

A decorative graphic on the left side of the cover features a vertical column of five white paper airplanes. A dashed white line starts from the bottom of this column, curves upwards and to the right, and ends at a single blue paper airplane positioned in the upper right quadrant of the page.

Social ABS Framework September 2023

Innovating a
Responsible Lending Approach
in Subprime Automotive Finance



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Introduction



Enabling financial inclusion for the marginalized and underserved Hispanic community is an economic win for all of us in America. When we pull together, we all go further.”



Achieving the American Dream requires credit. But access to affordable lending has eluded the financially underserved. Options are expensive and predatory. Legacy lending models are outdated and place a low barrier on much of our population’s hopes for a better future. The industry’s archaic approach desperately needs new contenders to take the risk required to drive societal change with bold ideas.

Tricolor has leveraged technology to empower credit invisible Hispanics with a solution for not only their transportation needs, but more importantly, upward mobility to enhance the quality of their life.

We have conviction that achieving both financial inclusion and value creation is not a zero sum game. In other words, purpose does not come at the expense of profitability but, in many cases, drives outcomes which surpass all expectations.

We believe thriving businesses concerned with long-term horizons actually generate a virtuous cycle. Not only do they give rise to a compelling value proposition and in turn, more consumer demand, but these models outperform—-they attract better talent because people want purposeful work, drive higher employee engagement and job satisfaction, ultimately raising standards of living for *all* stakeholders. They build trust. Alignment of purpose and profits generates wealth *in a broad sense*, and wealth is not a *fixed* pie.

Harnessing the power of change and opportunity

The expectations of an enterprise have evolved as companies operate within a more diverse society. Social concerns are becoming more urgent than ever, and the integration of environmental, social, and governance (ESG) factors into the investment decision-making process emerged with the belief that it would lead to more sustainable markets and better outcomes for societies broadly. Today, ESG investing is estimated at well over \$20 trillion.

Economic inequality is a corrosive force which undermines opportunity across America, and opportunity is not equally distributed. Tricolor has embraced the mission to uplift and bring economic justice to one of the most highly underrepresented and underserved communities, the US Hispanic population, in order to empower mobility, both physically and financially. When we leave anyone behind financially, all of America suffers.

Accordingly, the role of the Community Development Financial Institution (CDFI) has gained prominence. CDFIs support the American dream: that everyone should have an equal opportunity to achieve prosperity and success through their own talent and hard work. They 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.

Certified by the US Treasury as a Community Development Financial Institution in 2019, Tricolor is the only CDFI among all auto ABS issuers.

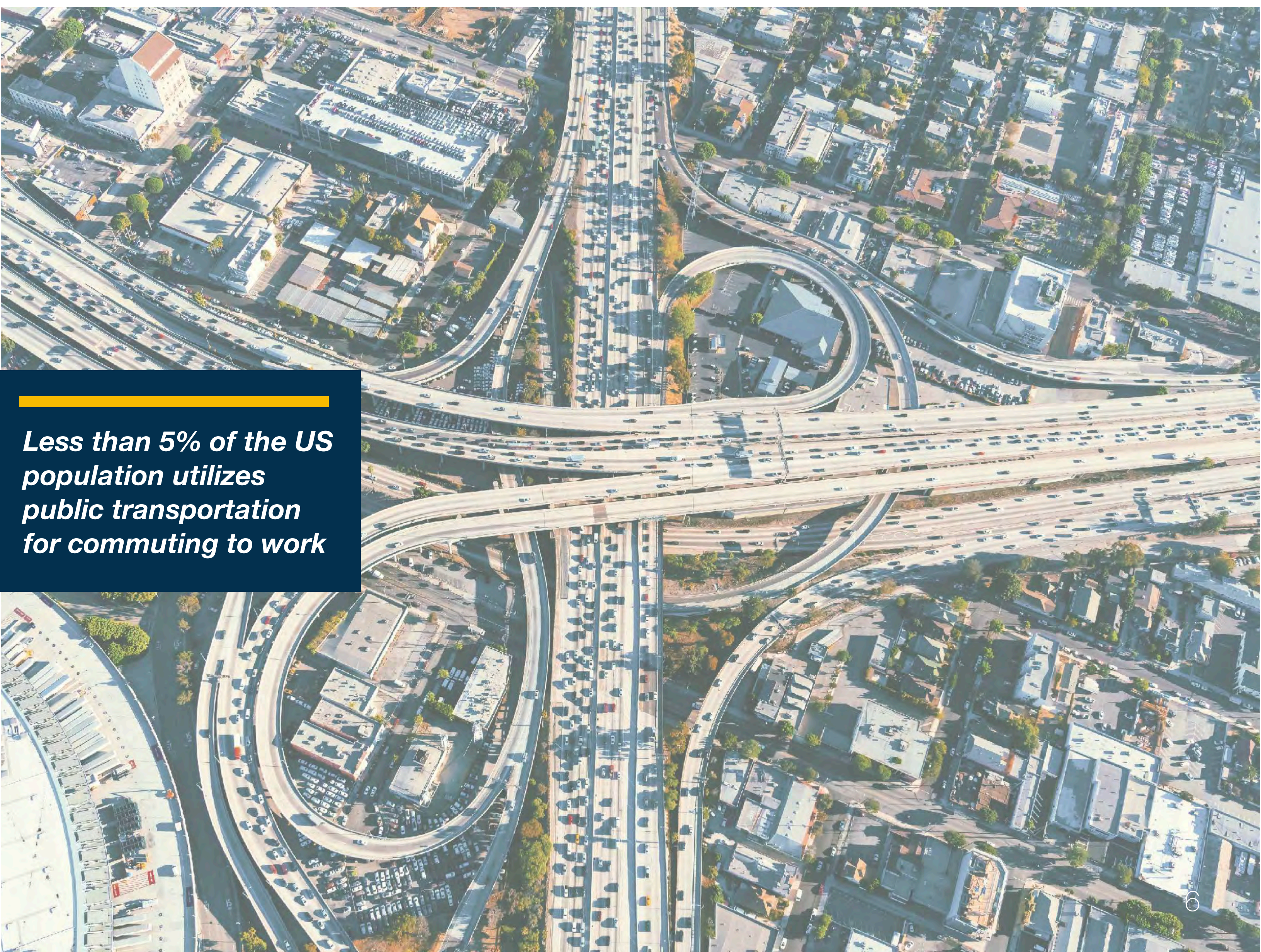
It's expensive to be poor in America

According to the FDIC, 63 million people, or about 1 in 4 adults, struggle with access to mainstream financial products to meet their needs. More specifically, according to the Consumer Financial Protection Bureau (CFPB) 26 million people in the United States are “credit invisible” and an additional 19 million are “unscorable,” corresponding to a total of 45 million people in the United States whose lack of a credit score translates into limited options in terms of accessing financing.

According to the Federal Reserve’s 2017 Report on the Economic Well-Being of the US Household, 47% of Americans say they either could not cover an emergency expense costing \$400, or would cover it by borrowing money. This explains why according to the CFPB, 12 million Americans regularly use a payday loan at an average cost of nearly 400% Annual Percentage Rate (APR) which is the annual cost of a loan to a borrower which is expressed as a percentage of the loan amount. Underserved low income consumers experience many barriers which increase economic inequality.

According to the Financial Health Network, unbanked and underbanked consumers spend 13% of their income on interest expense and fees vs just 1% for financially healthy households.

The low income population is the most disadvantaged in terms of ability to work remotely. Globally, the US is the most dependent country with respect to vehicle ownership. Nearly 95% of all transportation in America relies on private vehicles while the rest of the world has less than 50% dependence. Only 5% of the US population uses public transportation and it is geographically distinct and only the Northeastern US has sufficient public transportation.



Less than 5% of the US population utilizes public transportation for commuting to work

Credit invisible Hispanics are even more challenged



Credit challenged
32% of US Hispanics cannot access affordable financing



Mobility challenged
Fewer than 1 in 6 Hispanics can work remotely

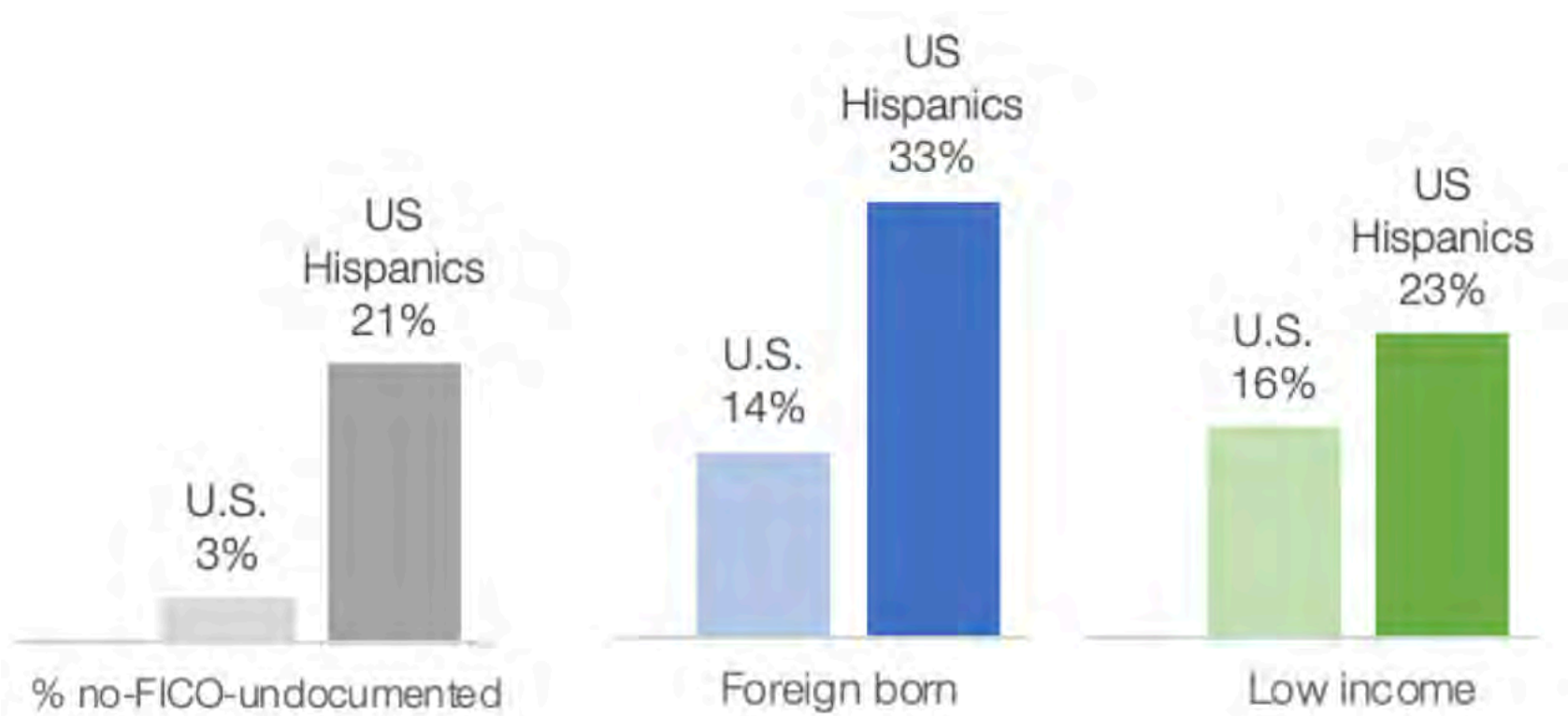


Financially underserved
Hispanic household wealth is 6X less than the White population

Hispanics represent the fastest growing segment of the US population, accounting for over half of its growth over the last ten years. For the first time, the 2020 Census showed the US had a shrinking non-Hispanic White population; the median age of the US Hispanic is just 28 compared to the US White population at 58. Today, Hispanics are the largest ethnic group in the two largest states in the US, Texas and California.

Hispanics are the future of the world’s biggest economy, constituting over 80% of the workforce growth in the US over the last decade. US Hispanics will account for one in three workers in the US by 2060. At the same time, their economic impact has exploded; the US Hispanic GDP would rank as the eighth largest economy in the world.

Despite this significance, Hispanics out-index the general population with respect to key attributes of financially underserved consumers. The percentage of Hispanics considered as low income is 44% greater than the general population.

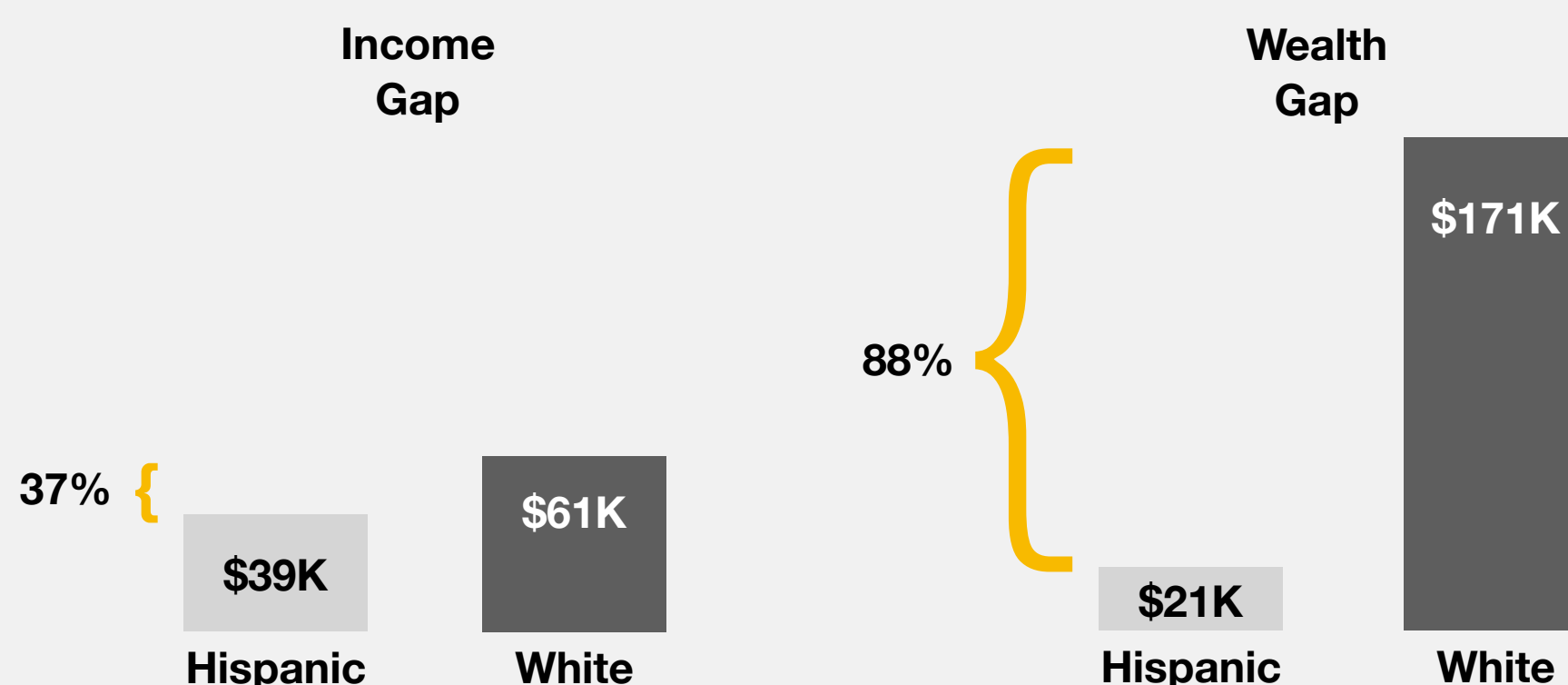


According to the Department of Homeland Security, as many as 12 million Hispanic immigrants are undocumented, representing 20% of the US Hispanic population. According to the Pew Center, 60% of these undocumented immigrants have resided in the US for over ten years. And today, nearly 10% of the workforce in Texas, California, and Nevada is undocumented.

