

Social Framework Alignment Opinion

OneMain Financial Social Bond Framework

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Social Bond Framework Overview

In our view, OneMain Financial's (OneMain) Social Bond framework, is aligned with the four components of the Social Bond Principles 2020 (SBP).

OneMain Financial is a personal installment lending firm based in the U.S., with operations in 44 states. OneMain's main customers are credit-constrained Americans in underserved communities. Through the provision of a variety of financial products, such as loans and insurance, OneMain plans to fulfill their customer's financial needs with transparent and responsible financial-lending business operations.

OneMain's social bond framework aims to contribute to the support of socioeconomic progress and empowerment of individuals in target locations that face credit-restrictive options, with an emphasis on women and minorities. The program provides much-needed access to financial services at fairer terms than many credit products available in these communities.

Framework Alignment Overview



1. Use of proceeds

OneMain Financial's Social Bond Framework is aligned with this component of the SBP because OneMain Financial specifies that net proceeds will be exclusively committed to their eligible social project: providing loans in disadvantaged communities.



2. Process for project evaluation and selection

OneMain's Framework is aligned with this component of the SBP in our opinion, because it details the process for identifying eligible loans. An internal committee is responsible for reviewing and ensuring the eligibility status of the portfolio for the life of the bonds.



3. Management of proceeds

We think OneMain's Framework is aligned with this component because it commits to track the net proceeds of the social bond(s) and allocate them to finance eligible loans.



4. Reporting

We believe OneMain's Framework is aligned with this component of the SBP because it has committed to releasing an annual Allocation and Impact Report that will include the allocation of proceeds and borrower profile related to the eligible portfolio.

Issuer Sustainability Objectives

OneMain Financial's Corporate Sustainability Strategy is three-pronged: to support customers' understanding and options in their financial choices; provide financial education in the communities where it operates; and maintain responsible company practices. When offering OneMain's financial products, representatives work alongside their customers to improve financial literacy and provide financial options. The expected results of these objectives are to transform underprivileged communities' financial health by increasing access to credit with payment terms that borrowers can afford.

We view OneMain's wider sustainability purpose in alignment with their Social Bond Framework goal: to increase the availability of responsible financial products and services in vulnerable and/or historically underserved populations, including for individuals with credit constraints. This also contributes to achievement of the United Nations Sustainable Development Goals (SDGs) by encouraging financial inclusion for all through the expansion of access to financial services.

Framework Description

1. Use of proceeds

The SBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible social projects. According to the SBP, the following eligible project categories capture the most common social issues: 1) affordable basic infrastructure; 2) access to essential services; 3) affordable housing; 4) employment generation, and programs designed to prevent and/or alleviate unemployment; 5) food security and sustainable food systems; and 6) socioeconomic advancement and empowerment.



OneMain commits to utilizing 100% of the net proceeds from Social Bonds toward making "social loans" in loans to individuals in disadvantaged communities, in many cases refinance high-interest debt and cushion the financial blow of unexpected events. The identification of a target population is consistent with the SBP. OneMain identified its target population by utilizing county-specific data from the Federal Reserve Bank of New York's report on "Unequal Access to Credit". OneMain commits to using the net proceeds to finance loans in counties deemed "credit insecure" or "credit-at-risk". Within these "credit insecure" or "credit-at-risk" communities, OneMain also affirms that 75% of the loans financed by the social bonds will go to racial minorities and/ or women borrowers.

These eligible projects align with the "access to essential services" social project category under the SBP. The chosen project will help mitigate social issues that arise, directly and indirectly, from the exclusion of credit insecure populations from mainstream borrowing options. OneMain asserts that greater availability to financial education and access to loans, despite credit constraints, will help to build this population's access to credit so that they may increase their long-term financial well-being.

OneMain's general financial policies, which are included in their framework, enables a pathway for enduring financial well-being due to their policies of interest-rate capping, even in states where caps are not implemented, and ability-to-pay underwriting.

2. Process for project evaluation and selection

To align with the second component of the SBP, a seeker of finance must explain the process by which eligible projects are selected; the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable; and the overall sustainability objectives that underpin the selection process.



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Social loans, eligible to be financed by the social bonds, are identified on the basis that they will be financing residents of “credit insecure” counties designated by the Federal Reserve. OneMain has identified a committee composed of a diverse group of internal stakeholders, responsible for quarterly oversight and approval of the portfolio of eligible social loans, which will also review the allocation of social bond proceeds. In these periodical reviews, the committee will check that the assets comply with OneMain's Lending Guidelines, that the loans in the portfolio are outstanding and still qualify as eligible social loans, and that the social bond framework is up to date with market best practices. In the case that an allocated loan no longer meets the eligibility criteria, the committee will reallocate the proceeds and track these changes, to maintain the portfolio aligned to the criteria.

