SECOND PARTY OPINION (SPO)

Sustainability Quality of Angel Oak Capital Advisors, LLC
and the Social Bond Framework

Angel Oak Capital Advisors, LLC

8th April 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	• Social Bonds
Relevant standards	• Social Bond Principles, as administered by ICMA
Scope of verification	• Angel Oak Capital Advisors Social Bond Framework (as of April 2021)
Lifecycle	• Pre-issuance verification
Validity	• As long as Angel Oak Capital Advisors Social Bond Framework remains unchanged

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Scope of work

Angel Oak Capital Advisors (AOCA or the Company) commissioned ISS ESG to assist with its Social Bond Framework by assessing three core elements to determine the sustainability quality of the instrument:

1. Social Bonds' link to AOCA's sustainability strategy – drawing on AOCA's overall sustainability profile[1] and issuance-specific Use of Proceeds categories.
2. AOCA's Social Bond Framework (April 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Social Bond Principles (SBPs).
3. The eligible categories – whether the projects contribute positively to the UN SDGs and perform against ISS ESG's issue-specific key performance indicators (KPIs) (See Annex 1).

[1] Please note that AOCA is not part of the ISS ESG Corporate Rating Universe. Thus, the sustainability profile is an assessment by the analyst in charge of the Financials/Asset Managers & Securities Brokerages sector mainly based on publicly available information. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION[2]
Part 1: **Social Bonds' link to issuer's sustainability strategy**	Angel Oak Capital Advisors (AOCA or the Company) is an investment management firm providing fixed income investment solutions, with a specialization in mortgage-backed securities and other areas of structured credit. As of December 31, 2020, the Company had approximately USD 10.6bn in assets under management through a combination of mutual funds, private funds and separately managed accounts. The investment management firm has a specialization in residential mortgage-backed securities that represent 57.5% of its total firm assets (with non-qualified mortgage-backed securities representing 19.6% of its total firm assets)[3]. Angel Oak Capital is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The company integrates ESG issues in its investment analysis and decision-making processes and is committed to active ownership policies and practices. The Use of Proceeds financed through this bond are consistent with the issuer's sustainability strategy and address material ESG topics for the issuer's industry. The rationale for issuing social bonds is clearly described by the issuer.	**Consistent with issuer's sustainability strategy**
Part 2: **Alignment with SBPs**	The issuer has defined a formal concept for its Social Bond Framework regarding Use of Proceeds, processes for project evaluation and selection, management of proceeds and reporting. The Social Bond Principles requirements are overall met by the issuer's framework.	**Positive** **Alignment with the ICMA SBPs**
Part 3: **Sustainability quality of the eligible categories**	Under the Social Bond Framework, the issuer will (re-) finance: i. Residential loans granted to an underserved population made up of borrowers with complex sources of income, borrowers that are self-employed/sole proprietors, first-time homebuyers, borrowers with down payment assistance, non-prime borrowers, borrowers seeking affordable housing, first responders, and frontline workers living in the US. ii. Commercial loans granted to small business owners and residents of affordable multi-family housing units. Those Use of Proceeds categories have a limited contribution to SDG 10 'Reduced Inequalities'. The environmental and social risks associated with those Use of Proceeds categories are well managed.	**Positive**

[2] ISS ESG's evaluation is based on the AOCA's Social Bond Framework (April 2021 version), and on the ISS ESG Indicative Corporate Assessment applicable at the SPO delivery date.
[3] 2020 figures communicated by the issuer.

ISS ESG SPO ASSESSMENT

PART I: SOCIAL BONDS' LINK TO AOCA'S SUSTAINABILITY STRATEGY

A. AOCA'S INDICATIVE SUSTAINABILITY PROFILE

Methodological note: Please note that AOCA is not part of the ISS ESG Corporate Rating Universe. Thus, the below sustainability profile is an assessment conducted by the analyst in charge of the 'Financials/Asset Managers & Securities Brokerages' sector mainly based on publicly available information. No direct communication between the issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

Key Issues of the industry:

1. Sustainable investment criteria
2. Customer and product responsibility
3. Employee relations and work environment
4. Business ethics
5. Social and environmental impacts of products and services

Indicative ESG risk and performance assessment:

Angel Oak Capital Advisors (AOCA or the Company) is an investment management firm providing fixed income investment solutions, with a specialization in mortgage-backed securities and other areas of structured credit. As of December 31, 2020, the Company had approximately USD 10.6bn in assets under management through a combination of mutual funds, private funds and separately managed accounts. Angel Oak Capital is a signatory to the United Nations-supported Principles for Responsible Investment (PRI) and a supporter of the Task Force on Climate-related Financial Disclosures (TCFD). The Company integrates ESG issues in its investment analysis and decision-making processes and is committed to active ownership policies and practices.