According to the FDIC, 32% of the total US Hispanic population lacks access to affordable credit, creating a barrier which prevents lower income and credit invisible individuals from achieving their dreams. While Hispanic income levels rank over 30% lower than for Whites, the Hispanic-White wealth gap is markedly pronounced. The only way for the low income population to accumulate wealth is through home ownership, which explains why household wealth for Hispanics is 88% less than for the US White population.

The Income-Wealth Gap: Hispanics vs. Whites

Accumulating wealth requires access to credit.

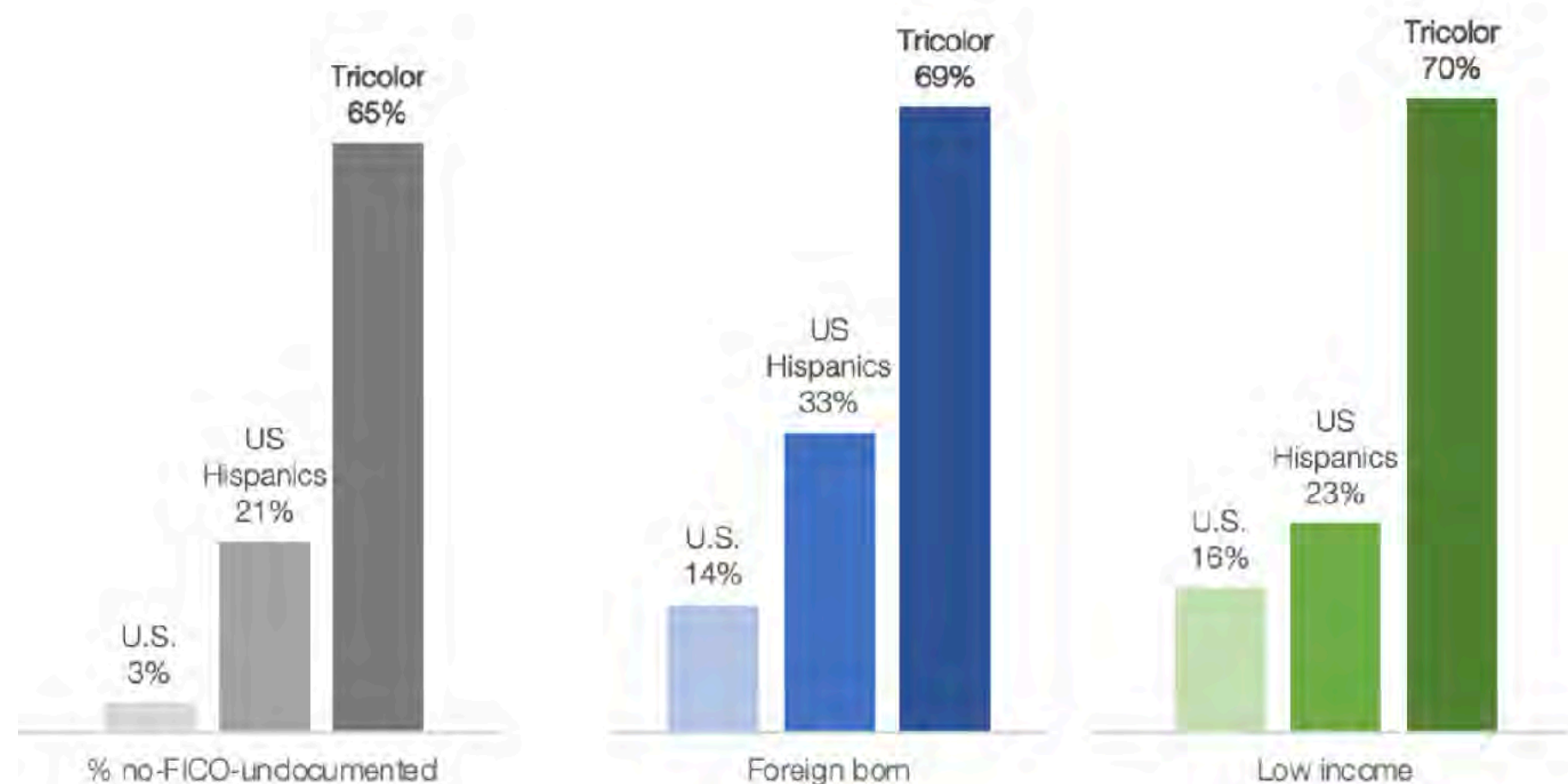


Mobility is even more critical for Hispanics, which are the most disadvantaged in terms of ability to work remotely. According to the US Bureau of Labor Statistics, fewer than 1 in 6 Hispanics can transition to a remote work environment. The US Hispanic workforce is heavily concentrated in industries which do not accommodate remote work, such as hospitality, construction, agriculture, and landscaping.

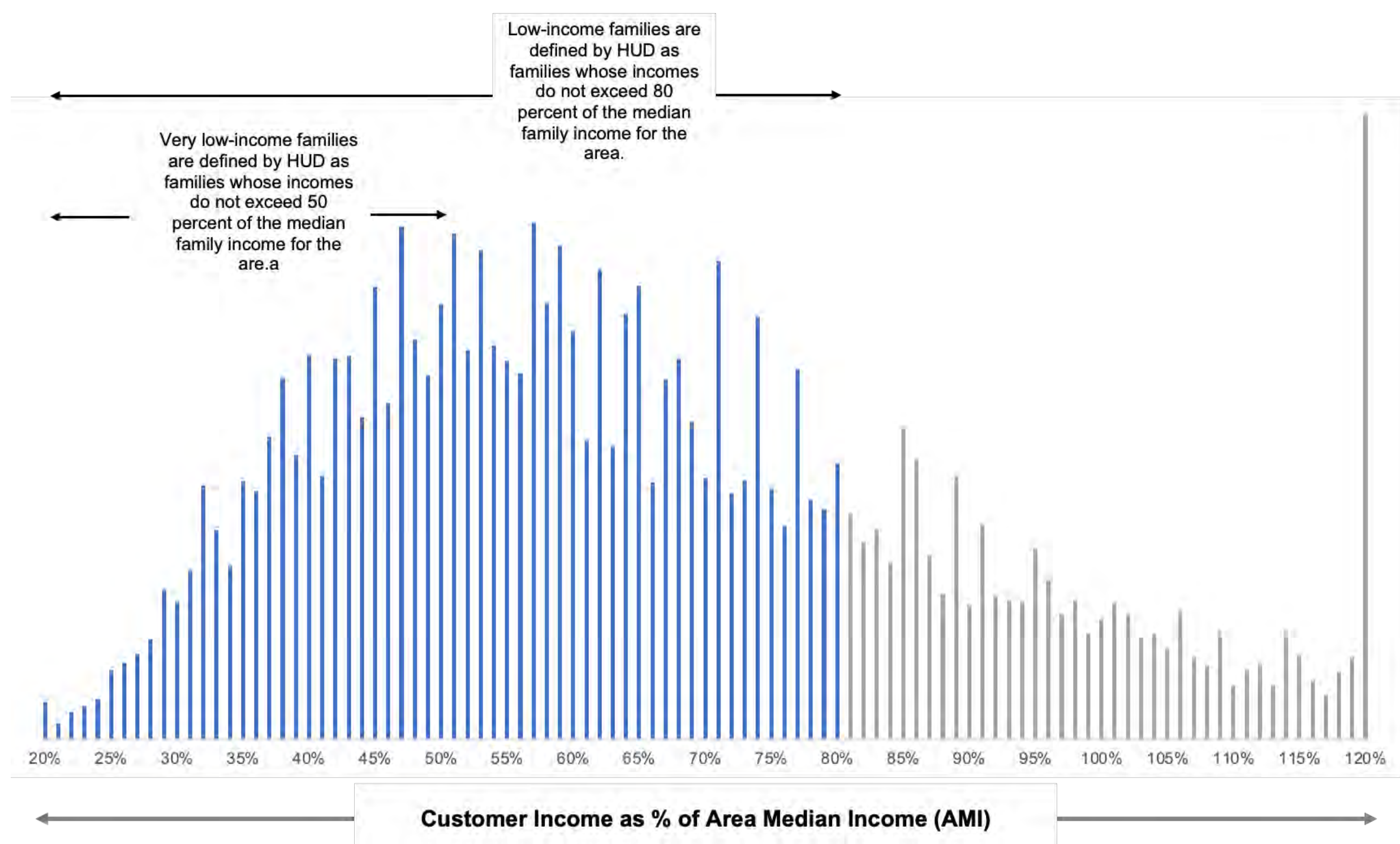


Tricolor focuses on the most underserved segments

While Hispanics out-index the general population with respect to key attributes of financially underserved consumers, the cross-section of the Hispanic population addressed by Tricolor materially surpasses the overall Hispanic population, emphasizing the challenges of developing an effective model to serve their needs for credit.

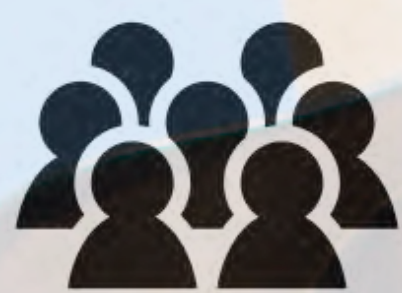


In fact, Tricolor borrowers represent the lowest income segments of the US population. 70% of Tricolor's portfolio would qualify for the Freddie Mac affordable lending program (Home Possible), with income at or below 80% of their county's median income, considered low to very low income.



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

Tricolor's Customer by the Numbers



92%
Hispanic Origin



98%
Underserved¹



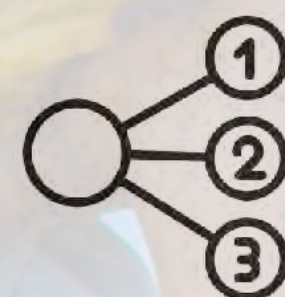
87%
Credit Challenged²



73%
Very Low³
to Low Income



69%
Undocumented⁴



41%
Of all borrowers who establish
a Credit Bureau Score
With No Previous History



55%
Higher Poverty Rate
In Their Communities
Than National Average



16
Years of Residence
in US



95%
Rent

¹ Financial Health Network : *Financially Underserved Market Size Study 2019*

² Financial Health Network : *Financially Underserved Market Size Study 2019*

³ based upon HUD definition

⁴ defined by no social security number

Creating physical, financial and ultimately, upward mobility

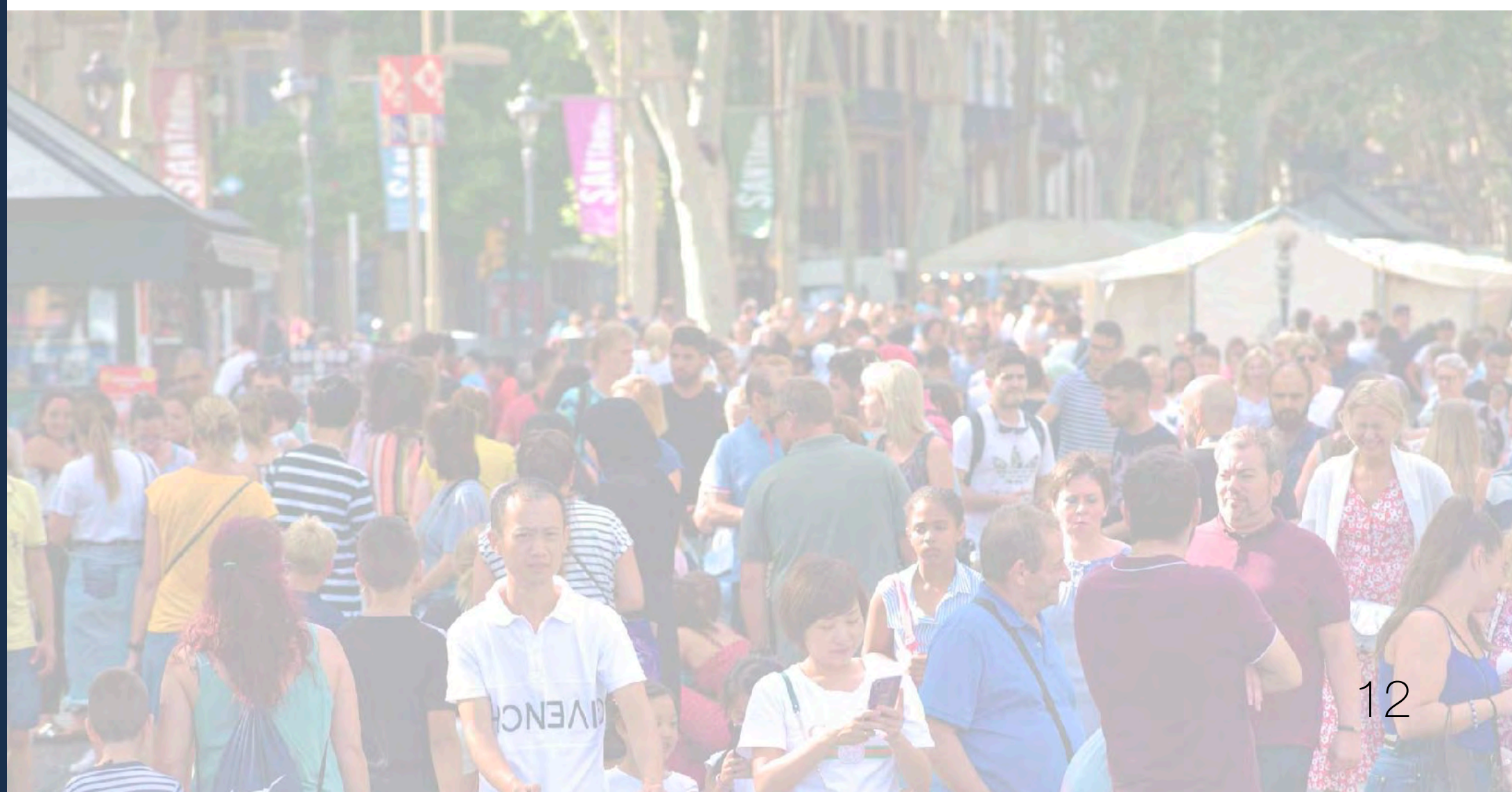


“Score the unscorable”
Leveraging proprietary data
and AI-driven risk competency

Innovation is the engine of financial inclusion. Tricolor’s technology removes the barriers related to being credit invisible.

FICO scores are the standard for how lenders extend credit. The absence of bureau data results in a low ceiling with respect to affordable credit and in most cases, predatory lending terms for this underserved segment. This is because traditional lenders use FICO-based models to decide who is approved for credit and at what interest rate. Given the absence of any bureau data, credit invisible borrowers are subject to unrealistic, predatory lending terms.

Tricolor has an unrivaled data-driven understanding of its consumer with over 25 million unique non-traditional attributes. Capitalizing on our direct-to-consumer model provides deep insights into our consumer’s needs and catalyzes our solutions to those needs, allowing us to continually refine our offerings, which results in increased engagement, loyalty, and ultimately, revenue.





