

Second-Party Opinion
Service Finance Company, LLC
Sustainable and Energy Efficient Home
Improvement Loans Framework



Evaluation Summary

Sustainalytics has reviewed the Service Finance Company Sustainable and Energy Efficient Home Improvement Loans Framework (the “Framework”) and is of the opinion that the components of the Framework are credible and that Service Finance’s program for financing eligible projects under the framework (the “Financing Program”) will fund impactful environmental projects. Sustainalytics is of the opinion that the principles of impact and transparency that underlie the sustainable investment industry, as well as many of its norms and standards, are applicable to the Financing Program, and that the use of funds in eligible projects aligns with those principles, while noting one substantial limitation. This opinion is based on the following:

IMPACT Service Finance will invest in projects across the environmental theme of Energy Efficiency. The geographic focus of the investments will be primarily in the U.S. Energy efficiency projects have accounted for 70 to 80% of the loans originated by Service Finance since 2017. Majority of the home improvement equipment used within eligible projects is produced using ENERGY STAR rated components. Sustainalytics considers these investments to deliver overall social and environmental benefits. The remaining portfolio could include other projects such as home remodeling where the Company has communicated that identifying directly attributable efficiency gains is difficult. Sustainalytics considers financing of such projects to be a substantial limitation to the Framework.

TRANSPARENCY ECN demonstrates the principle of transparency through both its process for management of proceeds and commitment to ongoing reporting. The Company intends to facilitate financing for energy efficient home improvements across the U.S. The Company has adequate processes in place to ensure sound management of the Financing Program and to mitigate key social and environmental risks associated with projects. Furthermore, the Company intends to report annually on the Financing Program which will include the breakdown of loans originated and number of energy efficient projects financed by type and geography, and the distribution of originations volume by consumer FICO scores. The reporting will be made available on ECN’s website within 60 days of the end of each calendar year. Sustainalytics considers this as aligned with market practice.

Evaluation Date	July 6, 2021
Issuer Location	Toronto, Canada

The Sustainable Deposits contribute to the following SDGs:



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Scope of Work and Limitations

Service Finance Company LLC (“Service Finance” or the “Company”), a wholly owned subsidiary of ECN Capital Corp. (“ECN”), has engaged Sustainalytics to review the Service Finance Company Sustainable and Energy Efficient Home Improvement Loans Framework (the “Framework”), dated June 2021, and provide an opinion on the Framework.

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent¹ opinion derived from a review of the Framework against the key principles of impact and transparency that underlie the sustainable investment industry, as well as the Framework’s robustness and credibility against market norms and standards. For the use of proceeds/eligible projects review, Sustainalytics relied on its internal taxonomy, version 1.9.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

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

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

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

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

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

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

For inquiries, contact the Sustainable Finance Solutions project team:

Jhankrut Shah
Project Manager
jhankrut.shah@morningstar.com
(+1) 647 264 6641

Amala Devi
Project Support

Paramjot Kaur
Client Relations
susfinance.americas@sustainalytics.com
(+1) 646 518 9823

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

Introduction

Service Finance is a wholly owned subsidiary of ECN based out of Boca Raton, Florida. Service Finance originates and manages short-duration, unsecured consumer loans for 25+ funding partners to finance home improvement projects in the U.S. through its financing program. ECN is a financial business service provider headquartered in Toronto and South Florida. It has over USD 33 billion in managed and advised credit portfolios across categories such as home improvement loans, manufactured home loans and consumer credit card portfolios.²

ECN has engaged Sustainalytics to review and assess the ESG credentials of the Framework and provide an opinion based on the Framework's alignment with industry expectations and ECN's strategic sustainability priorities.

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

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Service Finance Sustainable and Energy Efficient Home Improvement Loans Framework

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



Impact

- Under its loan origination program, the Company finances energy efficiency, and remodelling projects in existing homes. The Company sources originations from its national network of dealers for energy efficient equipment by manufacturers such as Lennox, Owens Corning, Dal-Tile etc. Loans originated are typically within the retail lending space where borrowers are individual homeowners based in the U.S.
- Service Finance has identified the environmental theme of Energy Efficiency for eligible projects and intends to deliver positive environmental and social benefits by reducing the energy footprint of homes and operating costs for homeowners.
- Service Finance has communicated to Sustainalytics that the eligible energy efficient projects are defined as projects where the reduction in energy consumption and operating costs can be readily identified. Such projects may include upgrades to HVAC, windows, doors, roofing, and rooftop solar projects. According to data shared by Service Finance with Sustainalytics, loans for Energy Efficiency upgrades have accounted for 70 to 80% of the total annual loan originations since 2017.
- The majority of the home improvement equipment used within eligible projects is produced using ENERGY STAR rated components. Sustainalytics views investments in energy efficient technology with certifications from credible third-party certification schemes as aligned with market practice.
- Sustainalytics notes that 20 to 30% of the Company's portfolio could include other projects such as home remodelling for which information on directly attributable energy efficiency gains is difficult to identify.