In evaluating a non-affiliated issuer's ESG practices, AOCA as an investor uses its own proprietary assessments of material sustainability factors, referencing international standards, such as SASB, GRI, etc. For the evaluation of the ESG performance of a non-affiliated issuer, environmental aspects such as carbon emissions or energy efficiency can be taken into consideration. Corporate governance issues might entail board independence and diversity. Regarding social issues, the Company focuses on non-affiliated issuers that are active in affordable housing and community investment. Issuers are rated on lending practices, business practices, community programs and workplace governance/employee practices resulting in an ESG score. Non-affiliated issuers are also measured against industry norms.

Angel Oak engages with non-affiliated issuers to encourage them to improve their ESG scores, via dialogue with company management. These engagement activities are designed to facilitate Angel Oak's efforts to identify opportunities for companies to improve their ESG practices and to work collaboratively with company management to establish specific objectives and respective actions plans. Results of any engagements are tracked and made available to the full staff of ESG research and investment team. Investments in securities issued by companies that do not meet proprietary ESG standards can be made if an improvement in its performance can be expected. Issuers that are not receptive to engagement efforts might be excluded.

While the Company has implemented a Responsible Investment policy, identified some relevant ESG issues and makes use of tools for active ownership, a structured and mandatory approach involving explicit ESG criteria for all operating entities within the Angel Oak group of companies is still to be established.

Some information is available on Angel Oak Capital's approach towards business ethics (e.g., Code of Ethics addressing conflicts of interest, and insider trading) and compliance procedures (e.g., Whistleblower Policy, Privacy Policy, Anti-Bribery and Foreign Corrupt Practices Act). Staff-related topics such as health and safety are addressed to an extent, while limited information is available on internal policies covering collective bargaining and non-discrimination (except for non-discrimination hiring practices). For those two topics, AOCA complies with US regulations. In terms of customer and product responsibility, AOCA must comply with minimum requirements set by US regulations on those topics.

Indicative product portfolio assessment:

- **Social impact of the product portfolio**:

  Angel Oak thematically focuses on investments in regional banks and financial institutions that historically prioritize community development, growing local businesses and affordable financing options. Through its non-qualified mortgage securities (that represent 19.6% of its total assets as of December 31, 2021), AOCA targets specifically an underserved population.

- **Environmental impact of the product portfolio:**

  Angel Oak does not offer any products or services with an environmental benefit.

Key controversy risk for the industry: Based on a review of controversies in the period of 1 January 2019 – 12 March 2021, the greatest risk reported against companies operating in the Financials/Asset Managers & Securities Brokerages industry relate to activities that may have adverse impacts on the environment and business malpractice. This is closely followed by the failure to respect human rights. The top three issues that have been reported against companies within the industry are as follows: alleged failure to mitigate climate change impacts, failure to prevent money laundering and failure to assess environmental impacts. This is closely followed by the alleged failure to respect consumers' rights, failure to prevent bribery and failure to prevent deforestation/illegal logging.

ISS ESG conducted a controversy screening in the context of this SPO based on publicly available information on March 19, 2021. AOCA does not appear to be exposed to any severe controversy.

B. CONSISTENCY OF SOCIAL BONDS WITH AOCA'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by AOCA

Since 2017, AOCA has been a signatory to the United Nations-supported Principles for Responsible Investment (PRI). The UN-supported PRI is recognized as the leading global network for investors committed to incorporating environmental, social, and corporate governance (ESG) considerations into their investment philosophies. It includes 6 principles that investors must follow:

- Investment Analysis: Incorporate ESG issues into investment analysis and decision-making processes.
- Active Ownership: Be active owners and incorporate ESG issues into the ownership policies and practices.

- Issue Disclosure: Seek appropriate disclosure on ESG issues by the entities in which the investor invests.
- Acceptance: Promote acceptance and implementation of the principles within the investment industry.
- Improvement: Work together to enhance effectiveness in implementing the principles.
- Reporting: Report on activities and progress towards implementing the principles.

Rationale for issuance[4]

Since 2011[5], AOCA has been implementing ESG principles within its non-qualified mortgage (non-QM) origination and securitization program to provide access to residential credit for underserved borrowers. Through its origination and securitization program, Angel Oak aims at positively contributing to SDG 3 'Good Health and Well-Being', SDG 8 'Decent work and economic growth', SDG 10 'Reduced Inequalities' and SDG 11 'Sustainable Cities and Communities'. AOCA is willing to solidify ESG principles within the non-QM securities asset class. Issuing Single-Family Residential Mortgage-backed Securities (mainly non-QM) and Small Balance Commercial Real Estate Loan Securitizations should support the group's business objective to provide credit to underserved borrowers.

Contribution of Use of Proceeds categories to sustainability objectives and priorities

ISS ESG mapped the Use of Proceeds categories financed under this Social Bond Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Financials/Asset Managers & Securities Brokerages sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
Residential mortgage loans (provided to an underserved population)	✓	✓	Contribution to a material objective
Small balance commercial mortgage loans (provided to an underserved population)	✓	✓	Contribution to a material objective

Opinion: *ISS ESG finds that the Use of Proceeds financed through this bond are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry.*

[4] https://angeloakcapital.com/wp-content/uploads/AO-ESG-Update-Q121.pdf
[5] Information communicated by AOCA.