Path to a brighter future
Through a credit building loan
and financial literacy



**Commitment to vehicle
quality**
Through an integrated model
and robust infrastructure

Tricolor has transformed the traditional industry mindset of “win-lose” —for the operator to win, the customer must lose. Its data-driven understanding and AI-powered technology create an unprecedented value proposition and a path to a better future for the credit invisible Hispanic consumer, unlocking the opportunity to do well by doing good.

To create an effective strategy to serve the low income consumer, vehicle quality is paramount, and Tricolor’s investment in providing a mechanically sound vehicle is unmatched by its peers:

- Substantially higher acquisition cost
- Full 150 point inspection
- Extensive reconditioning process performed to a rigorous standard with an average investment of over \$2,000 per vehicle
- Free warranty on power train and major components for 18 months/18k miles

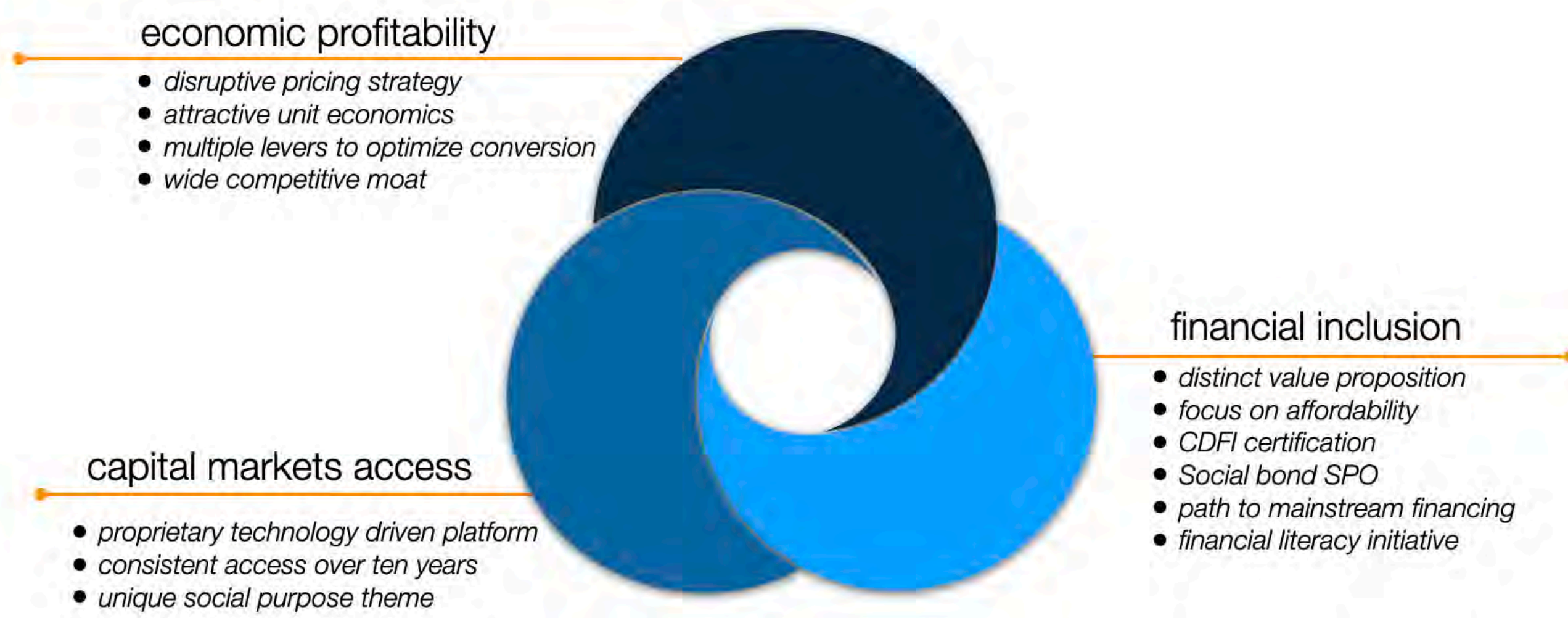
Tricolor’s approach makes it more affordable for credit invisible Hispanics to own a vehicle so they can pursue a better life. Accessing dependable and affordable transportation is a precedent to uplifting and bringing economic justice to these underrepresented and underserved communities.

Holistic and deliberate approach to affordability enables success

The most illuminating metric with respect to Tricolor's thoughtful approach to affordability is *its average loan life of 36 months*, which is 3X the average for its peer group

Tricolor applies a deliberate approach to achieve alignment between value creation and financial inclusion. With respect to the structure and design of its lending terms and policies, Tricolor understands the realities of the low income population, particularly given the higher cost of living, and its impact on the liquidity of its borrowers. In addition to lower interest rates,

Tricolor executes a strategy to achieve a balance between three principal objectives to deliver superior value to its consumer. Each of the three themes support the others. Importantly, Tricolor has conviction that in order to drive inclusion at scale, it must be (i) economically viable and (ii) access capital efficiently in a competitive market.



The following chart provides a comparison between Tricolor and its peer group which illustrates Tricolor's differentiated approach with respect to key indicators and drivers of affordability and reflects the Company's ability to deliver exceptional vehicle quality and realistic financing terms.

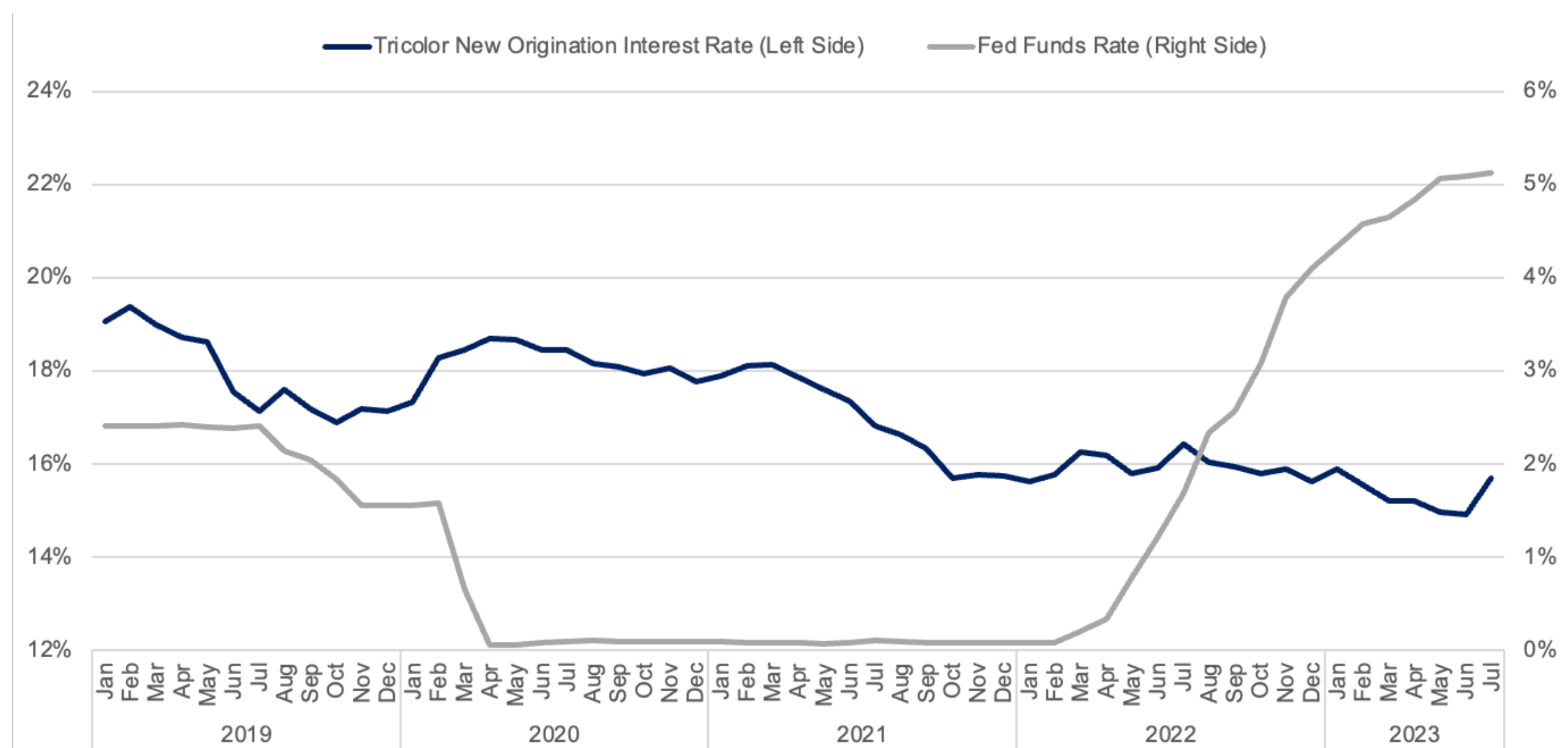
	tricolor	Peer Group
Average Loan Term*	36 months	12 months
Gross Margin	24%	50%
Interest Rate	15%	22%
LTV	125%	185%
Free Warranty	Yes	No

*** net of losses**

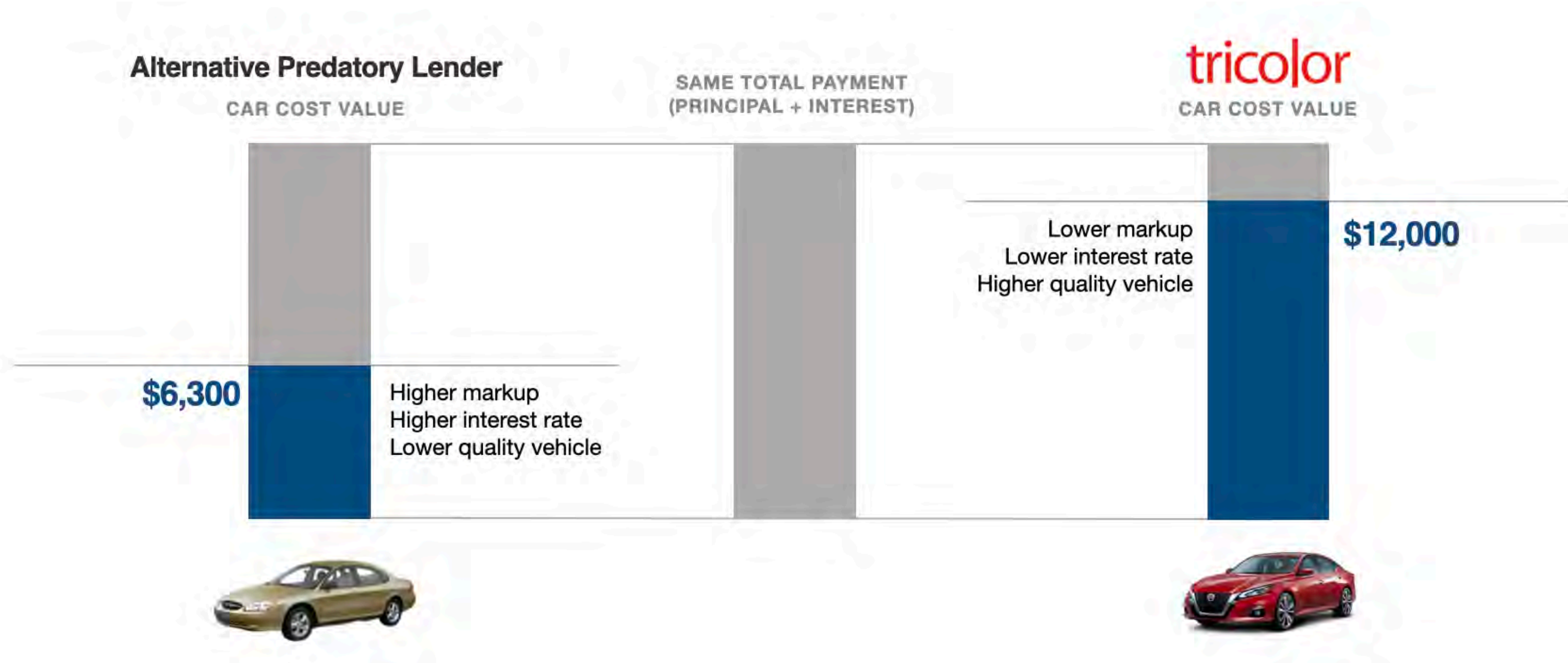
Sources:

The National Alliance of Buy Here, Pay Here Dealers ("NABD") 2020 Industry Report
<https://www.sgcaccounting.com/Resources/BHPHBenchmarks2020.pdf>

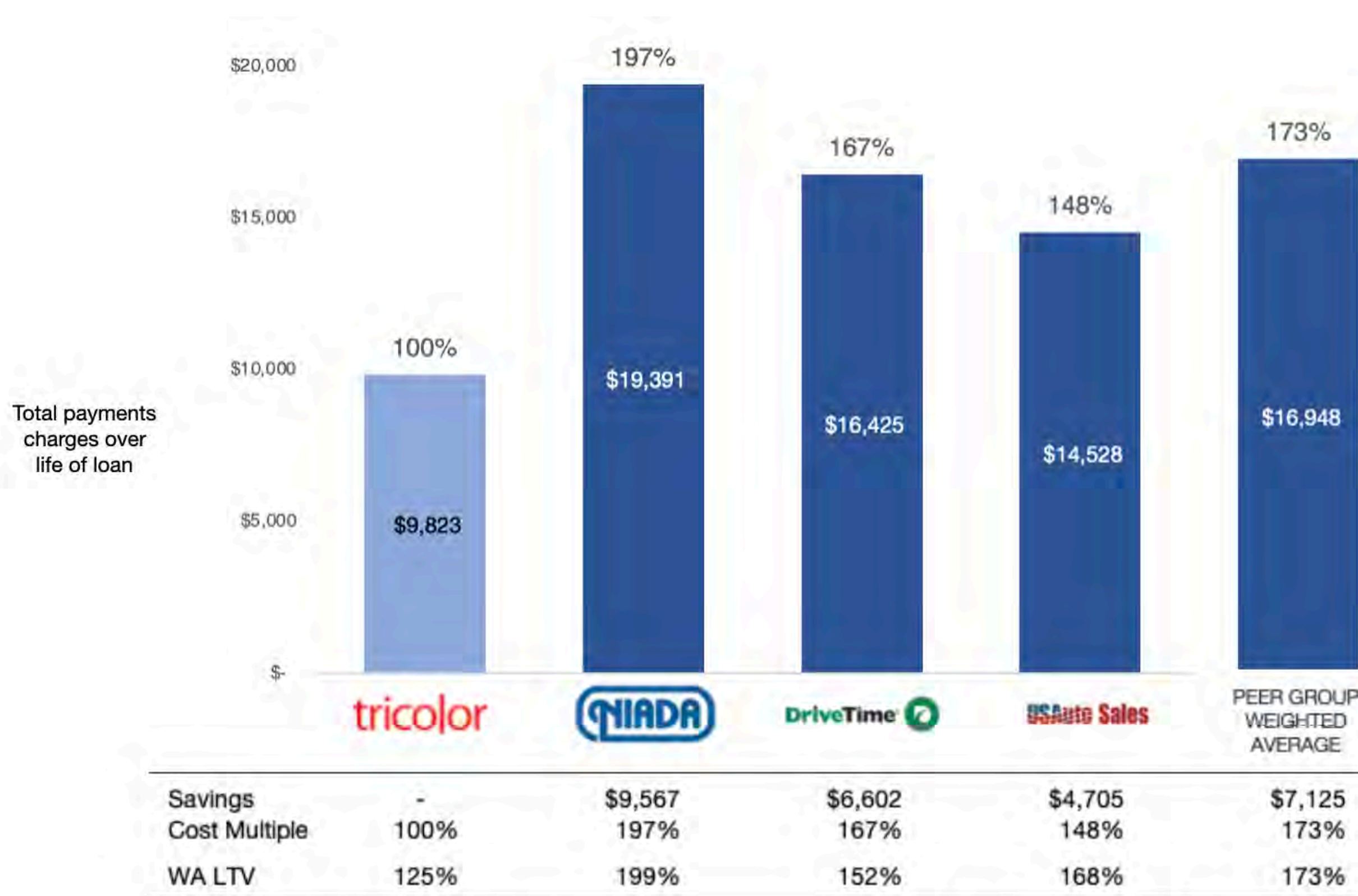
Beginning in Q1-2022, the Federal Reserve has raised its interest rate to the highest level in 22 years. In order to preserve affordability to its borrower and in turn, continue to drive financial inclusion at scale, Tricolor has actually lowered its interest rates to its borrowers.



