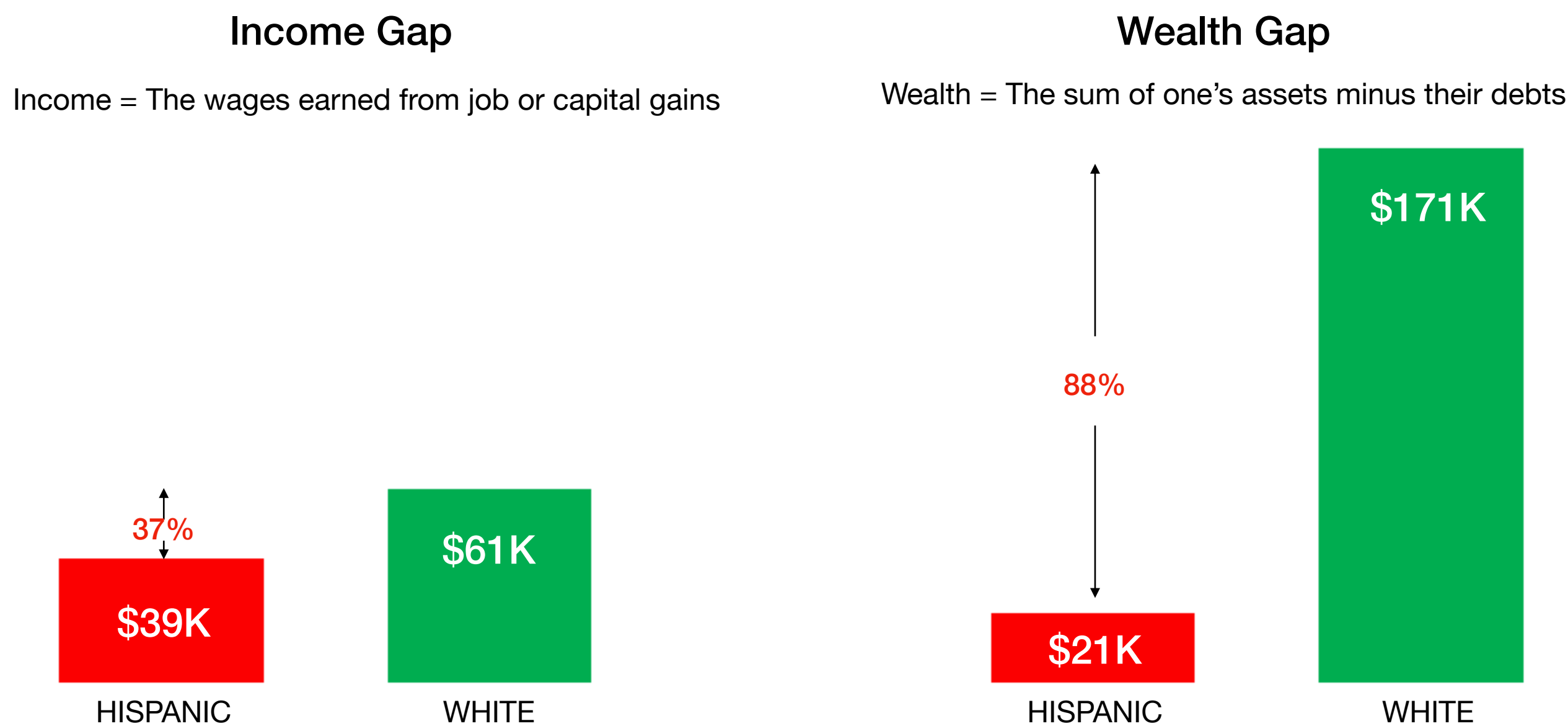
Tricolor Customer by the Numbers



Responsible lending begins with affordability

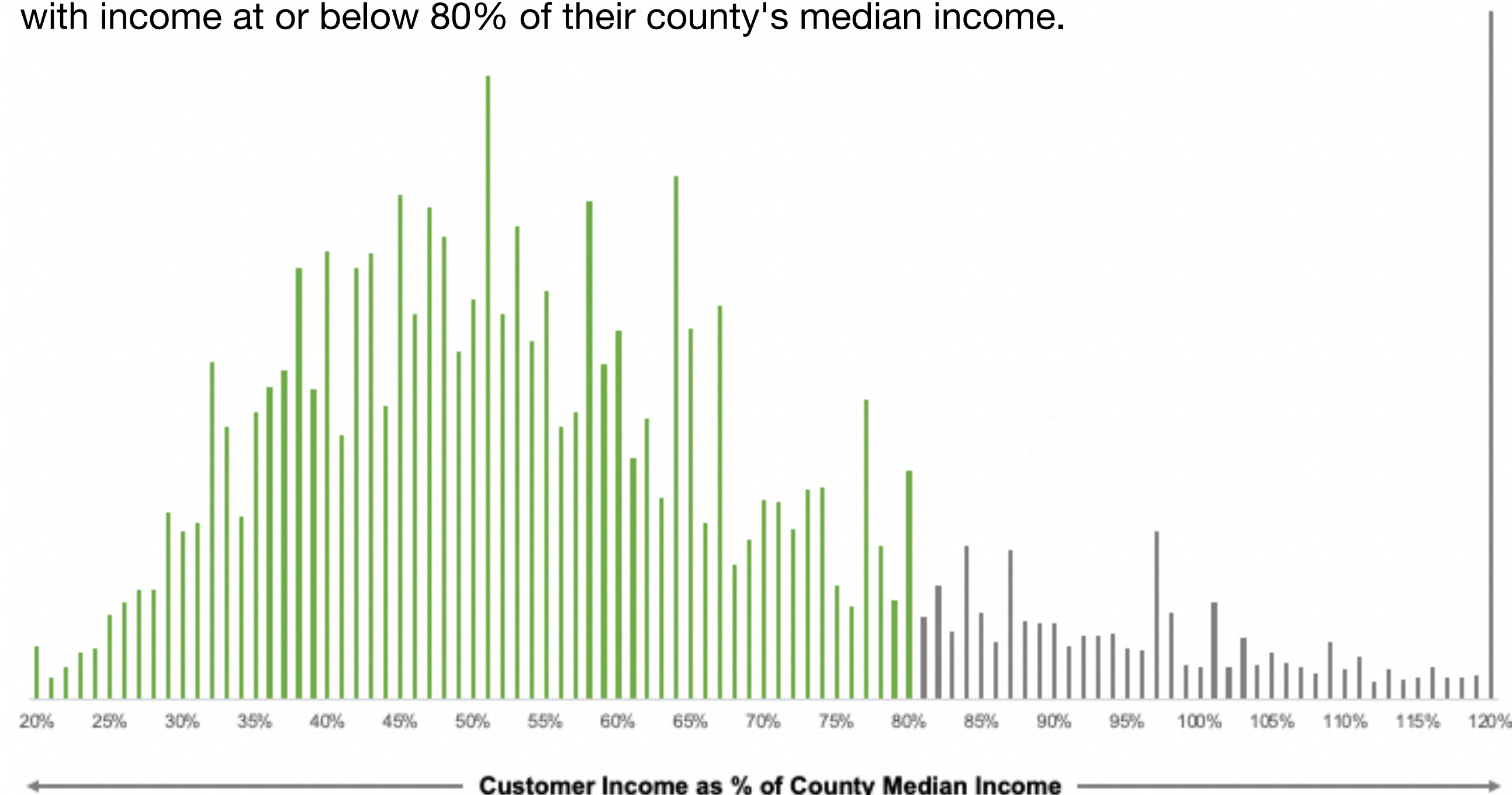
Access to affordable financing is fundamental to financial health. Opportunities to secure and build credit on affordable terms should be inclusive of segments of the population which have historically been underserved and marginalized.

The Hispanic-White Wealth Gap. The income gap between Hispanic and White households is a big problem, but the wealth gap is an even bigger problem.



Source: Pew Research Center and Federal Reserve Board Survey of Consumer Finances (SCF)

Tricolor loans provide access to credit for the lowest income tiers. 85% of Tricolor's portfolio would qualify for the Freddie Mac affordable lending program (Home Possible), with income at or below 80% of their county's median income.



Source: Tricolor data; Freddie Mac Home Possible Income & Property Eligibility Tool