PART II: ALIGNMENT WITH SOCIAL BOND PRINCIPLES

1. Use of Proceeds

The proceeds from the issuance of Social Bonds must be applied to Social Projects that generate specific and well-defined social benefits. Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for target populations.

The net proceeds of each Social Bond issued by Angel Oak Mortgage Trust (AOMT) under the Framework will be applied to fund the issuer's purchase of portfolios of loans originated by Angel Oak affiliated companies or other pre-approved lending platforms and to pay certain expenses incurred in connection with the issuance of the Social Bonds. The issuer will finance the purchase of these loans through a term non-recourse securitization of the underlying loan portfolio, involving the issuance of securitized Social Bonds to one or more investors.

Non-QM Residential Mortgage-Backed Securities

The non-QM residential mortgage loans that are securitized by Angel Oak Mortgage Trust will be used to finance the purchase of developed residential real estate assets that represent an Eligible Social Project related to the SBP Social Project categories of Access to Essential Services (Financial Services), Affordable Housing and/or Socioeconomic Advancement and Empowerment (Equitable Access to and Control over Assets). The positive social impact of the Eligible Social Project will make residential real estate financing available to applicants that often cannot access affordable financing from traditional lenders such as banks and credit unions as they are generally unable to qualify under the automated underwriting processes of these institutions given the unique nature of their sources of income or revenue.

Eligible Social Project Target Population Categories for non-QM RMBS (note that some borrowers might have characteristics in multiple categories):

- Borrowers with complex sources of income
    - Unlike Agency-conforming loan programs that use rigid automated underwriting systems that generally rely on form W-2 income verification processes, non-QM lending considers income sources for borrowers that must be manually verified, including overtime, second job income, income from part-time work, bonus payments, certain allowances and benefits, child benefit payments, and pension incomes.
- Self-employed/sole proprietors
    - Non-QM mortgage underwriting can evaluate the income generated by small businesses that accrue to their owners in way other than salaries, such as distributions or dividends, ensuring that all legitimate sources of borrower income can count towards their debt service capabilities.
- First-time homebuyers and down payment assistance borrowers
    - First time homebuyers are often not able to demonstrate enough prior credit history from credit bureaus such as Experian, Equifax, and TransUnion. In addition, while their income is often adequate for debt service, first time home buyers are often millennials who have had less time to save up for the necessary down payment costs. Angel Oak has developed several lending programs with flexible down payment options allowing for home buyers

without substantial financial assets to pay for a down payment to obtain the necessary funds from a variety of sources to enable these borrowers to achieve homeownership.

- Credit curing for non-prime borrowers
    - The manual underwriting processes that are necessary to engage in non-QM mortgage lending can identify, evaluate and serve borrowers whose credit history might be imperfect but who have a strong enough financial position to merit the extension of credit. Non-prime borrowers are generally considered to be those with FICO® scores below 660. Once borrowers have established a stable payment history under Angel Oak's non-QM lending programs, they generally are able to bridge to other credit products offered by traditional lenders such as banks and credit unions, often at more favorable interest rates.
- Borrowers seeking affordable housing
    - Angel Oak can identify and evaluate complex income sources associated with small businesses and sole proprietorships and also have innovative lending programs that help first time homebuyers qualify for housing finance. These capabilities give Angel Oak the ability to provide access for lower income borrowers to purchase affordable housing, defined as having a cost of acquisition being less than 80 percent of the area median income. The Company's ability to reach a broader base of borrowers also gives it better penetration in census tracts with concentrations of low-to-moderate (LMI) residents seeking credit for affordable housing.
- First responders and frontline workers
    - Due to their low incomes, many frontline workers (teachers, police, firefighters, home health care workers, retail) either have poor or no credit, or otherwise have complex income from multiple sources that makes accessing credit for housing difficult to obtain from traditional lending channels. This is especially true in areas of urban density with higher housing costs that were hardest hit by COVID.
    - Because Angel Oak controls its own origination, the application systems can be calibrated to capture data elements that other lenders cannot access. The Company can track occupation data for borrowers and can identify and monitor loans that are made to first responders (police, firefighters, EMTs, and other public safety workers such as those in the armed services) and frontline workers (teachers, physicians, nurses, med techs, home health care workers, etc.). Angel Oak's innovative commercial lending programs can increase the availability of workforce housing, defined as housing affordable to households earning between 60 and 120 percent of area median income (AMI). Workforce housing targets middle-income workers which include police officers, firefighters, teachers, health care workers, retail clerks, etc.