The framework document also states for continued alignment with the SBP, the eligible loans cannot be utilized for a variety of purposes under their exclusionary criteria, which includes: gambling, real estate, and investments.

3. Management of proceeds

The SBP require a seeker of finance to monitor the net proceeds of all outstanding social bond transactions, which includes appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible social projects. The SBP also require a seeker of finance to disclose to investors the intended types of temporary placement it intends to use for unallocated proceeds.



Under the framework, OneMain commits to track the allocation of net proceeds from the social bonds on an annual basis and disclose those allocations in its annual allocation and impact report. The committee will review how proceeds are being utilized under the project selection criteria quarterly, and intends to allocate all proceeds within 12 months of issuance.

Proceeds of bonds issued under the framework will be deposited in OneMain's general fund. An amount equal to the net proceeds will be earmarked to fund eligible loans, and unallocated amounts will be held in cash or cash equivalents.

4. Reporting

The SBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing; a description of each project, including the amount allocated to each project; and their expected social impact.



OneMain has committed to publish information annually regarding the allocation of social bond proceeds and characteristics of the eligible portfolio on an aggregate level. Utilizing the information and data collected in the tracking system, a public report will be made available and updated on their website until the maturity of the bond(s). The framework document discusses the estimated impact of the social loans qualitatively.

Within the report, OneMain has committed to publish data regarding proceeds raised from social bond issuance, amount allocated to eligible loans, and the balance not yet allocated. An external reviewer will verify the allocation of social bond proceeds. The annual disclosure will also include information about the portfolio of eligible loans in “Credit Insecure Areas,” including the average loan balance and borrowers' net income; compared to the general OneMain portfolio. We believe this will provide some perspective regarding the potential impact for vulnerable and/or historically underserved populations' access to responsible financial products and services. The report will also include the number of loans and outstanding balance of the

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eligible portfolio as a percent of the total OneMain portfolio. In case of divestment, repayment, cancellation, or a change in the status of a loan as an eligible social loan, OneMain commits to reallocate those proceeds and include it in annual reporting.

Additional Features Of The Framework

This section of the report provides additional information on whether the framework incorporates recommended aspects of the SBP and goes beyond minimum requirements. This section does not impact our alignment opinion with the stated principles.

OneMain Financial's social bond framework follows the voluntary guidelines provided by the SBP. In some cases, the framework goes beyond the requirements of the SBP.

The key strengths of the framework are:

- OneMain commits to having an external reviewer provide third-party assurance of the allocation of social bond proceeds in accordance with the framework. This extra commitment by OneMain demonstrates greater transparency and is considered a market best practice.
- Under the framework, the committee will be responsible for ensuring that all eligible loans comply with the company's lending guidelines, which are meant to mitigate the risk of negative social impacts. The SBPs recommend that the eligibility criteria identify and attempt to manage social and environmental risks associated with financed projects.

Offsetting the above strengths are the following:

- The SBP recommend that issuers measure and disclose the impact of social projects, quantitatively where possible. We do not consider any of the information provided in the annual report, including borrower and loan characteristics, to measure the impact of the social loans on borrowers or credit-insecure communities. We do note the OneMain provides a brief explanation of the qualitative expected benefits of extending access to responsible credit to individuals in credit-constrained communities in its framework document.
- The SBP recommends a seeker of finance report the proportion of refinancing to financing loans in the portfolio. OneMain's Social Bond(s) Framework makes clear that eligible loans will include both new financing and refinancing, but does not commit to tracking or reporting the relative amounts. Based on our conversation with management, due to the nature of information that OneMain receives from borrowers, an estimated share of proceeds used for financing versus refinancing is not available and may not be reliable. A considerable portion of the loans include both financing and refinancing elements.

Conclusion

Based on our assessment of the contents of OneMain Financial's social bond framework, we regard this framework as being aligned with the four components of the SBP given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of bonds to eligible social projects, as defined by the seeker of finance;
- Use clear "social" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the social impact and use of proceeds.

Mapping To The U.N. Sustainable Development Goals

The Sustainable Development Goals (SDGs) were set up by the U.N. in 2015 and form an agenda for achieving sustainable development by the year 2030. We use the International Capital Market Association (ICMA) SDG mapping for this part of the report.

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We acknowledge that the ICMA mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

OneMain Financial Social Bond Framework intends to contribute to the following SDGs:

Use of proceeds

SDGs

Access to Essential Services **



*** 1. No poverty**



*** 8. Decent work
and economic
growth**



*** 10. Reduced
inequalities**

*The eligible project categories link to these SDGs in the ICMA mapping.

** The framework document describes these as “financial inclusion” projects.

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