For the equivalent amount of payments through the term of the loan, Tricolor provides **twice the value** of the alternative provider based upon national industry data.



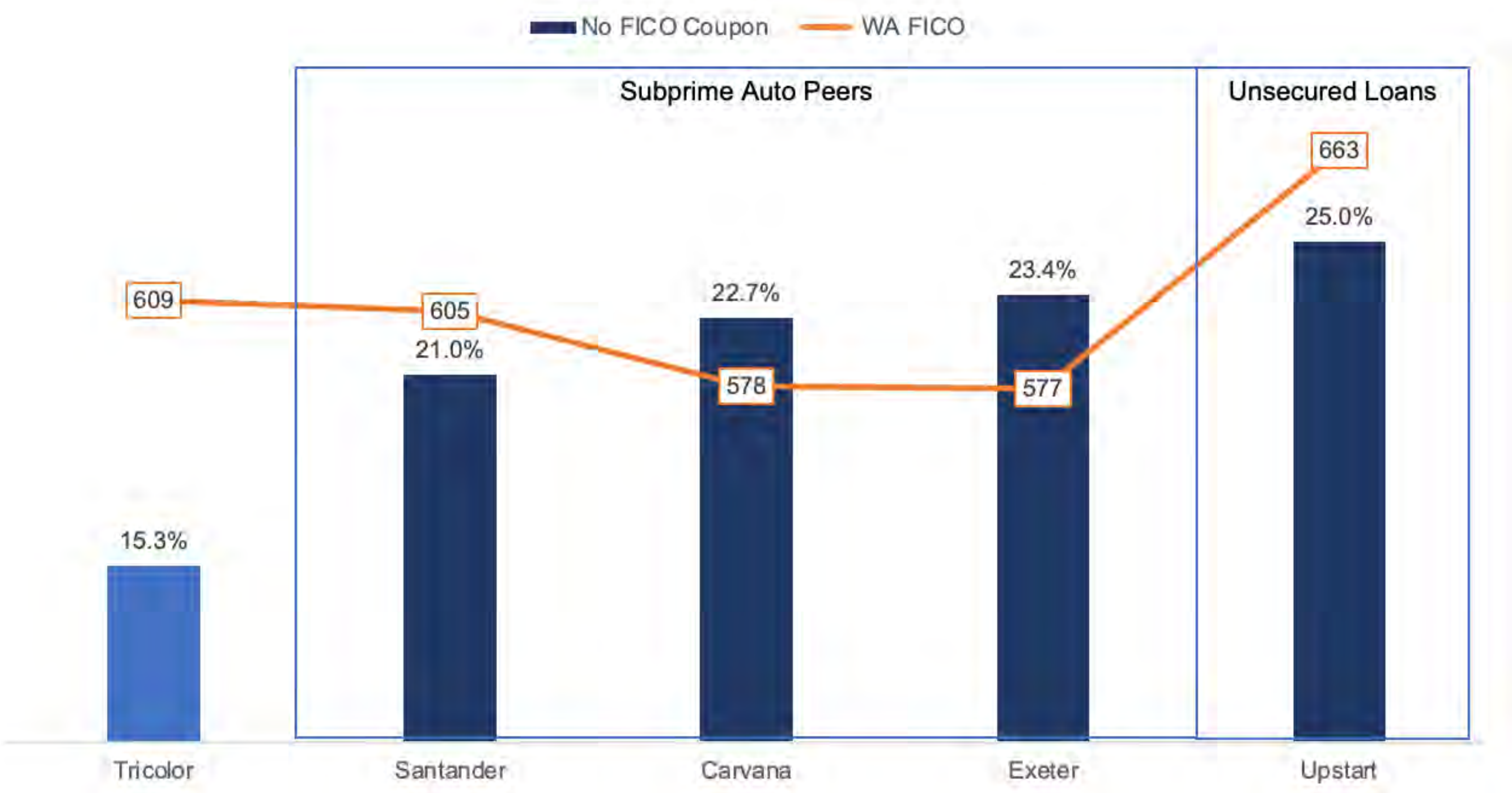
Tricolor achieves financing terms which are significantly more attractive than its peer group in the buy here-pay here industry. Tricolor estimates it has saved its borrowers **over \$1 billion** in potential interest charges over its history.



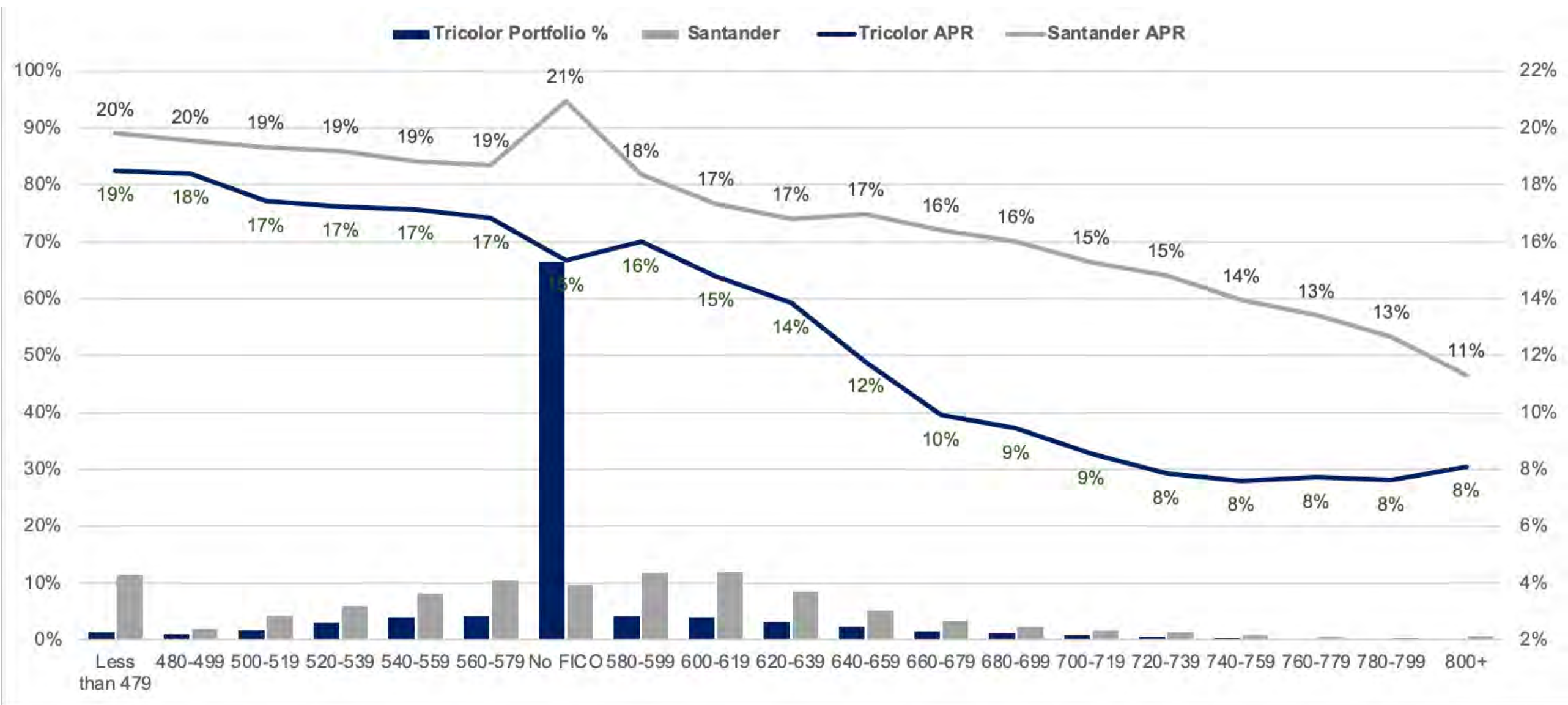
* based upon normalized car cost of \$16K

Source: 2020 NIADA Used Car Industry Report, ABS data

Tricolor’s low interest rates are most prominently reflected in this comparison with ABS peers and their significantly higher rates to borrowers with no FICO score.



Tricolor’s interest rates compare favorably vs its ABS peer group. Across every FICO tier, our interest rates are lower Interest rate distribution between Tricolor and recent subprime ABS transactions reflect Tricolor’s focus on more attractive lending terms, which is even more pronounced given difference in cost of capital.



Source: Tricolor Internal Data
Santander Drive Auto Receivables Trust 2023-3 Data Tape

“

“In business strategy, the new game begins before the old game is over.”

-Clayton Christensen

In addition to lower interest rates and affordable payments, Tricolor maintains the following guidelines to optimize affordability which are commonly overlooked in terms of assessing affordability:

- **No F&I products.** Tricolor does not sell any F&I products (service contracts, GAP, credit life, etc) which encumber the retail installment contract and increase LTV.
- **No pursuit of deficiency balances.** Tricolor has never filed a lawsuit against a customer to recover deficiency balances nor has it ever sold its deficiency balances to third parties.
- **No payment processing fees.** Tricolor subsidizes all payment processing fees on behalf of its borrowers charged in connection with third party payment channels. For example, if you apply Santander Consumer’s payment processing fees to Tricolor’s loan servicing activity, it would have generated an additional \$3.00M in fee income. Rather, in 2022, Tricolor subsidized the payment processing fees for its borrowers at an expense of \$2.34M, corresponding to a total of **\$5.34M for the benefit of its borrowers.**



Note: Tricolor does not charge any payment fees, and pays all the third-party fees instead of passing to the customers. Santander payment fees are estimated using Santander fee structure (debit card and cash) and Tricolor annualized payments (1 million).

Key elements of a sustainable approach to financial inclusion

In the same way that our mission is inextricably linked to our business model, these individual elements are themselves interconnected and intertwined.

These are the key themes which endure over time and drive *sustainable financial inclusion*:



“

*The test of time
is the ultimate
critic.”*

Leverage technology the right way, *improving customers' lives*. Tech-enabled lending models, such as Buy Now, Pay Later (“BNPL”) exploded during the Pandemic, utilizing technology to facilitate a customer’s decisions to transact a financing. The reality is that many fintech lenders utilized data science to identify the financially vulnerable; tech made it easier to borrow and more efficient to transact..

Today, with consumer debt surpassing \$16 trillion and interest rates still rising, it’s reasonable to suggest a case that the fintech industry may, in many cases, leave the consumer in a worse position (rather than better) as a result of their financing. And with anticipated growing default on unsecured loans, these business models become increasingly vulnerable.

Rather than capitalize on the financially vulnerable consumer, our strategy empowers the consumer (who deserves the credit to finance a vehicle which allows them to earn an income) and enhances the quality of their life.

Our ability to harvest data allows us to identify who can manage an obligation such as an auto loan which enables transportation to work, rather than to identify the financially vulnerable.



Tricolor's 200,000 sf vehicle reconditioning center in Wilmer, Texas.

Control quality of the collateral through an integrated model. Tricolor has conviction that an integrated model is the most effective way to address the needs of the low income borrower because it integrates vehicle quality with the lending process. In contrast, indirect lending models are misaligned with the retail automotive dealer given each party has adverse objectives: the lender desires to underwrite a good loan (longer term focused) while the dealer wants to maximize its advance, or profit. Any investment into vehicle reconditioning by the dealer reduces profit.

Tricolor's investment in vehicle quality is unmatched by its peers:

- High quality vehicle, reflected by significantly higher acquisition cost (2.5X its peer group)
- Full 150 point inspection
- Extensive reconditioning process performed to a rigorous standard with over \$2,000 average investment per vehicle.
- Free warranty on power train and major components for 18 months/18k miles

Mechanical failure is one of the principal drivers of default on deep subprime auto loans because of the liquidity constraints of this borrower. Financially underserved consumers are highly vulnerable to an unexpected expense as a result of a major mechanical repair which can trigger a high interest or payday loan.

“

“Innovation is the only way to win.”

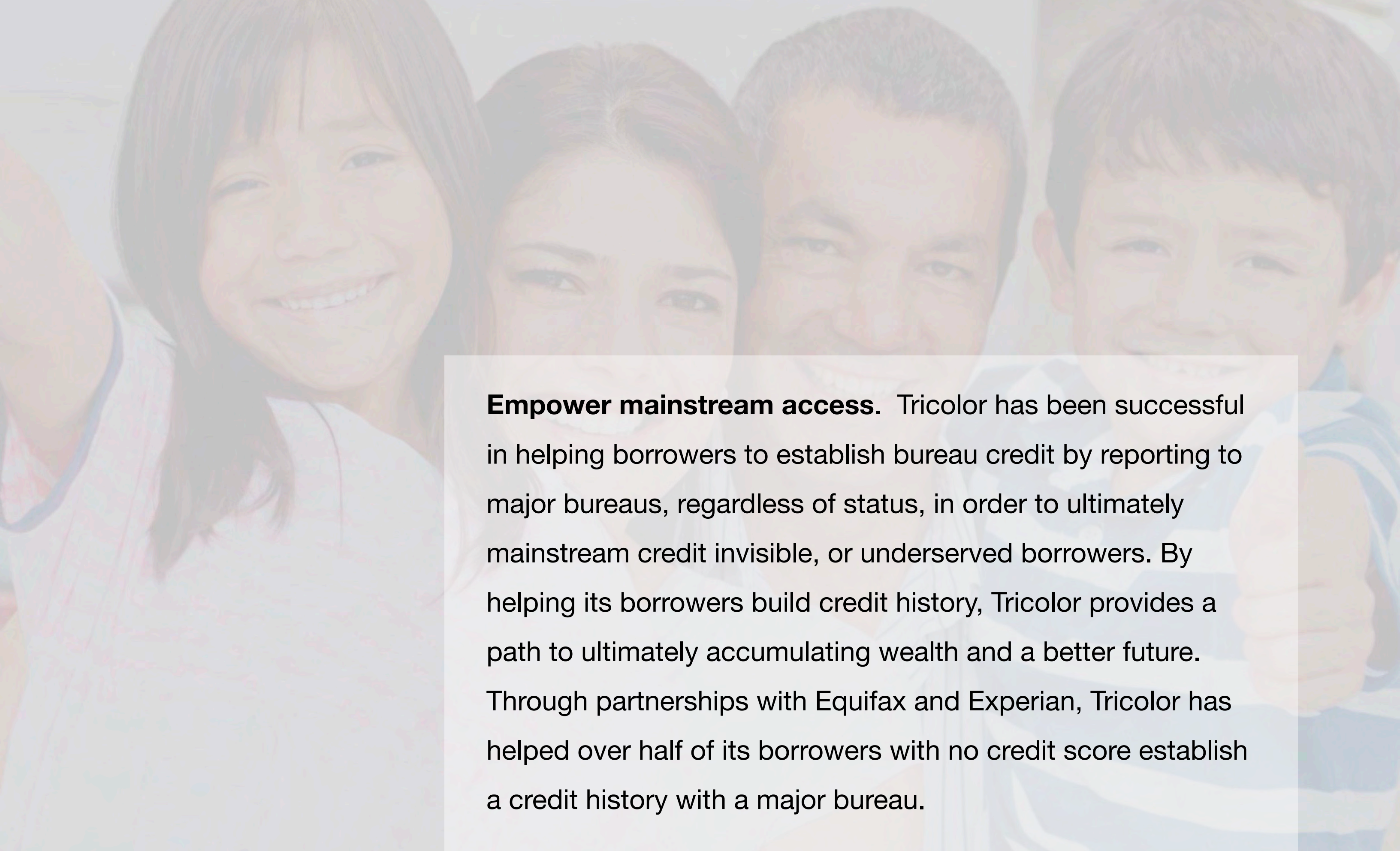
- Steve Jobs

Take the longest view in the room. Driving financial inclusion in America requires innovation, and innovation requires taking the longest view in the room.