<u>Small Balance Commercial Mortgage Loan Securitizations</u>

The small balance commercial mortgage loans will be used to finance the purchase of developed multi-family residential real estate or commercial real estate assets that represent an Eligible Social Project related to the SBP Social Project categories of Access to Essential Services (Financial Services), Affordable Housing, Employment Generation and/or Socioeconomic Advancement and Empowerment (Equitable Access to and Control over Assets). The positive social impact of the Eligible Social Project will make commercial real estate financing available to applicants that often cannot access affordable financing from traditional lenders such as banks and credit unions as they are unable to qualify under the automated underwriting processes of these institutions given the unique nature of their sources of income or revenue.

Eligible Social Project Target Population Categories for Small Balance Commercial Mortgage Loans:

- Small Business Owners
    - Angel Oak adopts the categorizations of small businesses by industry as defined by the U.S. Small Business Administration (SBA):
        - Agriculture: Maximum of $750,000 in average receipts.
        - Mining: Maximum of 250 to 1,500 employees depending on subsector within mining.
        - Utilities: Maximum number of employees ranges from 250 (for renewable electric power generation subsectors) to 1,000 (for electric power and natural gas distribution businesses).
        - Construction: Maximum of $36.5 million in average receipts.
        - Manufacturing: Maximum number of employees ranges from 500 to 1,500 (with approximately 27% of all manufacturing businesses having a maximum employee cap at 500 employees).
        - Wholesale Trade: Maximum number of employees ranges from 100 to 250.
        - Retail Trade: For one-third of all retail trade sub-industries, size standards are set at $7.5 million in average annual receipts. Other industries are defined by 100 to 500 employee maximums.
        - Transportation and Warehousing: Maximum number of employees ranges from 500 to 1,500. Some sub-industries in transportation and warehousing are defined by a range of $7.5 million to $37.5 million in average annual receipts.
        - Information: Maximum number of employees ranges from 500 to 1,500, depending on the sub-industry. The maximum average annual receipts for this industry ranges from $7.5 million to $38.5 million.
        - Finance and Insurance: A maximum of 1,500 employees (for direct property and casualty insurance carriers), and a maximum in average annual receipts ranging from $32.5 million to $38.5 million.
        - Real Estate, Rental, and Leasing: A maximum of $7.5 million to $32.5 million in average annual receipts.
        - Professional, Scientific, and Technical Services: A maximum of $7.5 million to $20.5 million in average annual receipts, or a maximum of 1,000 to 1,500 employees.
        - Health Care and Social Assistance: A maximum of $7.5 million to $38.5 million in average annual receipts.
    - Small businesses are often found in rural or isolated areas that don't have reliable access to traditional sources of capital or financing such as banks, credit unions or even Community Development Financial Institutions (CDFIs). These types of potential borrowers are often overlooked by lenders they are perceived as being less valuable than a larger company that can become a customer for multiple banking products.

Small business owners are often forced to mortgage their primary residences to obtain capital to fund their businesses, adding excess "hidden" leverage to their business model.

- Residents of Affordable Multi-family Housing Units
    - In many areas of the country, an increased demand for the limited inventory of single-family housing stock has driven private home ownership or even single-family rental beyond the reach of many people. The availability of affordable multi-family units is critical to providing housing to low-to-moderate income individuals. However, traditional lenders often do not underwrite smaller (5-10 unit) multi-family projects in neighborhoods outside of densely populated urban areas, where the need for affordable multi-family housing is most critical.

ICMA Social Bond Project Categories

Angel Oak's non-QM RMBS and small balance commercial loan securitizations will channel funds from the capital markets into financing for assets that align with the ICMA projects described below:

ICMA SOCIAL BOND PROJECT CATEGORIES	SOCIALLY BENEFICIAL IMPACT FACTORS
Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)	• Enabling access to financing for vulnerable groups such as those impacted by natural disaster, or the general population affected by the global health pandemics impacting the U.S. • Strengthening communities by supporting housing • Enabling investments that incentivize the improvement of the health and wellbeing of multi-family tenants through building design and resident services
Affordable Housing	• Enabling the acquisition or financing of single-family housing that is affordable to potential borrowers in low-to-moderate income census tracts or Opportunity Zones • Enabling the acquisition or financing of multi-family housing that is affordable to potential borrowers in low-to-moderate income census tracts or Opportunity Zones • Enabling the acquisition or financing of multi-family properties that are affordable to low-to-moderate income individuals and families through Workforce Housing

Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance.	• Enabling the acquisition or financing of commercial or mixed-use properties that provide small- and medium-sized commercial enterprises (SMEs) with the infrastructure to thrive and expand, sustaining existing jobs and creating new jobs which alleviates unemployment
Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)	• Enabling the acquisition or financing of single-family housing in underserved communities • Providing access to capital to traditionally underserved and underrepresented groups • Equity commitment to fund affordable rental housing in underserved markets • Enabling the acquisition or financing of multi-family housing in underserved communities • Enabling the acquisition or financing of affordable commercial properties from which to operate small businesses in underserved communities

