



Angel Oak Q1 2021 ESG Update: Non-QM Strategies

Q1 2021

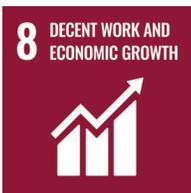
As a follow up to our introductory report distributed to investors last year, the following letter provides an update on ESG integration within our Non-QM origination and securitization program as well as provides an overview of activity in Q4 2020.

We believe ESG principles are inherent in our core Non-QM strategy of investing in loans and providing access to residential credit for borrowers who are underserved. Private capital, as measured by mortgage origination outside of Agency and Prime Jumbo, comprised approximately 10% to 12% of the U.S. mortgage market from 1990 to 2003, compared to approximately 2% today, according to Inside Mortgage Finance. Angel Oak is striving to fill this void and provide access to mortgage credit for borrowers effectively locked out of Agency or Prime Jumbo financing. Through its origination and securitization program, Angel Oak believes the firm's Non-QM efforts can be mapped to the UN PRI Sustainability Goals identified below:



GOOD HEALTH AND WELL-BEING

Providing families with greater residential stability and broader access to housing can reduce stress and other related adverse health outcomes. By alleviating crowding, affordable housing can reduce exposure to stressors and infectious disease, leading to improvements in physical and mental health.



DECENT WORK AND ECONOMIC GROWTH

Greater tax generation, creation of jobs, opportunities for economic development, increased job retention and productivity, and the ability to address inequality are all among the economic benefits of increased access to quality, affordable housing.



REDUCED INEQUALITIES

Providing access to housing finance for first-time homebuyers, small-business owners, and self-employed borrower who struggle to access such financing from traditional lending channels. Enabling the acquisition or financing of affordable housing by potential borrowers in low-to-moderate income census tracts or opportunity zones helps address income inequality.



SUSTAINABLE CITIES AND COMMUNITIES

Expanding credit availability for housing creates a range of housing opportunities and choices, which provide for an array of quality housing options in new developments and existing neighborhoods. Credit expansion allows people of all income levels, household sizes, and stages of life to live near jobs, public transit, and services.

NEW ORIGINATION

As an initial step toward realizing our ESG goals within Non-QM, Angel Oak has been focused on capturing data on ESG factors within new mortgage origination. Providing credit to underserved borrowers for homeownership provides significant social benefits, in our view, as outlined by the UN PRI Goals. During the fourth quarter of 2020, the Angel Oak-affiliated mortgage companies (Angel Oak Home Loans and Angel Oak Mortgage Solutions) originated \$463 million in Non-QM mortgages. Of this amount, approximately 83% was within the Bank Statement program catering to borrowers who are self-employed or small-business owners. According to the Bureau of Labor Statistics, there were approximately 15 million self-employed workers as of December 2020. With regard to small businesses, there are approximately 31 million small businesses in the U.S. providing jobs for about half of the private workforce in 2020 according to the Small Business Administration. Entrepreneurs and small-business owners are a key economic engine and yet they are underserved by Agency mortgage lenders due to the complexity of their incomes.

A primary social objective of the affiliated Angel Oak mortgage companies is to reduce inequalities related to accessibility of home financing as well as to facilitate homeownership for this target population. In addition to small-business owners, Angel Oak companies provided mortgage financing to first-time homebuyers with limited access to credit. First-time homebuyers were provided \$103 million in loans from Angel Oak during the fourth quarter. Compared to our historical origination, the concentration of first-time homebuyers and self-employed/small-business owners increased on the quarter. Lastly, we began flagging for voluntary racial identification and found that borrowers who identified themselves as minorities were provided \$114 million in mortgages during the period.

SERVICING

In addition to new Non-QM origination, servicing our existing borrowers within Angel Oak securitizations is another area of focus, especially in light of the hardships faced by many borrowers as a result of the pandemic. The concentration of loans in Angel Oak securitizations that were 30 days or more delinquent on their payments declined to approximately 12% at the end of the fourth quarter as compared to 26% at the onset of the pandemic. Angel Oak has worked with Select Portfolio Servicing (“SPS”, the sub-servicer on AOMT deals) to offer forbearance and repayment plans to a significant number of borrowers. As a reminder, decisions regarding modifications and repayment plans are made on a loan-by-loan basis by Angel Oak. SPS takes direction from Angel Oak and implements the appropriate approach tailored for each borrower. SPS, a subsidiary of Credit Suisse, employs a high-touch strategy with mortgage servicing. SPS is highly rated by nationally recognized rating agencies including S&P, Moody’s, and Fitch. The firm boasts a 90% customer satisfaction rating and a customer contact strategy that includes bilingual teams, extended call center hours, a dedicated team for borrowers with extreme hardships, and a single point of contact for late-stage collections.

Home prices have appreciated nationally over the past 12 to 36 months and saw a sharp acceleration in recent months. The U.S. housing market continues to perform extremely well since the recession caused by the pandemic — a stark contrast to the 2008 Global Financial Crisis. The S&P CoreLogic Case-Shiller 20-City Home Price Index increased by over 10% in 2020, a level not seen since 2014. The loans backing AOMT securitizations were originated at a loan-to-value of approximately 75% on average. The substantial home equity and recovering job market create a favorable environment for borrowers. Angel Oak and its underlying borrowers are aligned in finding a solution to becoming current and preserving equity in the home.

NEXT STEPS

As outlined in this quarter’s memo, we have begun to further integrate ESG principles into our Non-QM investment strategy by capturing ESG factors within loan data and mapping these to UN PRI Goals. Angel Oak has a path forward to further solidifying our commitment to ESG within the asset class in the coming months. We are confident that we will be able to issue a securitization with an ESG certification from an independent third party in 2021. The makeup of our collateral mix, and our business objective to provide credit to underserved borrowers, have us well positioned to do so without change or compromise to our investment strategy. We have seen recent proof of concept in the market, as exemplified by Kensington, a UK originator, issuing an ESG-certified deal backed by collateral types comparable to ours. Additionally, as we continue to grow Non-QM volumes at the mortgage origination companies, we are actively looking into rolling out Impact Lending programs in partnership with Angel Oak affiliated originators. Our captive origination model provides us with the unique ability to drive impact investing at the point of origination. We are examining the development of “green” residential loan products that would provide incentives for investments in energy-efficient housing stock. We look forward to keeping all apprised of our efforts to incorporate ESG within Non-QM and encourage our investors to please reach out to us with any questions or comments.



Robert McDonough
Director of ESG and Regulatory Initiatives

Rob is the Director of ESG and Regulatory Initiatives at Angel Oak Capital and leads the ESG integration process across the firm's investment strategies and corporate sustainability initiatives. He also coordinates a variety of research and publication activities with a focus on developments in the regulatory environment for financial institutions of all types.



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Emma is Senior Vice President of Institutional Business Development where her role is to build long-term relationships with institutional investors and deliver investment capabilities across the Angel Oak investment platform.

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