Consequently, Tricolor has strategies which are inconsistent with optimizing short term outcomes, but drive financial inclusion and ultimately long term value.

1. Reduce retail selling margins by 35% over the last five years, resulting in lower LTVs and greater value for the consumer.
2. Finance at lower rates to credit invisible borrowers than any lender in subprime auto ABS.
3. Provide a free warranty on all major components of the vehicle.

Create a wide competitive moat and achieve a lower cost of capital. Because Tricolor has the unique ability to identify lower risk applicants — “score the unscorable” — it can offer more attractive terms and successfully convert the lower risk, higher grade applicants. (See Section 11- Appendix on Pricing Strategy.) Over the long term, Tricolor achieves value creation by maximizing the *total* present value of the cash flows of the loans it originates. Additionally, driving impact at any meaningful scale requires the ability to efficiently access low cost capital in a competitive landscape. Tricolor has developed a robust capital markets strategy with the distinction of achieving a social bond rating from S&P on its platform.



Empower mainstream access. Tricolor has been successful in helping borrowers to establish bureau credit by reporting to major bureaus, regardless of status, in order to ultimately mainstream credit invisible, or underserved borrowers. By helping its borrowers build credit history, Tricolor provides a path to ultimately accumulating wealth and a better future. Through partnerships with Equifax and Experian, Tricolor has helped over half of its borrowers with no credit score establish a credit history with a major bureau.

Supporting customers with financial literacy programs with customized content empowers them toward access to mainstream financing. Through its partnership with EverFi, Tricolor embeds the Everfi curriculum into its own branded program Abundancia™ , providing an online financial education curriculum for free to any consumer.

Tricolor has formed a partnership with Flourish Fi, an innovative financial literacy platform that leverages behavioral science and gamification to improve financial wellness.

Borrowers will be rewarded for completing short and digestible financial education modules. Tricolor will reward borrowers for building positive money habits, enhancing the digital journey and experience of its customers who access the MyTricolor™ portal. This is a move beyond a traditional transactional experience and instead creates a personalized and rewarding journey for Tricolor customers.

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

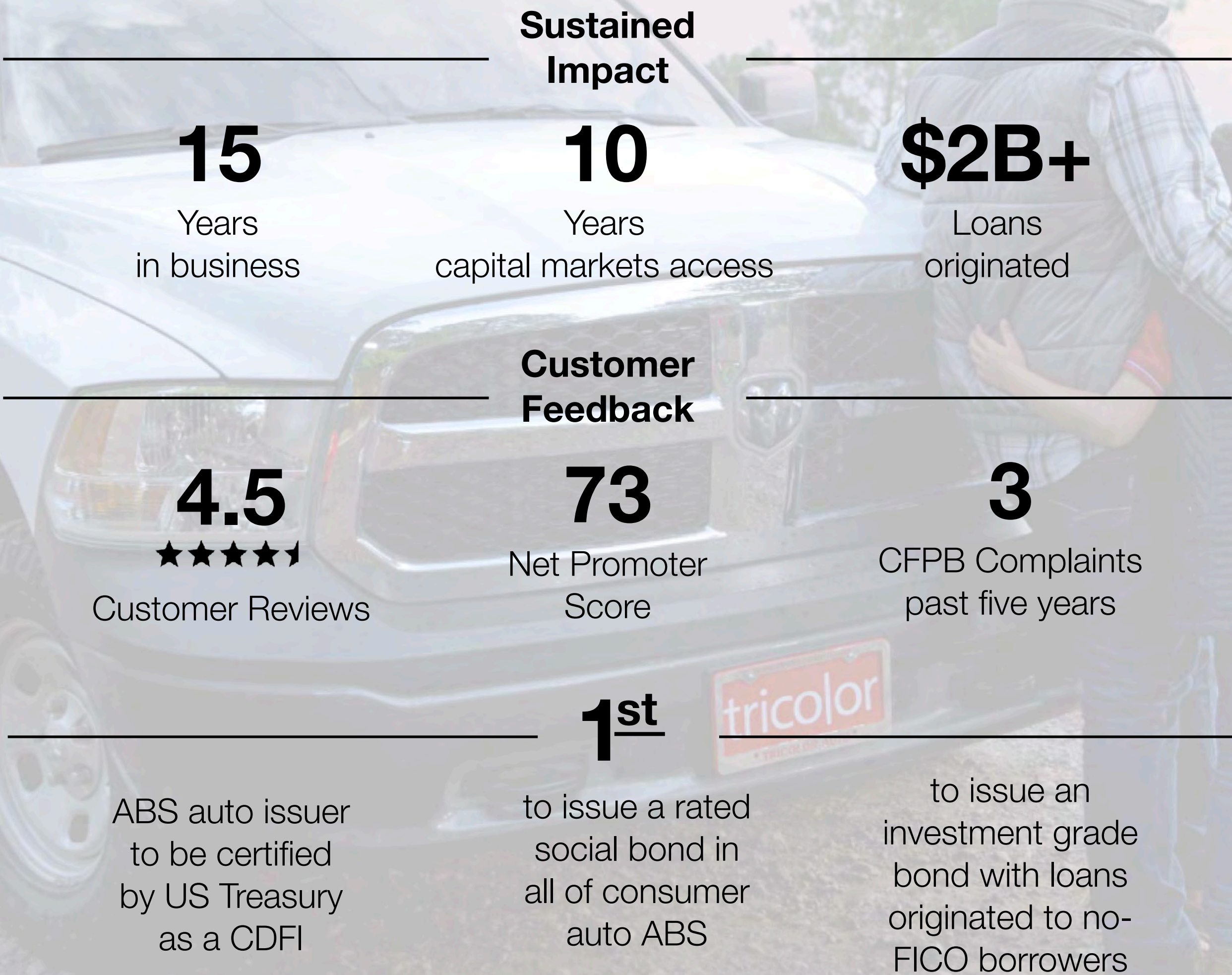
-Socrates

Validation for Tricolor’s Purpose-Driven Model

For fifteen years, Tricolor has been focused on delivering a superior value proposition to address the mobility needs of the underserved Hispanic consumer and a commitment to provide a path to mainstream credit. We think about three categories with respect to validating our strategy:

- *What do others think?*
Achievements and Milestones
- *How do our customers feel?*
Customer Feedback
- *How have we executed as a business?*
Company Performance

By the Numbers



Achievements & milestones



Capital Markets Access

With innovation as the pathway, Tricolor successfully connects Wall Street capital to highly underserved, low-income neighborhoods to meaningfully drive financial inclusion at scale.

- Nine well-received ABS transactions and only issuer in all of subprime auto ABS with loans backed by credit invisible borrowers
- First social bond issuance in all of consumer auto ABS

J.P.Morgan

BARCLAYS



US Treasury-certified CDFI

- In November 2019, Tricolor was awarded certification by the Department of the Treasury as a Community Development Financial Institution (CDFI) recognizing its commitment to financial inclusion.
- Tricolor is the only issuer in all of consumer auto ABS to be CDFI-certified.



Industry Recognition

- Inc. Magazine Best in Business, Financial Services, 2022
- FinTech Nexus Excellence in Financial Inclusion Winner, 2022
Finalist, 2020
- Auto Finance News, Excellence in Financial Inclusion Winner, 2019
- Auto Finance News, Excellence in Community Service Winner, 2022
- Finovate Excellence in Financial Inclusion Finalist, 2019, 2022
- Finovate Best Customer Solution Finalist 2022



Milestone Equity Investment

- \$90 million
- BlackRock Impact Opportunities Fund
- Closed in September 2021
- Minority stake

BlackRock

Customer Advocacy

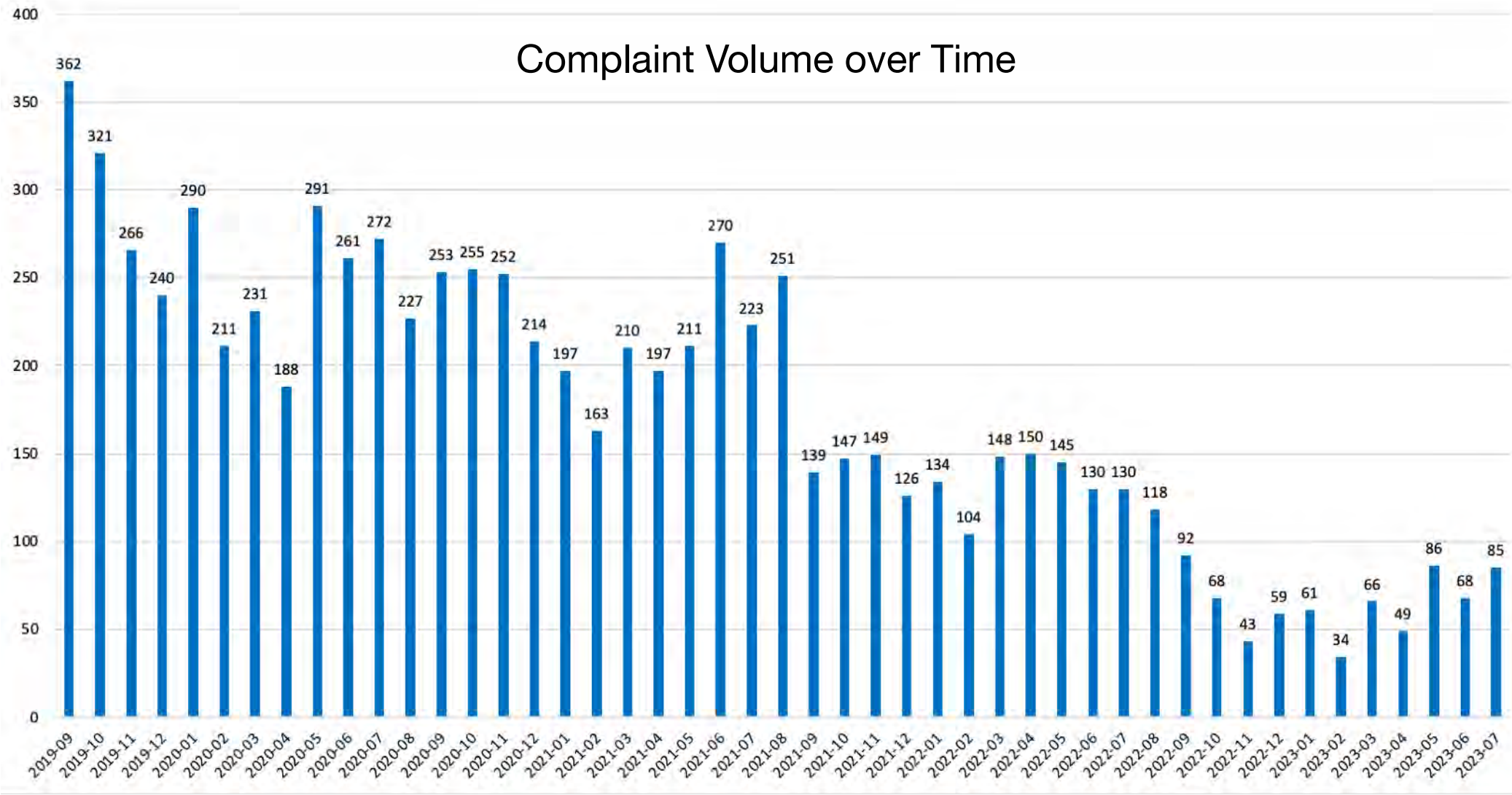
Tricolor supports its brand with over 50 members in its customer advocacy team, executing a deliberate strategy to understand customers’ needs and issues and provide effective solutions to deliver customer satisfaction.

Consequently, despite significant portfolio growth, complaint volume has declined over time.

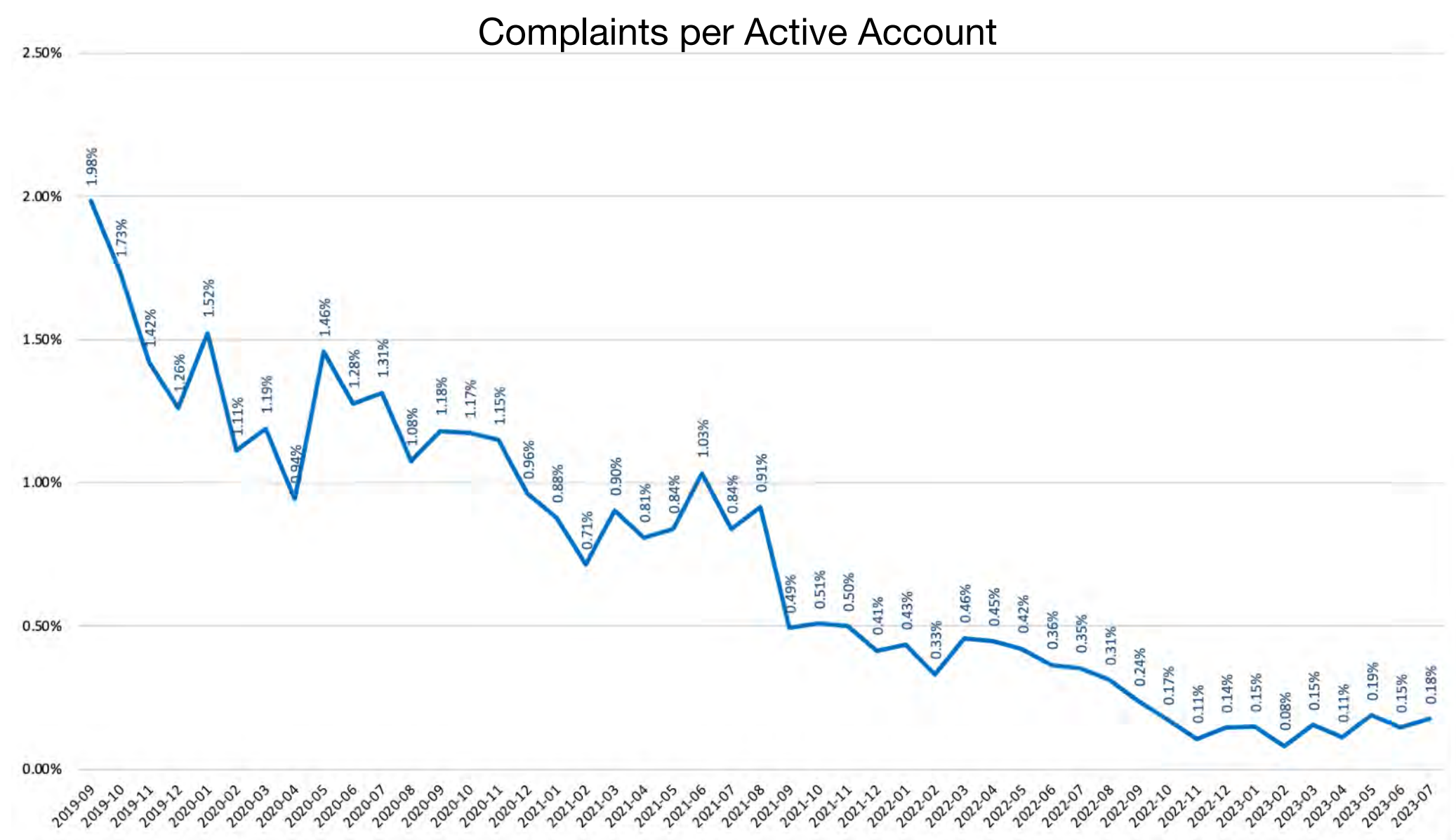
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I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel.”