Opinion: *ISS ESG finds that the Use of Proceeds description provided by AOCA aligns with the SBPs. Both residential mortgage loans and small balance commercial mortgage loans (real estate assets) to underserved population align with the "Access to Essential Services (financial services)", ''Affordable housing'', ''Employment generation'' and "Socioeconomic Advancement and Empowerment" categories of the SBPs. For residential mortgage loans, AOCA has identified an appropriate target population consisting of borrowers with complex sources of income, self-employed/sole proprietors, first-time homebuyers and down payment assistance borrowers, non-prime borrowers, borrowers seeking affordable housing and first responders/frontline workers. For small balance commercial mortgage loans, AOCA will specifically target small business owners and residents of affordable multi-family housing units. The project categories are aligned with the issuer's broader sustainability strategy and clear exclusion criteria are defined. However, environmentally harmful project categories such as fossil fuel related projects are not included in AOCA's exclusion criteria. While the social benefits of the projects are clear, ISS ESG also observes that potential negative externalities from the project should be taken into consideration. One being the inequalities created from increased interest rates associated to loans to underserved people. In fact, deploying a human underwriter for each case allows AOCA to offer a greater variety of products to customers, but incurs higher origination costs vs. automated underwriting platforms. These processing costs are passed onto customers through the interest rate charged. AOCA's product pricing is typically 1.0% - 3.0% higher than interest rates charged by banks and credit unions, but lower than non-conforming credit lenders offering a higher risk / higher annual percentage rate proposition.*

2. Process for Project Evaluation and Selection

The evaluation and selection process will ensure that the proceeds of the Social Bonds issued under the Framework will ultimately be used to fund residential and commercial mortgage origination to expand access to housing finance for the target populations described above. This will ensure that the Use of Proceeds will fulfill the Social Bond Project categories described above and align with certain of the UN's Sustainable Development Goals (SDGs). The securitization process will be coordinated across several functional areas within the Angel Oak family of companies and with non-affiliated lenders which could include:

- Mortgage origination companies
  - Angel Oak Mortgage Solutions
  - Angel Oak Home Loans
  - Angel Oak Commercial Lending
  - Non-affiliated pre-approved lending platforms
- Whole Loans Team
- ESG Team
- Legal Team/General Counsel
- Risk Management Team
- Compliance Team
- Operations Team

The securitization of loans originated by Angel Oak will be collateralized by a pool of loans purchased by Angel Oak Capital Advisors from affiliated companies or pre-approved non-affiliated originators with proceeds raised from issuance of the securitized Social Bonds. The broad underwriting standards ensuring alignment with the social impact criteria under the Social Bond Framework for each loan program that could provide loans for a securitization are described below. All non-affiliated lenders must adhere completely to Angel Oak's underwriting guidelines, and all loans that go into Angel Oak securitizations are audited by third parties like AMC or Clayton for conformance to Angel Oak's underwriting guidelines.

Non-QM Residential Social MBS Project Evaluation and Selection

Angel Oak Mortgage Solutions (AOMS) offers non-QM and specialized mortgage solutions for brokers and correspondents throughout the country. AOMS comprises a team of qualified mortgage professionals who provide programs specifically for consumers whose circumstances may not meet standard Agency financing guidelines. Currently, AOMS is the largest non-bank originator of non-QM residential mortgage loans in the U.S. Angel Oak Home Loans (AOHL) is a full-service lender focused on providing a variety of traditional and non-traditional (non-QM) mortgage products that are tailored to meet individual home financing needs. AOHL has established a retail lending platform that allows licensed mortgage advisors to focus on purchases and refinances in communities operating from local branches throughout the U.S. The consumer direct platform services customers through leads generated online from AOHL's digital lending system.

<u>Social Impact Criteria for Single-Family Non-QM Residential MBS</u>

The loans underwritten through the lending programs listed above that are selected for securitization under the Framework must align with an Eligible Social Project related to the SBP Social Project categories of Access to Essential Services (Financial Services), Affordable Housing, and/or Socioeconomic Advancement and Empowerment (Equitable Access to and Control over Assets). The following underwriting and lending programs which align with the categories above will be utilized to originate the residential mortgages which will be funded by securitizations issued under the Social Bond Framework:

- **Bank Statement Mortgage –** A program for self-employed borrowers who need an alternative method to show the true cash flow of their business that provide their income through salaries and distributions.
- **1099 Income Loan –** A program for self-employed borrowers who are 1099 earners not able to qualify for a full documentation mortgage loan. Tax write-offs make verifying income difficult for self-employed people. This program incorporates information from 1099s for the last year or the last 2 years in lieu of tax returns.
- **Investor Cash Flow –** A program allowing borrowers to qualify based on rental income analysis of financed affordable housing properties to determine cash flow for debt service coverage. No personal income is required to qualify.
- **Platinum Jumbo –** A program for borrowers whose qualification metrics regarding income or debt factors were just slightly outside of the qualifications for conventional financing. This program broadens access to housing credit by addressing underserved borrowers in high-cost housing markets.
- **Asset Qualifier –** A program for borrowers without documented current income can qualify using their liquid assets. Employment, income, or DTI data are not required to determine the ability to repay the loan. This program enables otherwise strong credits who might be between contracted jobs or who are temporarily not employed to qualify for housing finance.
- **Portfolio Select –** A program for Alt-A borrowers, a loan classification for mortgages falling between Prime and Non-QM standards. Angel Oak's Portfolio Select product is specifically designed to enable Alt-A borrowers who just missed meeting Prime borrowing standards to qualify for housing finance at competitive rates that are lower and more affordable than those on non-QM loans.