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

Sustainalytics does not consider financing of such projects to be aligned with market practice and as such considers this to be a substantial limitation to the Framework.



Transparency

Transparency is recognized as a key principle with regards to sustainable finance, as it provides assurance that investments are delivering positive impact. Sustainalytics highlights the following elements of the Service Finance Sustainable and Energy Efficient Home Improvement Loans Framework that facilitate transparency to clients:

Disclosures regarding management of the Financing Program

- Under the Financing Program, Service Finance originates short-term loans to retail consumers with a good credit profile (with an average FICO score of 770 in 2020³) to finance home improvement projects in the U.S. The eligible loans originated under the Financing Program are executed as Retail Investment Contracts (“RIC”) between Service Finance and the consumer.
- Service Finance performs underwriting for each loan applicant and sells the RIC to partner financial institutions, without recourse to Service Finance. As of 2021, Service Finance has around USD 3 billion in managed credit portfolios through partnerships with over 25 financial institutions that include banks, life insurance, pension and credit unions,⁴ and follows strict compliance standards and underwriting practices as required under various regulations and from the partner institutions.
- The loan servicing responsibilities are retained with Service Finance. The processes in the Financing Program are managed and tracked by Service Finance through a technology platform that integrates loan origination, servicing, payment processing, asset management and reporting.
- Sustainalytics considers this level of disclosure to investors as sufficient to ensure the credibility of the project selection process.

Mitigation of environmental and social risks

While Sustainalytics recognizes that the Financing Program with its focus on Energy Efficiency will have positive environmental impacts, Sustainalytics is aware that such projects could be associated with negative environmental and social outcomes such as health and safety risks during implementation of the home improvement projects and risks associated with consumer protection. Sustainalytics is of the opinion that Service Finance can mitigate such risks through the implementation of the following:

- Service Finance has communicated to Sustainalytics that, as a financing entity, while it does not have direct oversight over dealer/contractor compliance with environmental, health and safety regulations, it has verification processes in place for vetting them. As part of these processes, the Company annually verifies and certifies each dealer/contractor based on a review of licenses, financial, legal, and public records, complaints lodged and trade references. In addition, Service Finance also requires homeowners to confirm that the projects have been completed to their satisfaction prior to funding each loan.
- As a seller of loans to Federal Deposit Insurance Corporation (“FDIC”) insured banks and an approved Federal Housing Administration Title 1 lender, Service Finance is required to comply with various bank regulations, consumer disclosure and fair lending rules and audits from State licensing agencies and their funding partners. Service Finance has direct or indirect oversight from the FDIC, Office of the Comptroller of Currency, Financial Protection Bureau, National Credit Union Administration and Nationwide Multistate Licensing System & Registry.⁵
- Service Finance complies with all applicable state and federal laws such as the Anti-Money Laundering Act, Truth-in-Lending Act, Fair Debt Collection Practices Act, Gramm-Leach-Bliley Act to disclose

³ ECN, “2021 Investor Day”, at: <https://www.ecncapitalcorp.com/content/uploads/Investor-day-2021-Full-Deck-FINALJW.pdf>

⁴ *Ibid.*

⁵ *Ibid.*

information sharing practices and safeguard consumer data, and regulations on Unfair, Deceptive, Abusive Acts or Practices. In addition, the Company also has internal policies and processes such as its Anti-Money Laundering Program, IT Policy and Procedure Manual, Identity Theft Prevention Program, Information Security Plan, its Internal Compliance Memorandum and Business Continuity Plans. It also regularly undertakes compliance audits to ensure adherence to best practices.⁶

- Service Finance has communicated that it ensures customer protection through compliance with all applicable laws and regulations and by requiring the customer to review the Truth-in-Lending disclosures and loan documents carefully prior to funding. All Service Finance borrowers also receive a verification call prior to funding to ensure that they understand the terms and conditions of the loan and are fully satisfied with them. Service Finance has also disclosed that between 2016 and 2020, it received 76 complaints (from approx. 1.3 million processed applications) via the Consumer Financial Protection Bureau and was to provide a successful resolution to 100% of the complaints received.
- Based on these policies, standards and assessments, and subject to the limitations noted above, Sustainalytics is of the opinion that Service Finance has implemented adequate measures and is sufficiently positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Reporting

- Service Finance commits to provide annual reporting which will include distribution of origination volume by project type, the number of energy efficient projects and distribution by product type, Geographical distribution of originations and the distribution of originations volume by consumer FICO scores. The reporting will be made available on ECN's website within 60 days of the end of each calendar year.
- Sustainalytics considers this in alignment with market practice.