-Maya Angelou

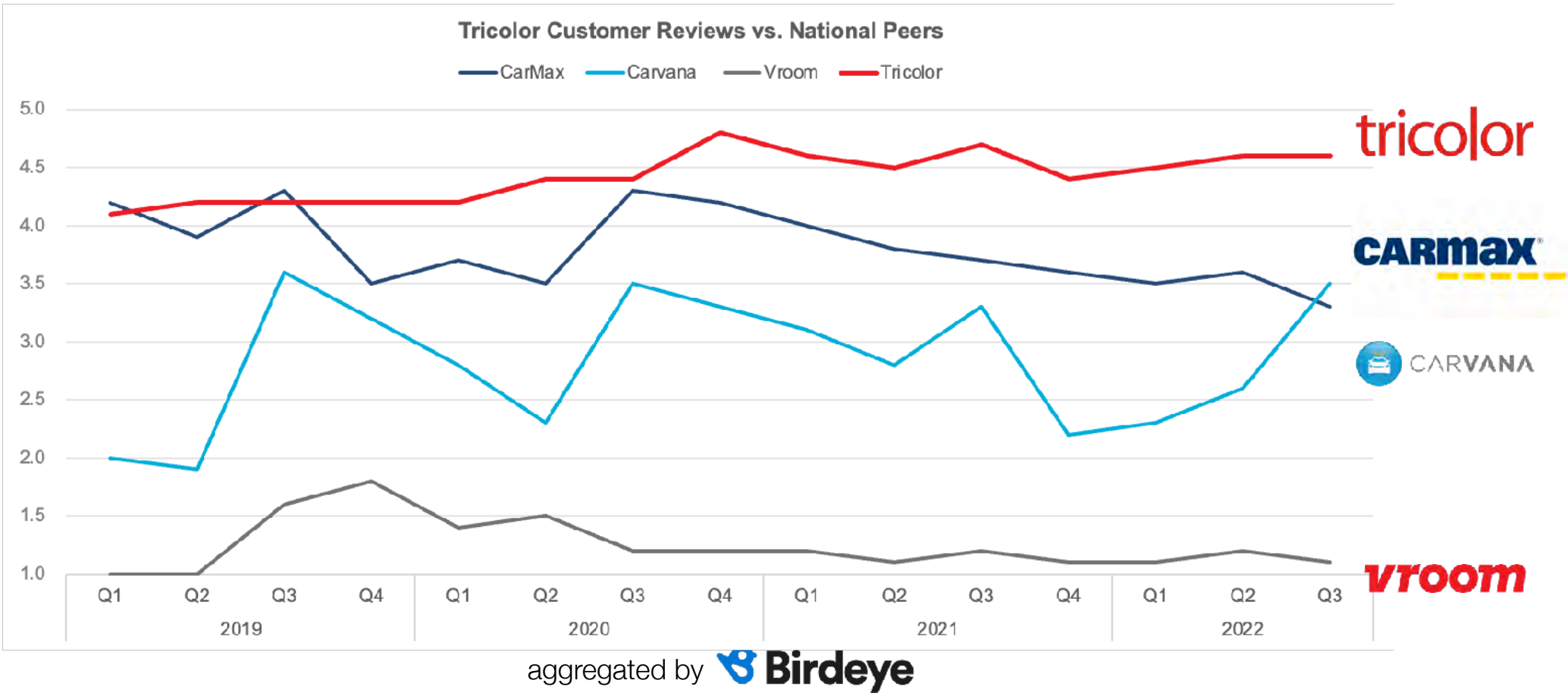


Complaints per active account has been reduced 9X over a 4-year period.

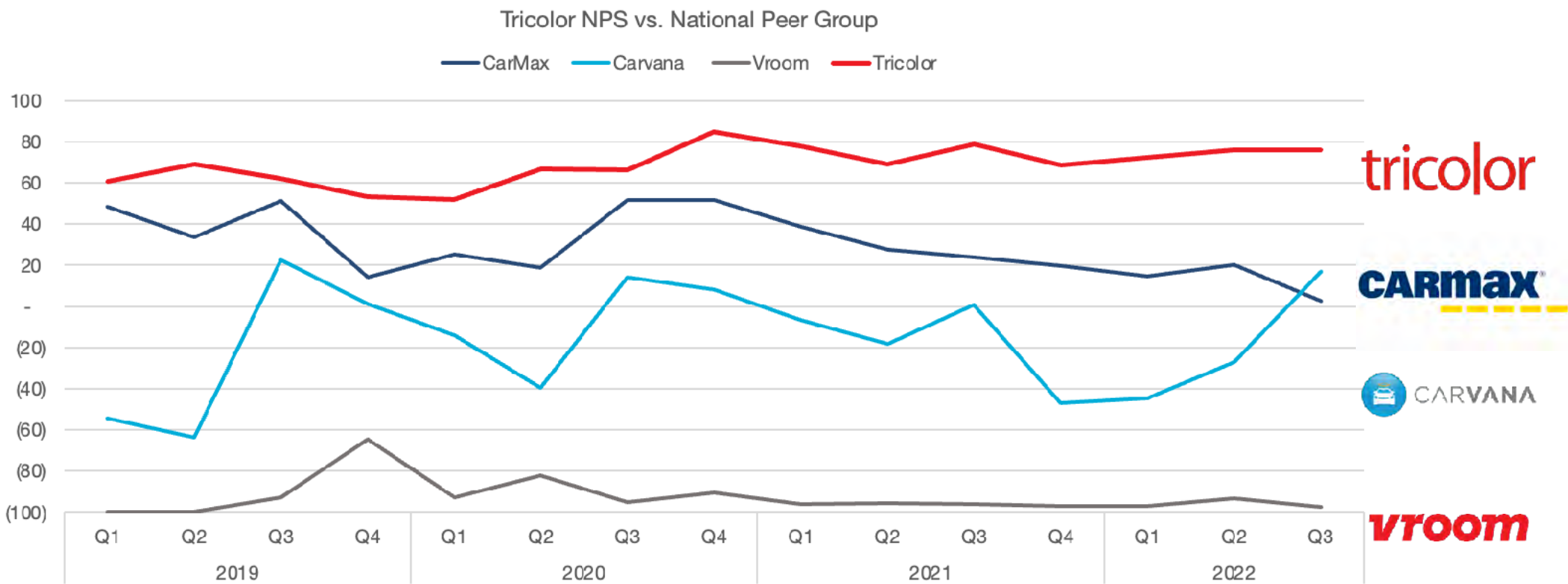


Trusted Brand

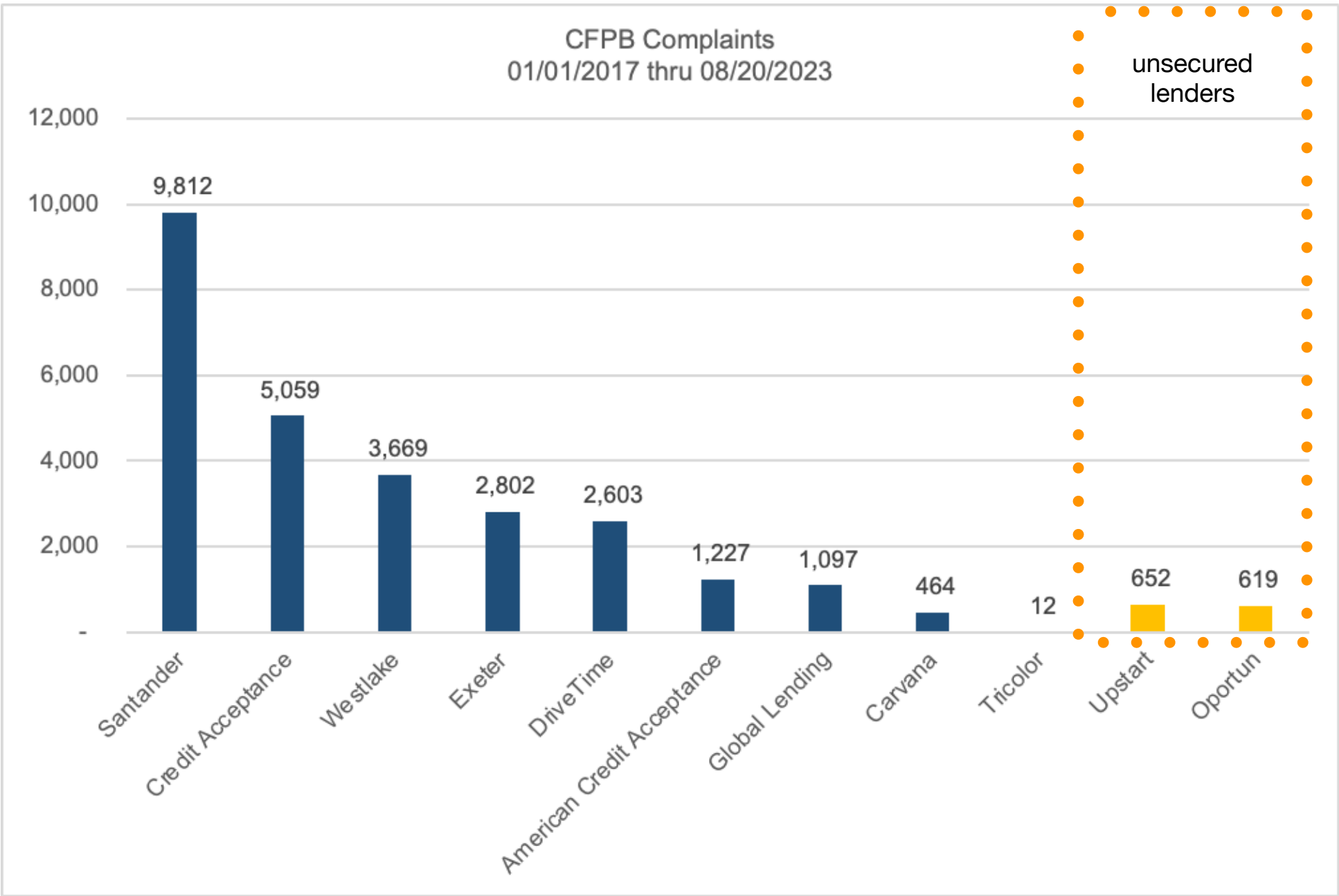
Customer reviews have averaged over 4.5 stars for the past two years



Net Promoter Score has averaged over 70 during that same time period.



CFPB complaints have totaled 12 since January 2017.



Recognized
value
proposition

“

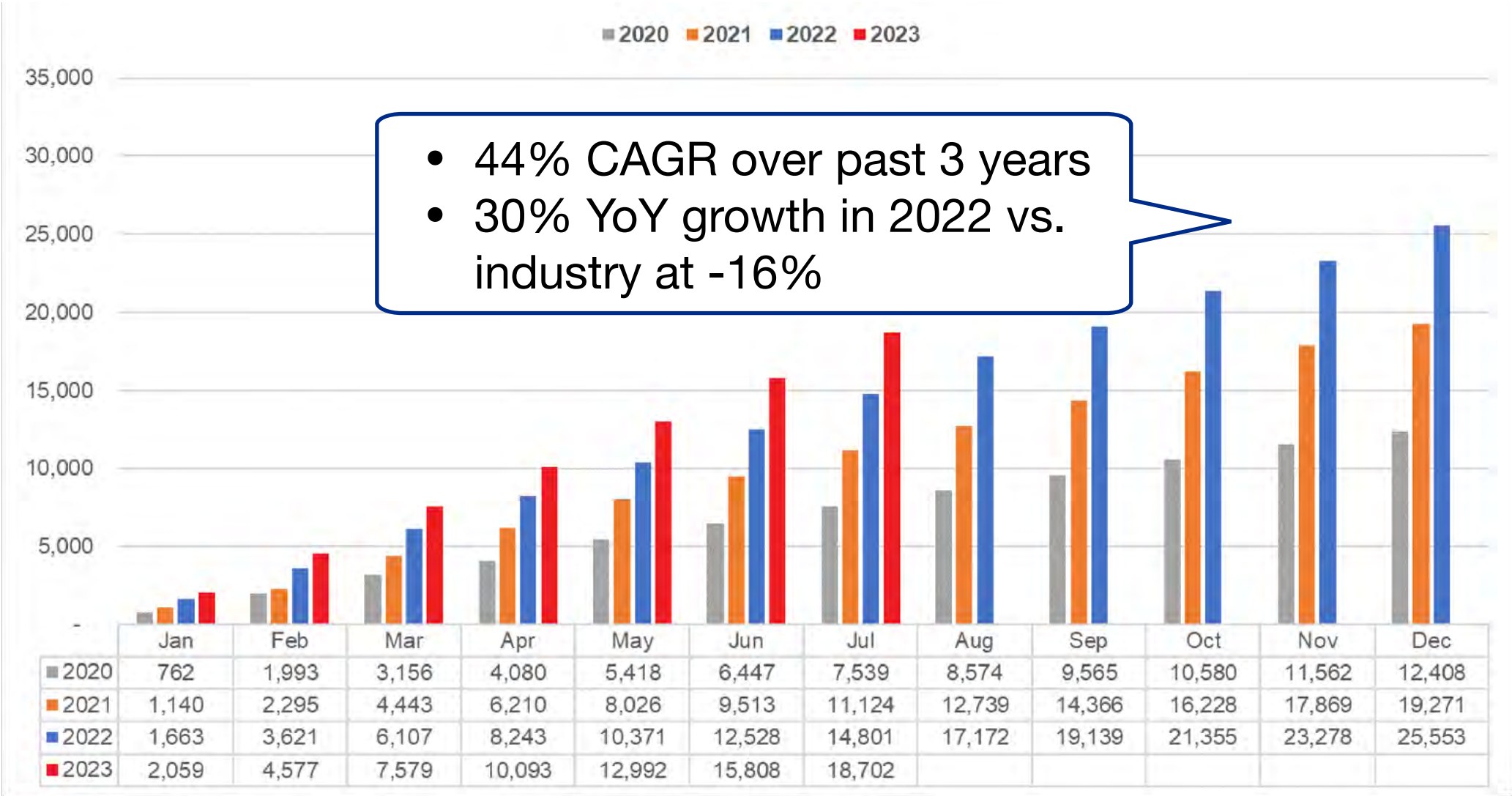
Brand inside is more important than brand outside for sustained success.”