The traditional buy here, pay here model is broken. Tricolor’s differentiated approach provides a superior value proposition vs its peers in the traditional buy here, pay here industry. Here’s a qualitative comparison:

	Traditional BHPH Industry	tricolor
Positioning	"lender of last resort"	mission-driven technology-driven
Target Market	general market poor credit	Hispanic credit invisible
Model	highly fragmented "mom and pop"	robust centralized infrastructure
Product	low quality	certified, fully reconditioned
Risk	"your job is your credit"	AI-enabled data-driven proprietary model

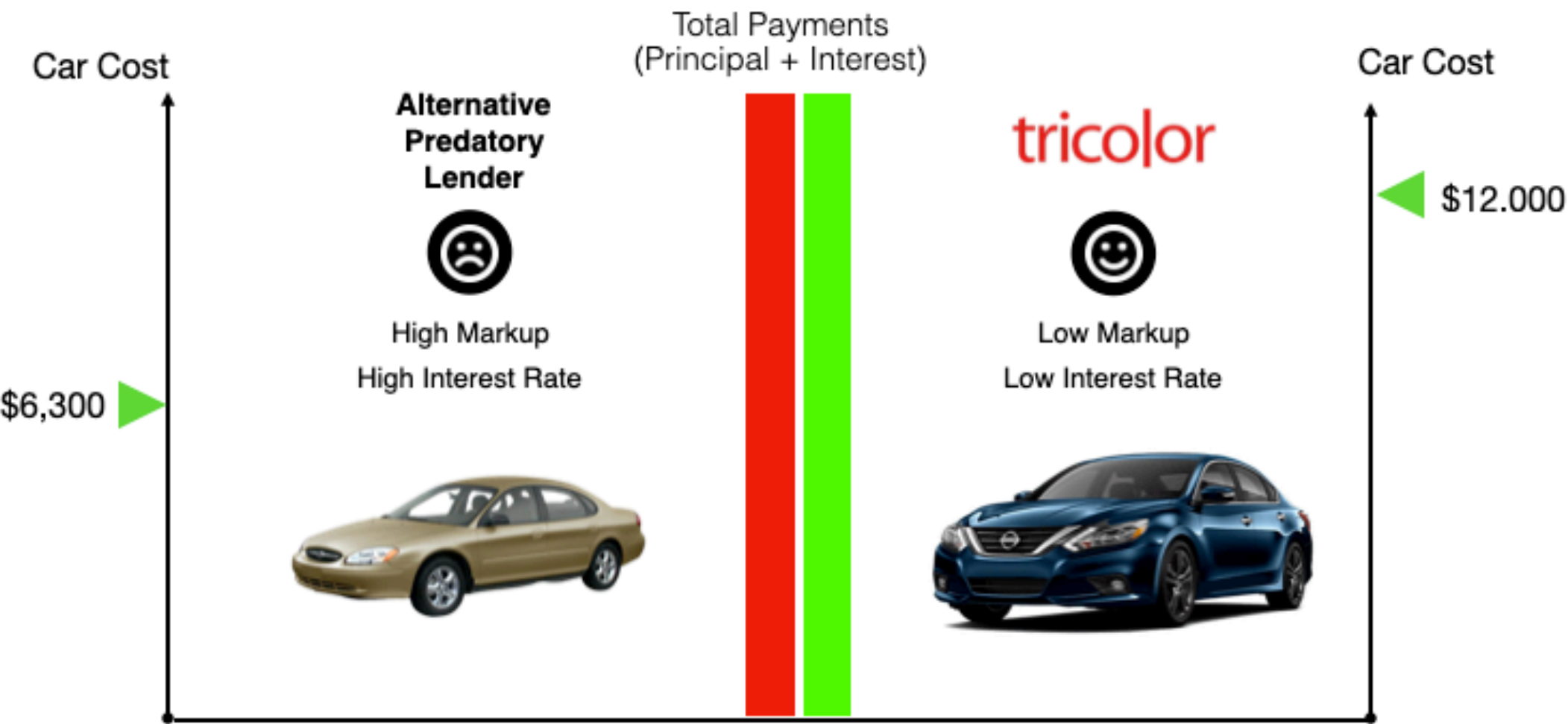
The ability to optimize two levers to achieve the most affordable loan structure is one of the principal advantages of an integrated sales and finance model: (i) selling margin and (ii) interest rate. Tricolor’s terms are far more favorable than its peers:

	BHPH Industry*	DriveTime**	tricolor
Vehicle Cost	\$6,300	\$11,000	\$15,000
Gross Margin	53%	38%	25%
Interest Rate Range	18-30%	18-24%	8-20%
Average APR	22%	23%	17%
LTV	200%	160%	130%
Down Payment	\$735	\$1,000	\$2,000
Loan Life	12 months	20 months	36 months
Lifetime NCL	38%	30%	16%

* 2020 NIADA Used Car Industry Report

** Drive Time 2021-2

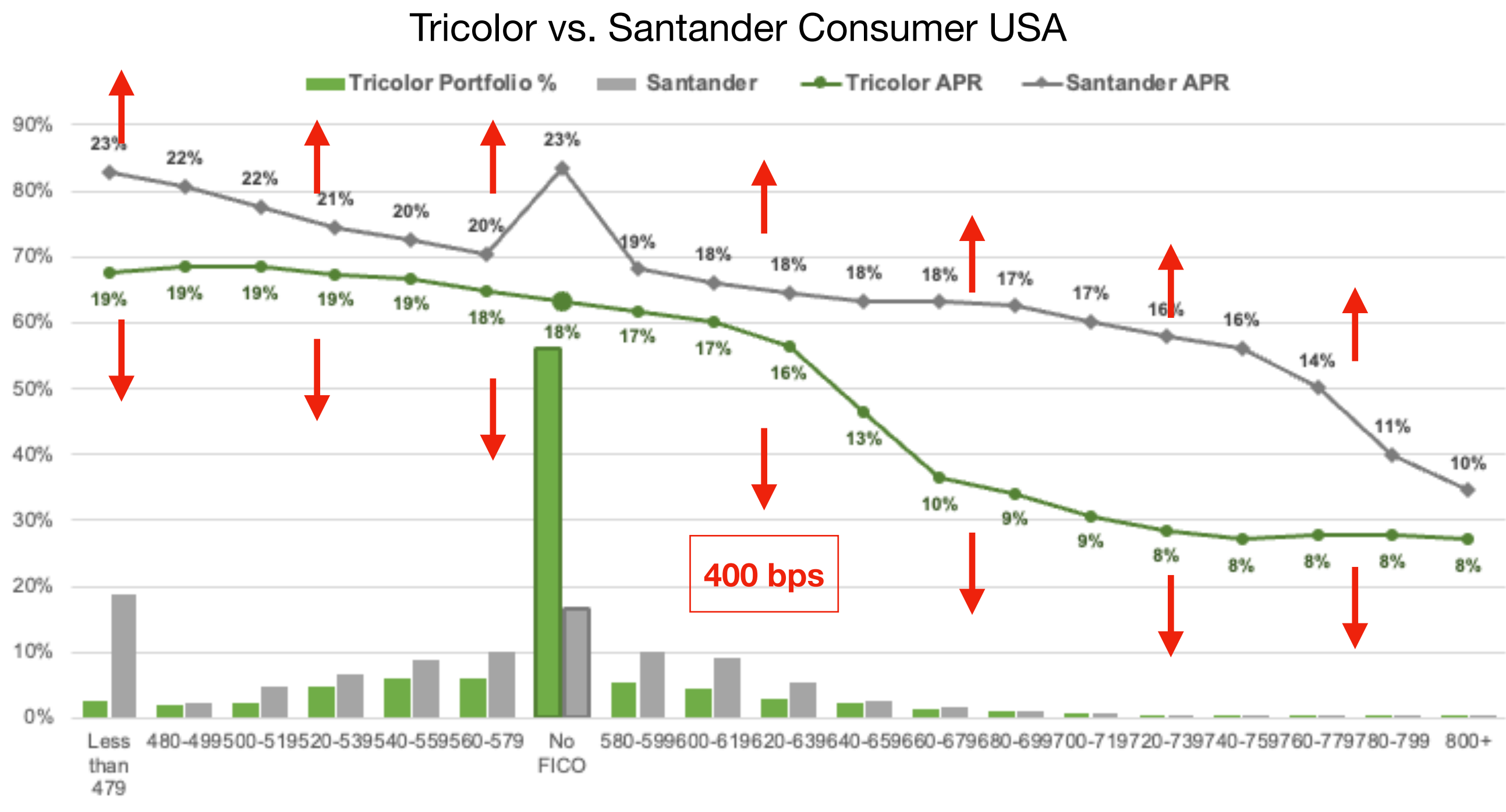
Even though DriveTime offers better pricing than industry averages, their average gross margin is 50% greater than Tricolor and their average APR is 37% higher; consequently, *a DriveTime customer would pay 50% more in total payments than with Tricolor for the same car cost, while a traditional BHPH customer would pay double relative to Tricolor.*