Section 2: Assessment of Service Finance's Sustainability Strategy

Sustainalytics considers the Framework to be aligned with the Company's overall business and sustainability strategy. Service Finance was founded in 2004 and operates exclusive vendor programs to finance home improvement projects. The Company was bought by ECN Capital in 2017 to enable ECN's transition from a balance sheet lender to a high return originator and asset manager.

Environmental sustainability has been an organic part of Service Finance's portfolio, given the energy efficiency benefits of home improvement projects. Service Finance's formal sustainability strategy is drawn from that of ECN's. ECN established its ESG Management Committee (the "Committee") recently in 2020.⁷ The Committee has been engaging with various stakeholders such as shareholders, standard setters, rating agencies, sustainability organizations, and ESG experts and in 2021, plans to incorporate the learnings into its strategy and begin implementing measures to improve policies and data collection across all of ECN's operations.

ECN is committed to advancing environmental sustainability and is in the process of finalizing its strategy to address the same through its programs as well as operations. It has implemented several initiatives such as upgrading to LED lighting, reducing paper consumption, and establishing recycling programs in all offices.⁸ Furthermore, ECN's operations are guided by the policies and standards set under its Environmental Health and Safety Management system.⁹ ECN also complies with SASB disclosure guidelines for the consumer finance industry addressing customer privacy, data security and selling practices.¹⁰

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

⁶ *Ibid.*

⁷ ECN Capital Corp. "Notice of Annual Meeting of Shareholders & Management Information Circular", (2021), at: https://www.ecncapitalcorp.com/content/uploads/AGM_-_2021_Circular.pdf

⁸ *Ibid.*

⁹ ECN Capital Corp. "Notice of Annual Meeting of Shareholders & Management Information Circular", (2021), at: https://www.ecncapitalcorp.com/content/uploads/AGM_-_2021_Circular.pdf

¹⁰ ECN capital Corp. "2021 Investor Day ESG Update", at: <https://www.ecncapitalcorp.com/content/uploads/ESG-FINALJW.pdf>

Section 3: Alignment with/contribution to SDGs


The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The Sustainable Finance Taxonomy for Sustainable Deposit Product advances the following SDG goals:

Environmental Category	SDG
Energy Efficiency	SDG 7. Affordable and Clean Energy SDG 9: Industry, Innovation and Infrastructure

Conclusion

The Service Finance Company Sustainable and Energy Efficient Home Improvement Loans Framework will advance the sustainability objectives of the Company by investing in projects with positive environmental impact. Though Sustainalytics considers that the projects/assets funded by the Financing Program will provide overall positive environmental impact, Sustainalytics considers the inclusion of remodeling projects with no directly attributable energy efficiency gains as a substantial limitation in the Framework. In Sustainalytics' view, the processes for management of the Financing Program, mitigating key environmental and social risks and for reporting, are sufficiently covered by the Framework. Based on the above, Sustainalytics is of the opinion that the Framework will deliver overall positive social and environmental benefits, based on the principles of impact and transparency, and that the Framework is credible.

Appendix 1 Sustainalytics' Assessment of Third-party Certifications

	ENERGY STAR²
Background	ENERGY STAR is a U.S Environmental Protection Agency voluntary program that provides independently certified energy efficiency ratings for products, homes, buildings, and industrial plants. Certification is given on an annual basis, so a building must maintain its high performance to be certified year to year.
Certification levels	Binary- no levels; just single award of eco-label
Areas of Assessment	Energy use
Requirements	<p>Products can earn the ENERGY STAR label by meeting the energy efficiency requirements set forth in ENERGY STAR product specifications (varies for each category). EPA establishes these specifications based on the following set of key guiding principles:⁹</p> <ul style="list-style-type: none"> • Certified products must deliver the features and performance demanded by consumers, in addition to increased energy efficiency. • If the certified product costs more than a conventional, less-efficient counterpart, purchasers will recover their investment in increased energy efficiency through utility bill savings, within a reasonable period of time. • Energy efficiency can be achieved through broadly available, non-proprietary technologies offered by more than one manufacturer. • Product energy consumption and performance can be measured and verified with testing. • Labeling would effectively differentiate products and be visible for purchasers.
Performance display	
Qualitative Considerations	Accounts only for energy use, not other measures of environmental performance.

Disclaimer

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

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

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

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 800 staff members, including more than 300 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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