-Tom Peters

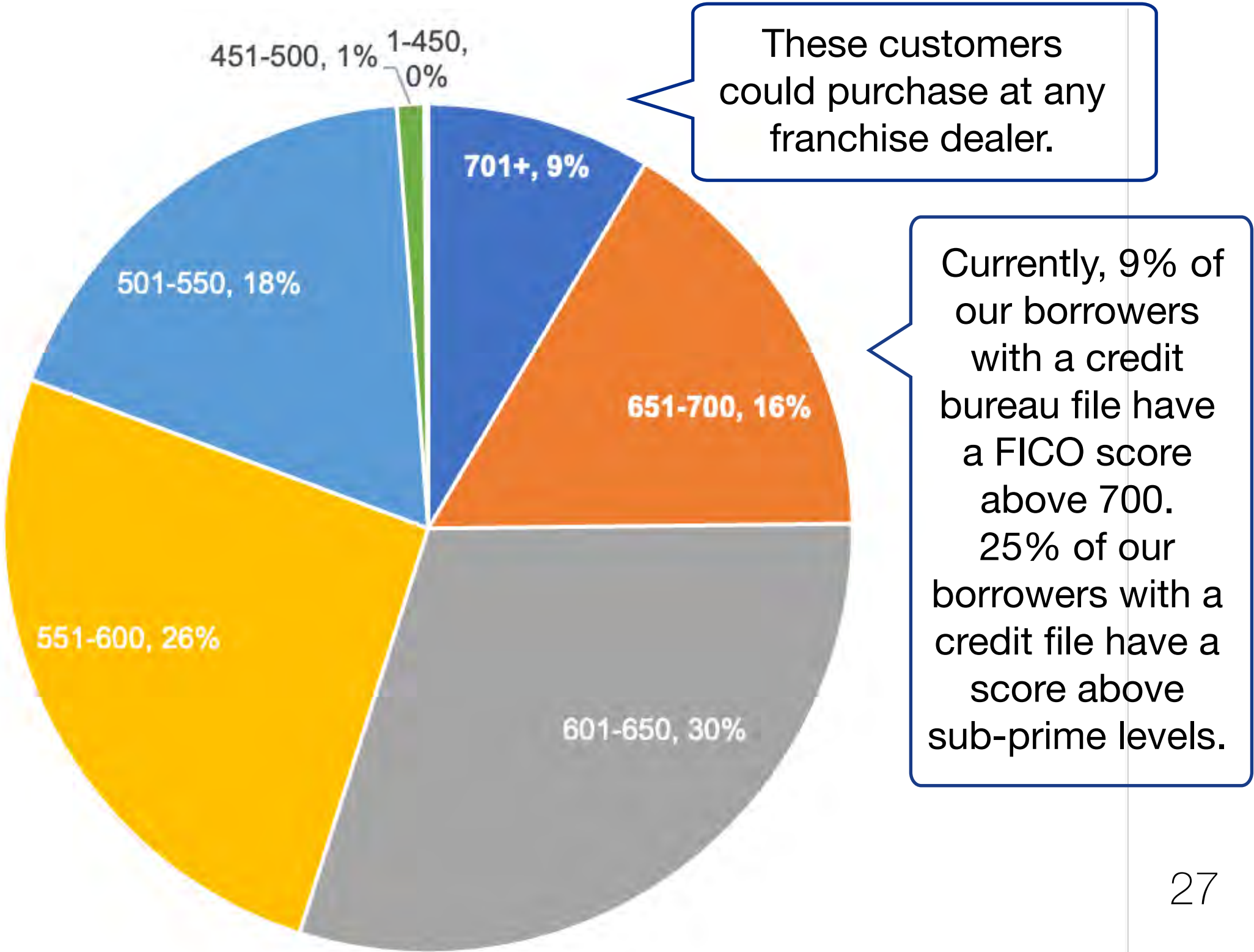
A brand which resonates positively **with trust** is expected to correlate to growth.

- Tricolor has grown its origination volume at a CAGR of over 40% for the past three years.
- Organic same store sales growth of over 35% YoY
- Value proposition attracts consumers outside Tricolor’s core focus

4-year growth in originations



FICO breakdown of Tricolor customers with a credit score



Social Bond Framework

Tricolor is committed to advancing the **Sustainable Development Goals (SDG)** as established by all United Nations member states in 2015 and specific to the Use of Proceeds for Tricolor's ABS Social Bond:



1.4. No Poverty

By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources.



8.10. Decent Work and Economic Growth

Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.



10.2. Reduced Inequalities

By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Alignment with Social Bond Principles

Tricolor's 2023 ABS Social Bond Framework aligns to the Social Bond Principles 2023 ("SBP"), as administered by the International Capital Market Association ("ICMA"), and addresses the following four core components:

1. Use of proceeds
2. Process for loan evaluation and selection
3. Management of proceeds
4. Reporting

The Social Bond Principles provide illustrative examples of "Social Project" categories including social projects that provide or promote access to essential services and/or socioeconomic advancement and empowerment. Through the 2023 ABS Social Bond Framework, we

aim to expand financial inclusion among the financially underserved population.

The Social Bond Principles, 2023 ("SBP") are voluntary process guidelines for best practices when issuing Social Bonds. The SBP recommend transparency and promote integrity in the social bond market. This framework covers Social Bond issuances by Tricolor Auto Acceptance.

The Social Bond Principles, 2023 ("SBP") are voluntary process guidelines for best practices when issuing Social Secured Collateral Bonds. This framework covers Social Secured Collateral Bonds issuances by Tricolor Auto Acceptance.

Use of Proceeds

In accordance with the Social Bond Principles (SBPs), on the closing date, the net proceeds of the TAST 2023-2 transaction will be allocated solely to the acquisition of loans to borrowers within the Target Population set forth in this Framework.

The origination of loans to the Target Population and the acquisition of such loans by the Issuer of the related Designated ABS Social Bonds comprises an “eligible social project” with the objective of expanding financial inclusion by enabling (i) access to essential services through responsible lending products, and (ii)

socioeconomic advancement and empowerment with respect to equitable access to financing opportunities and the reduction of income inequality.

The loans in the transaction will be made to borrowers within the Target Population which consist of the financially underserved population which lacks equitable access to essential services, and are therefore, marginalized, due to the fact that they (i) are credit invisible, i.e. have no FICO score and/or have no Social Security number or (ii) are low income.

Loan Evaluation Process

A subcommittee of Tricolor’s Credit Risk Committee (the “Committee”), comprised of the Company’s CEO, CFO, Chief Credit Officer and other senior executives will be responsible for:

- Reviewing and approving the 2023 ABS Social Bond Framework
- Reviewing and approving the Loan Portfolio for each ABS Social Bond, including additions to the Loan Portfolio during the pre-funding period

- Reviewing and approving annual reporting
- Reviewing the Post Issuance External Verification Report
- Monitoring ongoing Social Bond market practices
- Ensuring all Eligible Loans comply with Tricolor’s Lending Guidelines, which help mitigate indirect negative social impacts by offering responsible access to credit profiles in the target population

Eligibility Criteria

“Eligible Loans” must meet the following eligibility criteria:

Eligible Social Product Category

Expand financial inclusion by enabling (i) access to responsible lending; access to essential services such as transportation; and (iii) socioeconomic advancement and empowerment with respect to equitable access to financing opportunities and reduction of income inequality.

Eligibility Criteria

Loans providing access to essential services for the purchase and financing of motor vehicles to the target population consists of consumers with 100% of the loans originated to: (i) no Social Security number;* (ii) no FICO or (iii) low income.

** customer income is less than or equal to 80% of the median county income or less than or equal to 200% of the federal poverty threshold as defined by the Community Reinvestment Act (CRA), the Federal Housing Finance Agency (FHFA), which includes Freddie Mac, and the United States Department of Health and Human Services (HHS)*

Social Risks

The target population is subject to greater social risks because (i) their no FICO status is prohibitive to access to mainstream financial services, subjecting them to alternative financial services at much higher costs; and (ii) their low income and consequently, low level of liquidity leaves them unprepared to deal with any financial emergency.

As a result, a key component of Tricolor’s model as described (see p.15) is to provide a superior quality, fully reconditioned vehicle to eliminate the likelihood of (i) default due to mechanical failure or (ii) a major mechanical repair which in turn, would trigger a high-cost loan and potentially, a downward spiral of predatory lending.

Environmental Risks

All loans are collateralized by high quality vehicles with a significantly (i) lower age and mileage and (ii) higher acquisition cost than otherwise available to this segment of the population. 100% of the vehicles which are transacted undergo a rigorous inspection and reconditioning process, Tricolor administers a state-regulated inspection to certify that all vehicles satisfy the emission standards.

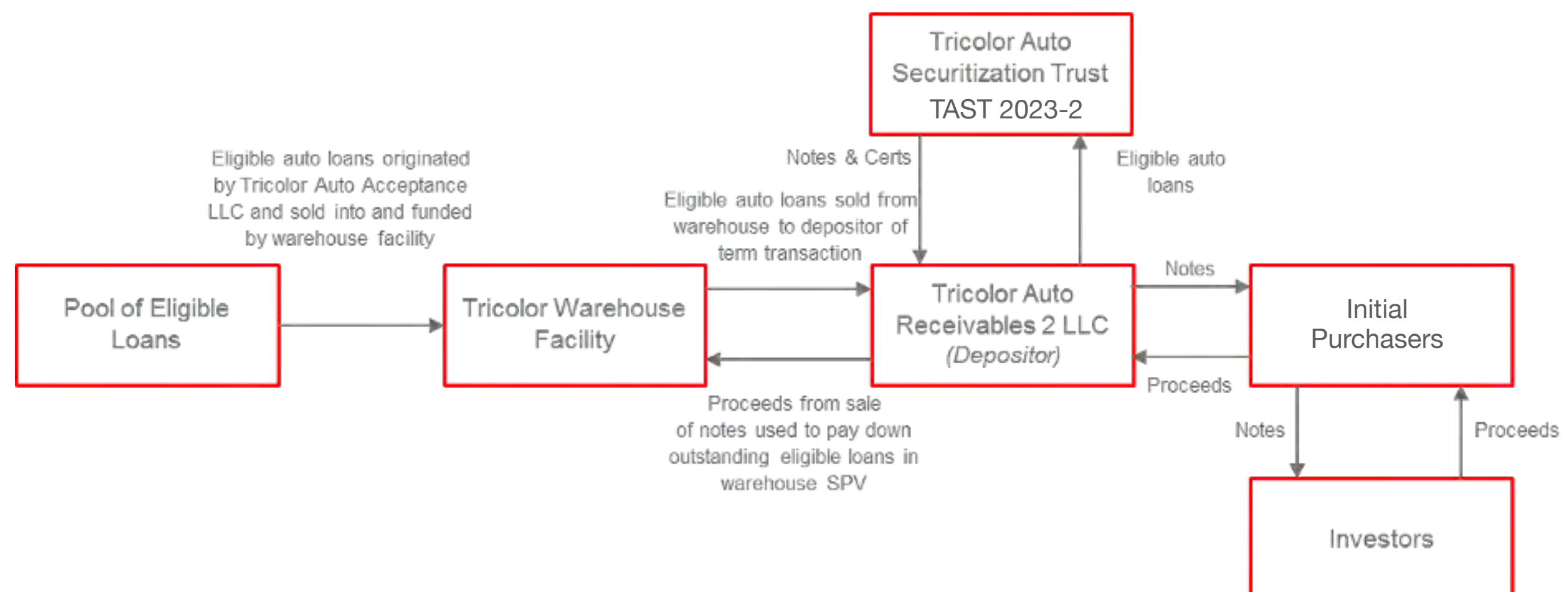
Federal vehicle emission standards are set through a combination of legislative mandates enacted by Congress through the Clean Air Act (CAA), and executive regulations managed nationally by the Environmental Protection Agency (EPA), which tightened requirements as recently as 2021.

“Eligible loans” to be included in the transaction will be sourced from:

- (i) Existing loans on balance sheet:
The eligible loans contributed from the warehouse facility have already been extended and funded to the Target Population. The proceeds from the term securitization will be used to pay down the warehouse debt related to these loans, and the loans will then be transferred to the term transaction SPV at closing.
- (ii) Additional originations during a Pre-funding Period. The Tricolor term transaction will include a 3-month pre-funding period, where proceeds from the term

securitization are used to fund a pre-funding account and in turn that cash is used to purchase additional receivables in the 3 months immediately following closing. The assets purchased during the pre-funding period are subject to the loan eligibility criteria. Tricolor will disclose the percentage of the pool comprised of pre-funded assets with each transaction, and the amount is not expected to exceed 25% of the aggregate pool for any single transaction.

The chart below is a simplified illustration of the structure of the transaction, and the source of the eligible receivables and proceeds:



Management of Proceeds

Tricolor intends to allocate the net proceeds of the ABS Social Bond to acquire previously originated eligible loans from existing warehouse facilities and well as purchase newly originated eligible loans, consistent with the criteria detailed in the framework, during the pre-funding period. The proceeds allocated for such activity will be deposited into a third-party account held and managed by the Indenture Trustee of the Social Bond transaction, and those proceeds will then be utilized to purchase new eligible loans during the prefunding period. The look-back period for an eligible loan to be included in an underlying securitization pool for any ABS Social Bond will be 36 months

before the “Initial Cutoff Date” for such ABS Social Bonds.

After transaction closing, during the pre-funding period, a portion of the proceeds from the initial bond sale will be utilized to purchase additional receivables. Any issuance of ABS Social Bonds will be tracked and monitored by the Committee identified above to ensure that the net proceeds thereof will be used to acquire loans that meet the criteria identified herein. The Committee will ensure this information is updated quarterly for their review. This information will form the basis for Tricolor’s annual Allocation and Impact Reporting set forth below.

Reporting

Allocation Reporting

On an annual basis, until full allocation of the net proceeds from the sale of any Social Bonds, and on a timely basis in case of material developments, we will publish our Annual Sustainability Report on our corporate website that will include:

1. The amount of remaining net proceeds from the sale of any Social Bonds that have been allocated to eligible loans, subject to confidentiality considerations;
2. The outstanding amount of net proceeds from the sale of any Social Bonds yet to be allocated to Eligible Loans at the end of the reporting period, though it is not expected for any net proceeds to remain unallocated at the time of the first published Annual Sustainability Report.

Impact Reporting

Tricolor will report on specific metrics to demonstrate its impact with respect to the following social purposes for the financially underserved population which ultimately expand financial inclusion:

1. **Access to affordable credit.** 32% of the US Hispanic population lacks access to responsible lending because they are credit invisible. [According to the Department of Homeland Security, as many as 12 million Hispanic immigrants are undocumented](#), representing 20% of the US Hispanic population. The low-income population is highly vulnerable and struggles with sufficient liquidity, underscoring the importance of affordability; the percentage of Hispanics considered as low income is 44% greater than the general population.

Impact Reporting (continued)

2. Access to quality, dependable, essential services.

Owning a vehicle is critical for the financially underserved consumer to survive in America. Only 5% of the US population uses public transportation. The Hispanic population is the most disadvantaged in terms of ability to work from home, due to fact that Hispanics are largely employed in industries which cannot accommodate remote work such as construction, hospitality, and agriculture. In fact, fewer than one in six Hispanics can transition to a remote working environment.

3. Socioeconomic advancement through credit building.

For the low-income population, wealth creation and the American dream require credit which explains why average Hispanic household wealth is 88% less than the average White household. As an integral part of its strategy to build credit and achieve access to mainstream financial services, Tricolor will report on the percentage of borrowers who successfully build credit as a result of their loan with Tricolor.