Focus on vehicle quality. One of the biggest drivers of default in subprime auto is mechanical failure, and Tricolor provides a warranty on the vehicle’s major components for free of charge to substantially mitigate that risk factor. An independent dealer which sells its loans on a non-recourse basis to an indirect lender has no incentive to invest in the mechanical quality of the collateral, while a BHPH dealer generally offers a low quality, unsuitable product. Tricolor offers superior vehicle quality, reconditioned to a standard more rigorous than any of the scaled auto retailers, in order to achieve the most compelling value proposition and in turn, most favorable loan performance. Its car cost is 2.5x the industry average, and the average reconditioning investment in each unit exceeds \$1,800. Eliminating the occurrence of unexpected repair costs keeps the consumer away from the cycle of predatory debt.

Superior affordability vs. its peer group in auto ABS indirect lending. Interest rate distribution between Tricolor and a prominent ABS peer, Santander Consumer, based upon the most recent subprime ABS transaction, reflects the advantage of Tricolor’s proprietary technology to segment risk and consequently, its ability to provide more attractive lending terms. SCUSA’s average interest rate for a no-file borrower is 500 bps higher than Tricolor’s.

Furthermore, the variance is more pronounced given the difference in cost of funds. Normalized for cost of capital, Tricolor effectively finances at interest rates between 600-1,200 bps lower than SCUSA, while achieving consistently lower losses.



Source: Tricolor Internal Data; Drive Auto Receivables Trust 2021-1 Data Tape

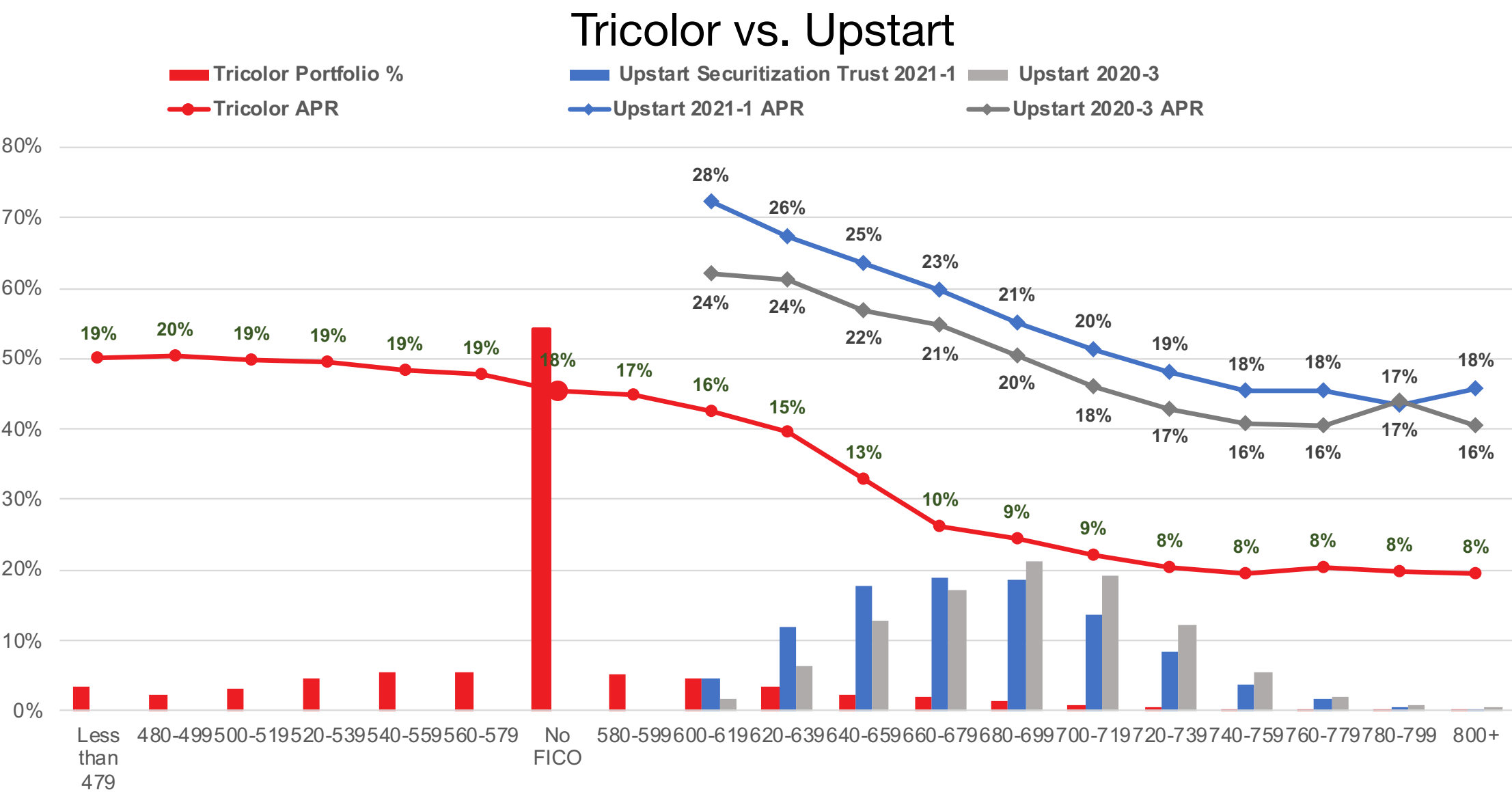
No excessive or unnecessary products and fees. As part of its conviction to provide the most responsible lending terms, Tricolor does not encumber its loans any add-on F&I products (it provides a warranty on major components free with every purchase) in order to maintain the lowest possible amount financed and LTV, enable the most affordable loan structure, and provide the most attractive value proposition. Furthermore, it has never sold gap or credit life insurance. Accordingly, Tricolor has never pursued civil action against any borrowers in an attempt to collect deficiency balances. Furthermore, it has never transacted its charged-off loans or bankruptcies.