Small Balance Commercial Loan Securitization Project Evaluation and Selection

Angel Oak Commercial Lending (AOCL) is an affiliated specialty finance company providing solutions to meet the underserved financing needs of commercial real estate owners, developers and investors. Angel Oak Commercial Lending offers senior mortgage, mezzanine, and bridge loans on all commercial asset classes throughout the U.S. AOCL's small balance commercial lending programs are focused on lending to small businesses which are one of the most important engines of job creation in the U.S. economy. Borrowers are generally small businesses and sole proprietors who are unable to qualify for financing from traditional lenders such as banks and credit unions. The AOCL platform also purchases loans from smaller originators located in diverse locations around the country, supporting job creation in multiple markets. The small balance commercial program described below provides access to debt markets for value-add, transitional and stabilized projects.

Social Impact Criteria for Small Business Commercial Loan Securitizations

The loans selected for securitization under the Framework must align with an Eligible Social Project related to the SBP Social Project categories of Access to Essential Services (Financial Services), Affordable Housing, Employment Generation, and/or Socioeconomic Advancement and Empowerment (Equitable Access to and Control over Assets).

- **Small Balance Commercial** - A program offering SBA 504 look-alike loans with senior mortgage security for smaller income producing multi-family and generic commercial real estate properties. These loans are generally made on properties that are multi-use and comprise ground level commercial retail space combined with multi-family residential housing in low-to-moderate income areas. Some properties may also be exclusively commercial or multi-family residential.

Opinion: *ISS ESG considers the Process for Project Evaluation and Selection description provided by AOCA's Social Bond Framework as aligned with the SBPs. The evaluation and selection process is well described and the companies that will originate the loans and departments that will be involved in the process are clearly identified.*

3. Management of Proceeds

The expected allocation period of the proceeds derived from the issuance of Social Bonds under the Framework is very brief. On the issuance date of the bonds, the Issuer will use the proceeds to immediately purchase a specific pool of residential or small balance commercial loans. Only loans originated by AOCA affiliates or pre-approved non-affiliated lenders which have been identified and subjected to pre-purchase audit review by independent third-party auditors ahead of the issue date can be purchased. Once the proceeds are allocated in this way the pool of loans within the Social Bond securitization remain static until they amortize or pay down through prepayments.

Angel Oak engages the services of a third-party loan servicer to monitor all information relative to the proceeds of the Social Bond. The servicer engaged by Angel Oak is rated by S&P, Fitch and Moody's and is subject to annual due diligence under Angel Oak's third-party vendor management system. The loan servicer is engaged to protect the interests of the investors in the Social Bond and provides them with information about the performance of every loan in the securitization. Relevant data include principle, interest, tax and insurance (PITI) payments, amortization, prepayments, delinquencies and recoveries in the event of default.

Key unique identification information relating to the Social Bond including issuer, transaction date, principal amount of proceeds, settlement date, maturity date, and interest margin or coupon, ISIN number etc. are maintained by Angel Oak on behalf of its investors in their trade order management system (TOMS) and in their accounting system.

Non-QM RMBS

Non-QM Residential Social MBS are backed by single-family properties meeting the eligibility criteria defined in the Framework. The management of the proceeds from these securities are consistent across Angel Oak's underwriting standards and loan programs. Angel Oak will acquire and securitize the mortgage loans from affiliated lending companies or pre-approved non-affiliated lending platforms if they conform to all requirements stated in underwriting guidelines for each loan program. Once acquired, Angel Oak securitizes the loans and sells them directly to the private label or non-Agency MBS investor community. The proceeds from the sale of Social Residential MBS will finance the acquisition or refinancing of a property that must also meet one of the eligibility criteria established by the Framework.

Small Balance Commercial Loan Securitization

Small Balance Commercial Real Estate Social Bonds are backed by commercial, multi-family and mixed-use properties meeting the eligibility criteria defined in the Framework. The management of the proceeds from these securities are consistent across Angel Oak's underwriting standards and loan programs. Angel Oak will acquire and securitize the small balance commercial real estate loans from

Angel Oak Commercial Mortgage if they conform to all requirements stated in underwriting guidelines for the Small Balance Commercial loan program. Once acquired, Angel Oak securitizes the loans and sells them directly to the asset-backed securities (ABS) investor community. The proceeds from the sale of Small Balance Commercial Real Estate Social Bonds will finance the acquisition or refinancing of a property that must also meet one of the eligibility criteria established by the Framework.