Why these impact objectives go hand-in-hand

As part of its value proposition, Tricolor drives both physical and financial mobility, enhancing affordability with vehicle quality to eliminate the likelihood of (i) default due to mechanical failure or (ii) a major mechanical repair which in turn, would trigger a high-cost loan and in turn, downward spiral or predatory lending cycle. Tricolor's integrated strategy provides a path to optimizing loan performance and successful credit building. Through a balanced execution of increasing both physical and financial mobility, the underserved consumer achieves upward mobility.

Impact Reporting (continued)

On a quarterly basis and on a timely basis in the case of material developments, Tricolor will, subject to any applicable confidentiality obligations, report on its website a description of the following regarding the securitization pool for each unique Social Bond in connection with each of these three social impact objectives. For each reporting date, the following actual data will be provided as a comparison to the expected results to demonstrate the social impact:

Social Impact	Impact Metrics	Expected	Actual
Access to affordable credit	Percentage of proceeds to Qualifying Loans	100%	
	% of borrowers with either no FICO or with household income below 80% of the median income	100%	
	Outstanding Principal Balance (OPB) of loans to borrowers with no FICO or with low income as % of the outstanding pool	100%	
Access to quality, dependable, essential services	% of borrowers who receive a free warranty	100%	
	% of warranty claims processed at no charge to customer	100%	
	% of installment payments processed with no fee to the customer	100%	
Socioeconomic advancement	% of borrowers who built a credit score with a major bureau	20%	

The methodology for which such quantitative measurements and determinations are made is based on a loan-level data file for which Tricolor maintains the ability to produce on a periodic month-end basis. The data tape file includes granular loan-specific characteristics for each unique loan and corresponding borrower included in the eligible securitization loan pool.

With respect to reporting on its ability to build a credit score for its borrowers, Tricolor has created a partnership with a major bureau which allows it to pull updated credit scores on each borrower in the pool monthly, enabling it to accurately track which borrowers have successfully established a score.



External Review and Second Party Opinion

Tricolor will request a qualified independent external reviewer to verify and provide third-party assurance with respect to the allocation of the net proceeds of any Social ABS Bond with the Tricolor Social ABS Bond Framework. This review will be carried out annually and Tricolor will post the external review report on the Tricolor Holdings website.

Tricolor has obtained and will make publicly available a Second Party Opinion (“SPO”) from a independent external reviewer with recognized social expertise to provide an opinion on the social benefits of this Framework as well as the alignment to the SBP. The SPO will be available on the SPO provider’s website pre-issuance.

Appendix: About CDFIs

Community Development Financial Institutions are certified by the US Treasury to support the American dream that everyone should have an equal opportunity to achieve prosperity and success through their own talent and hard work.

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.

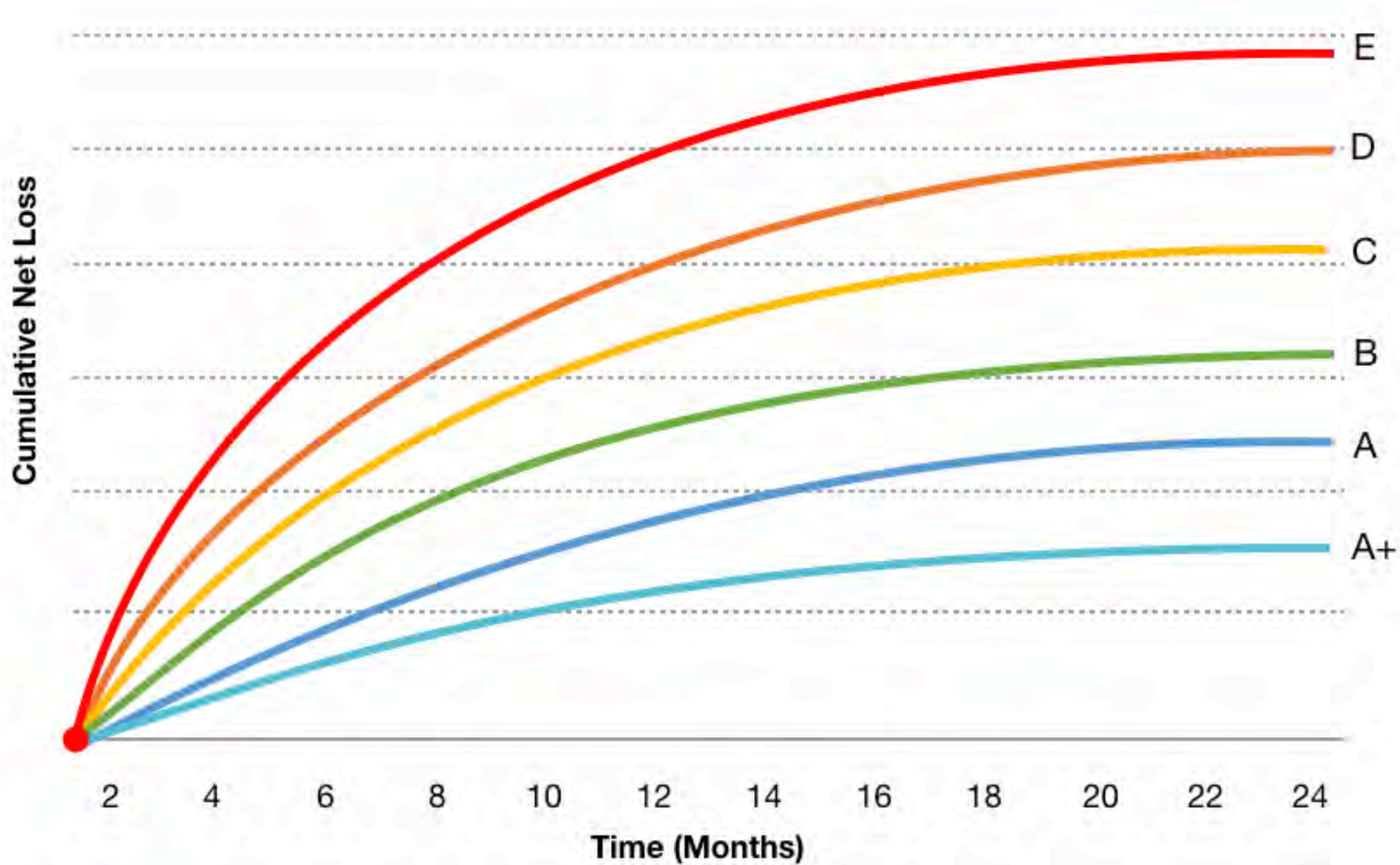
In the 1960s and 1970s, while many Americans were prospering, low-income and minority communities were generally excluded from this economic growth because mainstream banks and institutions deemed these communities too risky for investment. There was a common practice among banks called “redlining” where 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.

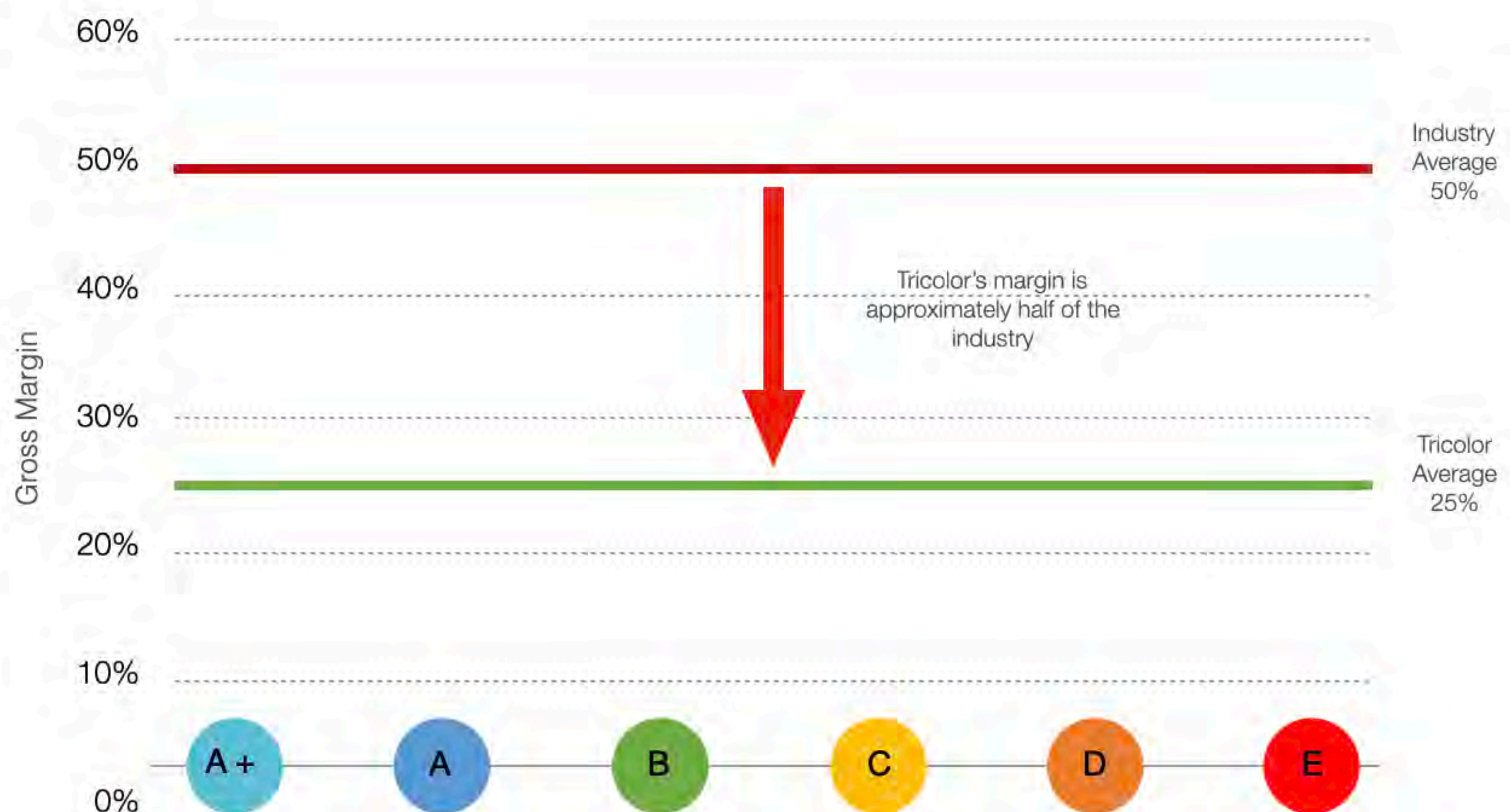
By providing financing to CDFIs, investors provide critical opportunities to the underserved population deserving of opportunities for accessing capital, by providing access to credit. CDFIs also provide financial education and technical assistance, credit counseling. Studies have confirmed that financial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

Appendix: 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.

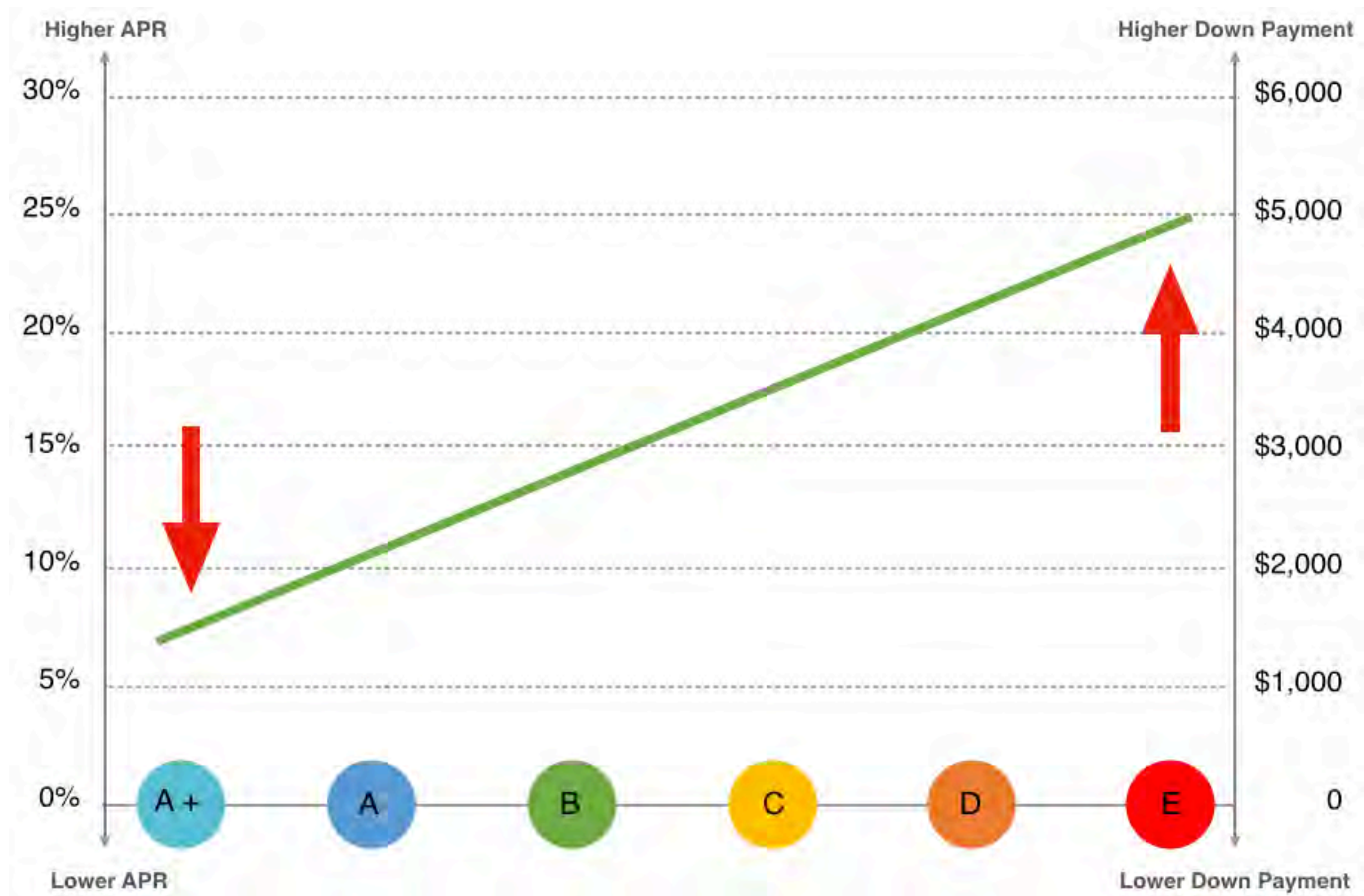


First, Tricolor lowers its margin across all grades.



Appendix: 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 high-grade applicants, resulting in high conversion. Conversely, sloping results in poor conversion of low grade applicants, ultimately creating adverse selection for the competition.



“

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

-Jeff Bezos

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The information and opinions contained in this Framework are provided as of the date of this Framework and are subject to change without notice. None of Tricolor, its subsidiaries or any of its affiliates assume any responsibility or obligation to update or revise any such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise. This Framework represents current Tricolor policy and intent and is not intended to, nor can it be relied on, to create legal relations, rights or obligations. This Framework may contain or incorporate by reference public information not separately reviewed, approved or endorsed by Tricolor and accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Tricolor as to the fairness, accuracy, reasonableness or completeness of such information.

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About Tricolor Holdings

Tricolor is a Community Development Financial Institution (CDFI) and mission-driven company which sells and finances high quality, certified used motor vehicles through its premium brands, Tricolor Auto Group in Texas 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 over 50 retail dealerships across 20 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 over \$2 billion in affordable auto loans by using its proprietary model to segment risk.



tricolorholdings.com

Aspiring to be the best of doing well by doing good