Tricolor is one of the very few fintechs that is fulfilling its mission and promise to empower consumers. The emergence of fintech delivered the promise of democratizing finance, banking the unbanked and providing access to affordable credit. The reality is there is little evidence that fintech has provided a solution for financial access.

Fintech firms have surpassed banks and other traditional credit providers as the most popular source of unsecured loans, with interest rates typically up to 36%. Income loss and uncertain finances have seen more Americans conserving cash and seeking alternative methods of borrowing money.

An astonishing 56% of consumers surveyed in March 2021 have used a new product, introduced initially by PayPal, but popularized by new fintech lenders, called “buy now, pay later” (BNPL). According to a July 2020 survey by The Ascent, 45% of buy now, pay later users use it to make purchases that don't fit in their budget; one-third of buy now, pay later users have made a late payment or incurred a late fee. Furthermore, these services can also be expensive; Affirm, which went public in January 2021, charges up to 30% interest based upon credit.

Compared to its fintech peers, Tricolor provides more affordable and realistic terms to a more underserved cross section of consumers for a necessary purchase—-transportation. Below is a chart illustrating interest rates by FICO band for Tricolor and Upstart, which went public in December 2020.

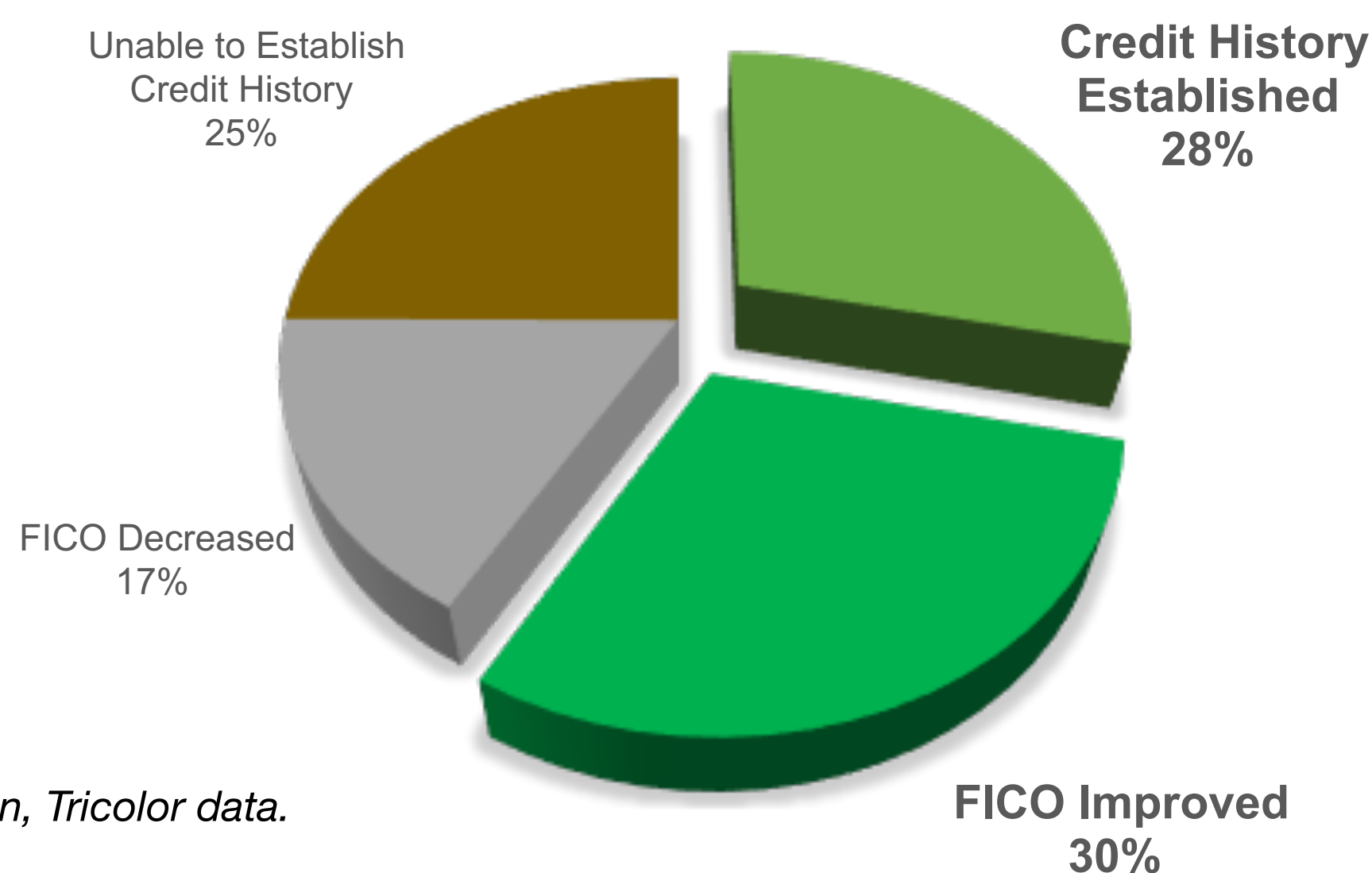


Source: Tricolor data, Upstart 2020-1, Upstart 2020-3

Creating a path to a better future

Establishing credit provides a path to ultimately accumulating wealth and a better future.