Opinion: *ISS ESG finds that Management of Proceeds proposed by AOCA's Social Bond Framework is well aligned with the SBPs, as all the proceeds will be properly tracked by a renowned loan servicer company called SPS. The proceeds should be used by the issuer on the issuance date.*

4. Reporting

Angel Oak will prepare and publish a Social Bond Annual Report which will be made available on the Angel Oak website (www.angeloakcapital.com). This Report will be produced for each Social Bond issued under the Framework up to and including the final year that each Bond is outstanding or in case of material changes to the structure of the Bond or the underlying collateral.

The Social Bond Annual Report will contain at least the following details:

- Allocation Reporting (e.g., details of Social Bond(s) issued, aggregated reporting of loans financed by Social Bond proceeds at issuance date). This allocation reporting will include all of the relevant factors from the loan servicing reports (also called remittance or trustee reports) issued in the previous year that reflect the performance of the underlying loans. These factors will include:
    - Unpaid Principal Balance (UPB) on each loan in the Social Bond securitization;
    - The contractual interest rate being paid on each loan;
    - The total amount of amortized principle paid on each loan over the previous year;
    - The total amount of prepaid principle paid on each loan over the previous year;
    - The payment status of each loan in the pool (current, delinquent, in default);
    - The amount of recoveries through collection on any defaulted loans.
- Impact reporting: where possible, qualitative and/or quantitative reporting of the social impacts resulting from loans financed by the Social Bond proceeds including the impact indicators listed below. Additional social impact indicators could be monitored in the future as additional data are gathered during the loan origination process.

Non-QM Residential MBS

ICMA SBP PROJECT CATEGORIES	POTENTIAL IMPACT REPORTING METRIC
Access to Essential (Financial) Services	• Number and Unpaid Principal Balance (UPB) of loans financed through Social Bond issuance • Number and UPB of loans to first time homebuyers • Number and UPB of loans to small business owners • Number and UPB of loans to non-prime borrowers

Affordable Housing	• Number and UPB of loans financed in low-to-moderate income census tracts • Number and UPB of loans financed in Opportunity Zones • % AMI distribution of homes financed*
Socioeconomic Advancement and Empowerment	• Number and UPB of loans financed in low-to-moderate income census tracts • Number and UPB of loans financed in Opportunity Zones • % AMI distribution of homes financed • Time series of weighted average FICO score for loan pool

***AMI Threshold**:

Angel Oak's Social Securitized Bond MBS program quantifies the number and UPB of loans made to borrowers living in with incomes below the Average Median Income (AMI) for the census tract in which they live:

AMI THRESHOLD	DESIGNATION
<=50%	Very Low Income
<=80%	Low Income
<=100%	Moderate Income
<= 120%	Workforce Housing

Small Balance Commercial Real Estate Securitization

ICMA SBP PROJECT CATEGORIES	POTENTIAL IMPACT REPORTING METRIC
Access to Essential (Financial) Services	• Number and UPB of loans financed through the issuance of small balance commercial real estate loan securitizations • Number and UPB of loans to small business owners • Number and UPB of loans to non-prime borrowers
Affordable Housing	• Number and UPB of loans financed in low-to-moderate income census tracts • Number and UPB of loans financed in Opportunity Zones

Employment Generation	• Number and UPB of loans financed through Social Bond Issuance. • Number of employees of firm approved for credit (self-disclosed during application process)
Socioeconomic Advancement and Empowerment	• Number and UPB of loans financed in low-to-moderate income census tracts • Number and UPB of loans financed in Opportunity Zones

Opinion: *ISS ESG finds that the reporting proposed by AOCA's Social Bond Framework is partially aligned with the SBPs. The frequency is in line with best market practices. AOCA also provides a list of impact indicators that provides qualitative information about the borrower, useful to understand impact on target population.*

External review

ISS-ESG was engaged to provide an external review in the form of a Second Party Opinion on the Framework, and to confirm alignment with the most recent ICMA SBPs (currently 2020) and the UN SDGs. The Second Party Opinion will be made publicly available on the Angel Oak website. An appropriate external review provider will be engaged to review portfolio data summarized in the stratification tables of the Social Bond Annual Report. The Social Bond Annual Report and the opinion of the external reviewer regarding the accuracy of the Report will be made publicly available on the Angel Oak website.

PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE ELIGIBLE CATEGORIES TO THE UN SDGs

Based on the assessment of the sustainability quality of the Eligible categories and using a proprietary methodology, ISS ESG assessed the contribution of the AOCA's Social Bond Framework to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

Significant Obstruction	Limited Obstruction	No Net Impact	Limited Contribution	Significant Contribution

Each of the Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Residential mortgage loans (provided to an underserved population)	Limited contribution[6]	
Small balance commercial mortgage loans (provided to an underserved population)	Limited contribution[5]	

[6] This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs.