- Through partnerships with Equifax and Experian, Tricolor has helped 28% of its borrowers with no credit score establish a credit history.
- Additionally, by offering affordable lending terms, an additional 30% of Tricolor customers have improved their FICO score after securing credit from Tricolor.



Source: Experian, Tricolor data.

A critical step on the path to financial health is **financial literacy**. Through its partnership with EverFi, Tricolor provides an online financial education curriculum for free to any consumer.

Participation in the program increased over 60% in 2020 and as a result of increasing communication with its existing customer base and increased awareness and promotion.

Our own branded program, called Abundancia, has developed partnerships with the Mexican consulate in Dallas, Houston, Austin and San Antonio, and Los Angeles to offer its program more broadly.

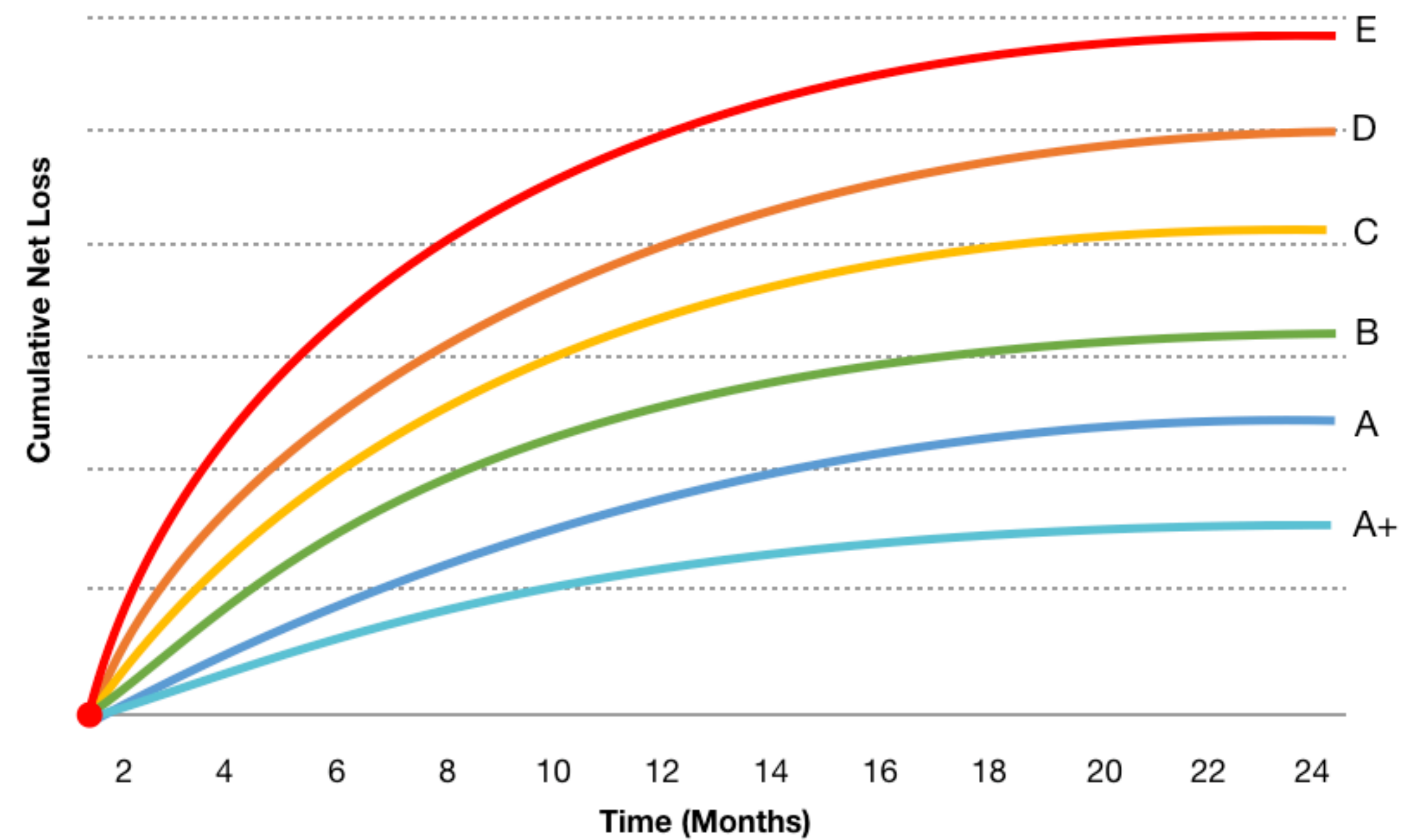
In addition, Abundancia has developed partnerships with banks, both regional and national, to provide checking accounts for customers with no banking relationships.

“The secret of change is to focus all your energy not on fighting the old but on building the new.”

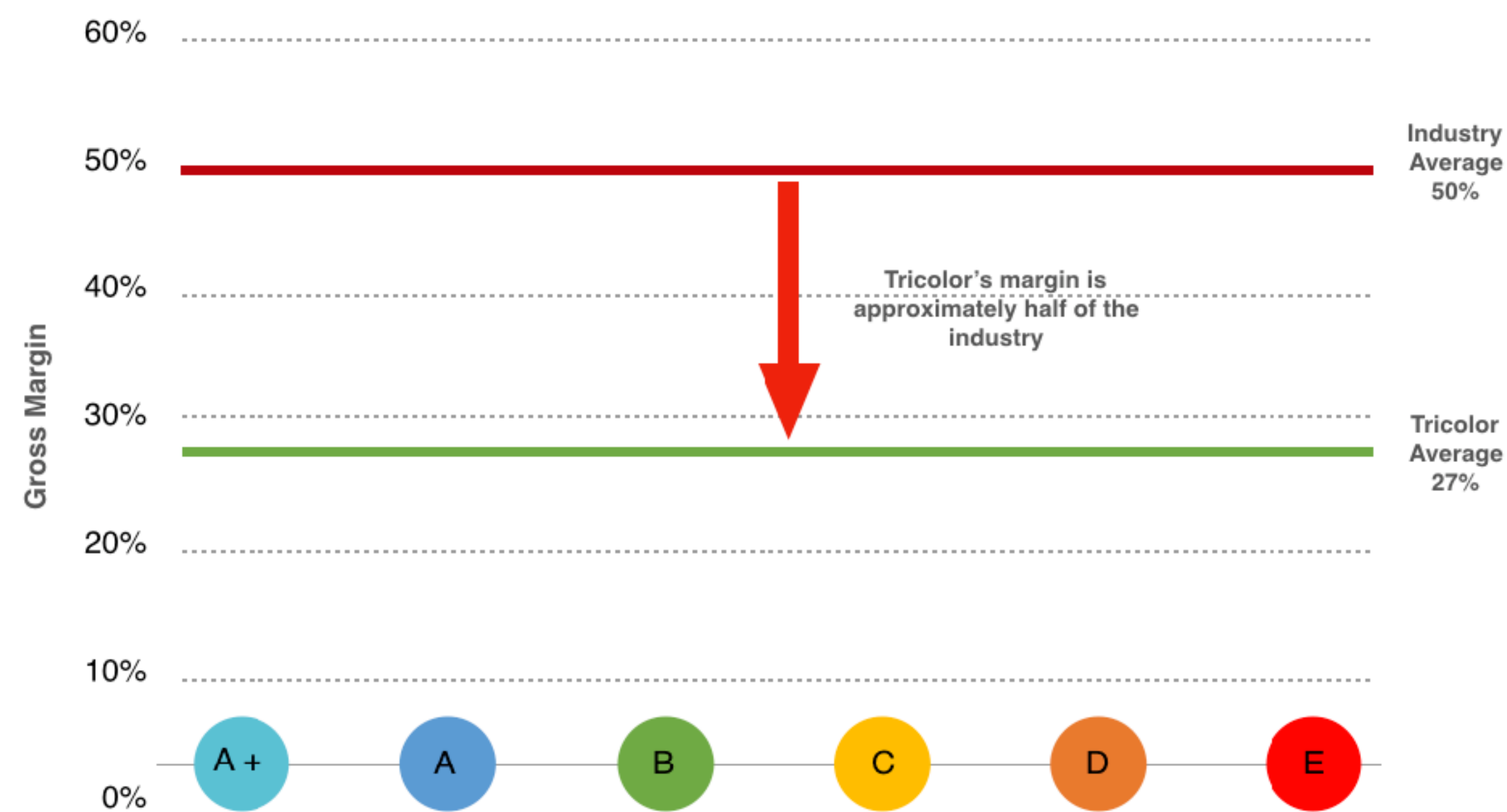
-Socrates

Appendix A: Pricing Strategy

Tricolor has developed a disruptive strategy to *score the unscorable*. The underlying fundamental which powers this distinct approach and unlocks its unique opportunity to serve the vast Hispanic market *is the ability to bifurcate lower risk from higher-risk applicants*. Tricolor’s pricing strategy leverages its technology-driven risk model which segments credit invisible borrowers into six distinct grades.