B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBLE CATEGORIES[7]

Residential mortgage loans provided to an underserved population

ASSESSMENT AGAINST ISS ESG KPI	
Inclusion	
✓	AOCA's non-QM underwriting programs must adhere to all of the U.S. Fair Lending laws (the Equal Credit Opportunity Act and the Fair Housing Act) that prevent discriminatory lending practices. Moreover, to ensure that loan applicants are aligned with the underserved target populations, there are specific data elements in the origination process that have to be collected to demonstrate alignment (e.g. Lack of prior mortgage credit on a credit report would indicate first time homebuyer status).
Responsible treatment of customers with debt repayment problems	
✓	AOCA's non-qualifying mortgage (non-QM) lending programs must by law adhere to the Ability-to-Repay (ATR) Rule[8]. The ability to repay rule aims at preventing borrowers from over-indebtedness.
✓	AOCA and its sub-servicers follow the Real Estate Settlement Procedures Act (RESPA) guidelines[9] when a transfer of servicing is required.
✓	AOCA and its sub-servicers have developed a regulatory compliant delinquency management process. The sub-servicers will communicate with the borrower throughout the life-cycle of the loan to ensure their ability to pay. When needed, customize mitigation loss processes are implemented (e.g., unemployment payment plan, deferral of past due payments, modification of terms). In accordance with regulatory guidelines, the sub-servicer will ensure all loss mitigation options have been explored prior to initiating foreclosure proceedings.
Controversy assessment	
Due to a low controversy risk, ISS ESG does not carry out a controversy assessment for private mortgages.	

[7] Assessment based on information provided by Angel Oak Capital Advisors.
[8] Sections 1411, 1412, and 1414 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).
[9] https://www.consumerfinance.gov/rules-policy/regulations/1024/33/

Small balance commercial mortgage loans provided to an underserved target population

ASSESSMENT AGAINST ISS ESG KPI	
Exclusion of controversial activities	
✓	In the small balance commercial mortgage loans underwriting standards, AOCA explicitly excludes financing of controversial business activities such as fossil fuel related projects.
Non-discrimination	
✓	As under the U.S. commercial code there are restrictions on the requirement that debt investors can enforce against specific business practices, there are no or limited information available on policies and measures in place ensuring that projects financed under this framework prohibit discrimination in the workplace. However, AOCA's underwriting guidelines do require that any business activities conducted in the facilities that are financed must adhere to all applicable U.S. laws and regulations, including those that address discrimination in the workplace.
Labor standards	
✓	All small balance commercial lending will target companies in the US that has not ratified all of the ILO Core Conventions (specifically the C138. Minimum age convention). However, AOCA's underwriting standards do require that any business activities conducted in the facilities that are financed must adhere to all applicable U.S. laws and regulations, including those that address workplace safety. Moreover, in its Small commercial mortgage loans underwriting standards, AOCA specifically states that it 'will never knowingly finance the purchase of an existing property that was constructed using child labor in violation of the Federal Fair Labor Standards Act of 1938'. Other topics related to labor standards are well covered by national laws.
Environmental management	
✓	Angel Oak's small balance commercial lending program underwriting standards requires a specific set of environmental reports to be submitted before the financing can be approved. The first requirement is the ordering of an Environmental Data Record. If the EDR turns up something that warrants further review, the next step is usually a Phase I Environmental Site Assessment (process guided by federal Environmental Protection Agency standards). If the ESA reveals issues, Angel Oak will typically order a Phase II ESA assessment. AOCA will decline loans on properties that have environmental issues that are not remediated.
Controversy assessment	
Due to a low controversy risk, ISS ESG does not carry out a controversy assessment for SME financing.	

DISCLAIMER

1. Validity of the SPO: As long as Angel Oak Capital Advisors Social Bond Framework remains unchanged
2. ISS ESG uses a scientifically based rating concept to analyze and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the se- lection criteria is based solely on random samples and documents submitted by the issuer.
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ANNEX 1: Methodology

ISS ESG Social KPIs

The ISS ESG Social Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the Use of Proceeds of AOCA's Social Bonds.

It comprises firstly the definition of the Use of Proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Social Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment "no or limited information is available" either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Social Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by AOCA (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which AOCA's Social Bonds contributes to related SDGs.

ANNEX 2: Quality management processes

SCOPE

AOCA commissioned ISS ESG to compile a Social Bonds SPO. The Second Party Opinion process includes verifying whether the Social Bond Framework aligns with the SBPs and to assess the sustainability credentials of its Use of Proceeds, as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA SBPs
- ISS ESG KPI set:
  - Private Mortgages
  - SME Financing

ISSUER'S RESPONSIBILITY

AOCA's responsibility was to provide information and documentation on:

- Framework
- Asset pool / Eligibility criteria
- Documentation of ESG risks management at the asset level

ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Social Bond Framework to be issued by AOCA based on ISS ESG methodology and in line with the ICMA SBPs.

The engagement with AOCA took place in March/April 2021.

ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/

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