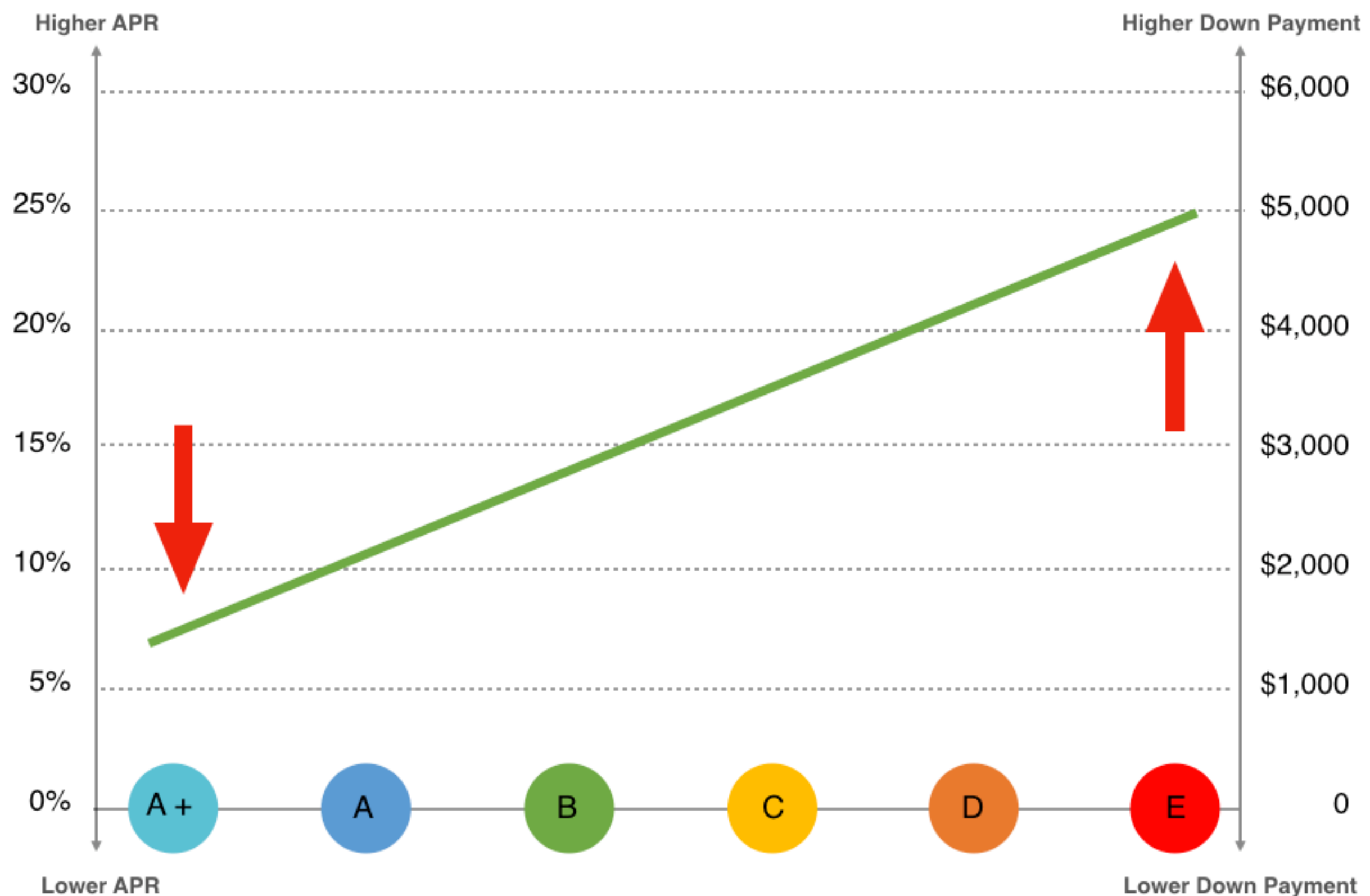


First, Tricolor lowers its margin across all grades.



Appendix A: Pricing Strategy (continued)

Next, Tricolor “slopes” its financing terms sharply across all six grades. It offers highly attractive terms---low interest rates, low down payments, and longer terms---to the applicants which grade higher, resulting in higher conversion. Applicants of all grade levels are offered terms in an effort to be inclusive and give the underserved borrower an opportunity to be successful with credit.



Additional information on Tricolor’s Pricing Strategy can be found in Appendix A.

A brief video and white paper on Tricolor’s Pricing Strategy can be found on our corporate website at tricolorholdings.com.

***“There are two kinds of companies— —
those that work to raise their prices
and those that work to lower them”***

-Jeff Bezos

Appendix B: CDFIs

Community Development Financial Institutions (CDFIs) are private financial institutions that are 100% dedicated to delivering responsible, affordable lending to promote financial inclusion and help low-income and other disadvantaged people join the economic mainstream.

In the 1960s and 1970s, while many Americans were prospering, low-income and minority communities were generally excluded from this economic growth because mainstream banks and institutions deemed these communities too risky for investment. There was a common practice among banks called “redlining” where the banks would draw red lines on physical maps around neighborhoods deemed too risky for investment. They refused to provide loans or financial services to those areas. Since so many parts of the country were prospering, there was a noticeable gap in opportunity, development, and wealth. In terms of access to financial resources, it was clear that these communities were left behind. In effort to fight this discrimination, the government passed the Community Reinvestment Act in 1977. This act, known as the CRA, encouraged financial institutions to meet the needs of every part of the community they served.

In the 1990s, after the U.S. Department of the Treasury’s Community Development Financial Institutions Fund ([CDFI Fund](#)) was established an organization that provides federal support to individual CDFIs serving low-income communities. Its establishment was critical in the development, organization, and modernization of the community finance industry. Traditional lenders were encouraged to support these activities and communities through revised regulations, requiring qualified loans and investments in CDFIs in order to fulfill these CRA requirements.

By providing financing to CDFIs, investors provide critical opportunities to the underserved population deserving of opportunities for accessing capital, by providing access to credit. CDFIs also provide financial education and technical assistance, credit counseling. Studies have confirmed that financial literacy programs often increase the likelihood that the borrowers will be successful and able to pay back their loan.

CDFI certification provides Tricolor with greater opportunities to partner with banks to expand its affordable, credit building lending strategy. The designation enables banks to legally invest in Tricolor securities to promote public welfare and fulfill their Community Reinvestment Act (CRA) obligations.



About Tricolor Holdings

Tricolor is a tech-enabled, mission-driven, integrated used vehicle platform focused on the underserved Hispanic population which has become the nation's largest used vehicle retailer and lender for the Hispanic consumer. The company sells and finances high quality, certified used motor vehicles through its premium brands, Tricolor Auto Group in Texas, Nevada, New Mexico, and Arizona and Ganas Auto Group in California, utilizing advanced data analytics and technology to advance financial inclusion to a highly underserved market and offer responsible, affordable, credit-building auto loans to individuals with no or limited credit history.

Headquartered in Dallas, Tricolor and its affiliate Ganas Auto Group operate 50 retail dealerships across 18 markets in Texas, California, Nevada, Arizona, and New Mexico, as well as a shared services center in Guadalajara, Mexico. On a combined basis, Tricolor and Ganas have served over 80,000 customers and disbursed well over \$1 billion in affordable auto loans by using its proprietary model to segment risk.

For more information contact Daniel Chu at dchu@tricolor.com or visit tricolorholdings.com

