State of the Automotive Finance Market

A look at loans and leases in Q4 2017

Presented by: Melinda Zabritski | Sr. Director, Financial Solutions
Session overview

Market Overview
- Outstanding balances
- Total risk distributions
- Delinquency

Originations
- New and Used financing
- Lender and transaction types
- Loan & lease characteristics

<table>
<thead>
<tr>
<th>Category</th>
<th>Score Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super prime</td>
<td>781 – 850</td>
</tr>
<tr>
<td>Prime</td>
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</tr>
<tr>
<td>Subprime</td>
<td>501 – 600</td>
</tr>
<tr>
<td>Deep subprime</td>
<td>300 – 500</td>
</tr>
</tbody>
</table>
Overall Automotive Finance Market
A review of all open automotive loans & leases
Loan balances reach another record high—yet experience slowing growth; Credit Unions see highest growth.

### Total open automotive loan balance

<table>
<thead>
<tr>
<th></th>
<th>2015 Q4</th>
<th>2016 Q4</th>
<th>2017 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billions</td>
<td>$987</td>
<td>$1,072</td>
<td>$1,129</td>
</tr>
<tr>
<td>%</td>
<td>11.47%</td>
<td>8.58%</td>
<td>5.31%</td>
</tr>
</tbody>
</table>

- **2015 Q4**
  - All Banks: $987
  - Captive Auto: $166
  - Credit Union: $337
  - Finance: $0

- **2016 Q4**
  - All Banks: $1,072
  - Captive Auto: $241
  - Credit Union: $364
  - Finance: $0

- **2017 Q4**
  - All Banks: $1,129
  - Captive Auto: $244
  - Credit Union: $368
  - Finance: $0

Source: Experian-Oliver Wyman Market Intelligence Reports
Percentage of subprime shrinks as prime+ reaches nearly 61% of outstanding auto loan balances

Loan balance risk distribution

<table>
<thead>
<tr>
<th>Year</th>
<th>Deep Subprime</th>
<th>Subprime</th>
<th>Nonprime</th>
<th>Prime</th>
<th>Super Prime</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Q4</td>
<td>19.32%</td>
<td>41.86%</td>
<td>19.06%</td>
<td>16.10%</td>
<td>3.66%</td>
</tr>
<tr>
<td>2016 Q4</td>
<td>19.25%</td>
<td>41.64%</td>
<td>18.72%</td>
<td>16.41%</td>
<td>3.98%</td>
</tr>
<tr>
<td>2017 Q4</td>
<td>18.96%</td>
<td>42.00%</td>
<td>19.17%</td>
<td>16.11%</td>
<td>3.77%</td>
</tr>
</tbody>
</table>

Year-over-year balance change

<table>
<thead>
<tr>
<th>Category</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep subprime</td>
<td>-0.29%</td>
</tr>
<tr>
<td>Subprime</td>
<td>3.39%</td>
</tr>
<tr>
<td>Nonprime</td>
<td>3.72%</td>
</tr>
<tr>
<td>Prime</td>
<td>6.25%</td>
</tr>
<tr>
<td>Super prime</td>
<td>7.85%</td>
</tr>
</tbody>
</table>
30 day delinquency rates are improving

% of loans & leases 30 dpd

2016 Q4 | 2017 Q4
--- | ---
Bank: 1.99% | 1.82%
Captive: 2.32% | 2.39%
Credit Union: 1.43% | 1.34%
Finance: 4.65% | 4.48%
Total: 2.44% | 2.36%

% of loan balances 30 dpd

2016 Q4 | 2017 Q4
--- | ---
Bank: 1.81% | 1.66%
Captive: 2.85% | 2.92%
Credit Union: 1.28% | 1.17%
Finance: 5.21% | 5.12%
Total: 2.48% | 2.39%
Percentage of loan balances 30 dpd

AK = 1.69%
HI = 1.79%
60 day delinquency rates also improve

% of loans & leases 60 dpd

<table>
<thead>
<tr>
<th></th>
<th>2016 Q4</th>
<th>2017 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>0.67%</td>
<td>0.61%</td>
</tr>
<tr>
<td>Captive</td>
<td>0.58%</td>
<td>0.61%</td>
</tr>
<tr>
<td>Credit Union</td>
<td>0.37%</td>
<td>0.34%</td>
</tr>
<tr>
<td>Finance</td>
<td>1.82%</td>
<td>1.73%</td>
</tr>
<tr>
<td>Total</td>
<td>0.78%</td>
<td>0.76%</td>
</tr>
</tbody>
</table>

% of loan balances 60 dpd

<table>
<thead>
<tr>
<th></th>
<th>2016 Q4</th>
<th>2017 Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>0.59%</td>
<td>0.56%</td>
</tr>
<tr>
<td>Captive</td>
<td>0.69%</td>
<td>0.71%</td>
</tr>
<tr>
<td>Credit Union</td>
<td>0.31%</td>
<td>0.27%</td>
</tr>
<tr>
<td>Finance</td>
<td>2.00%</td>
<td>1.97%</td>
</tr>
<tr>
<td>Total</td>
<td>0.78%</td>
<td>0.75%</td>
</tr>
</tbody>
</table>

Source: Experian-Oliver Wyman Market Intelligence Reports
Percentage of loan balances 60 dpd

AK = 0.57%
HI = 0.58%
Delinquency improvement in some of the larger states is driving overall 60 DPD balance decreases.

States with decreasing 60 DPD balances (bps change):
- FL: -20
- TX: -26
- DC: -5
- VT: -2
- ID: -1
- SD: -7
- OK: -4
- MT: -3
- CO: -2
- AZ: -2
- WI: -2
- NH: -3
- UT: -4
- ME: -5

States with <1 bps change in 60 DPD balances:
- GA: -0.5
- WV: -0.5
- ND: -0.4
- WA: 0.0
- MA: 0.1

States with increasing 60 DPD balances (bps change):
- AK: 14
- CT: 11
- OR: 11
- NE: 10
- AR: 9
- MS: 9
- NM: 8
- LA: 7
- VA: 6
- WY: 5
- NC: 5
- MI: 5
- PA: 5
- IA: 4
- NJ: 4
- MD: 4
- HI: 3
- KS: 3
- KY: 3
- AL: 2
- OH: 2
- NY: 2
- CA: 2
- IN: 2
- IL: 2
- SC: 1
- RI: 1
- NV: 1
- TN: 1
- MO: 1
- MN: 1
- DE: 1
Originations in Q4 2017

Trends in automotive loan and lease originations
Automotive financing: snapshot of how and what consumers are financing

Percentage of vehicles with financing

- New: 85.2% (Q4 2016) vs. 85.1% (Q4 2017)
- Used: 53.5% (Q4 2016) vs. 53.8% (Q4 2017)

Finance Market: new v used units

- New: 53.62% (Q4 2016) vs. 52.61% (Q4 2017)
- Used: 46.38% (Q4 2016) vs. 47.39% (Q4 2017)

% of all new vehicles that are leased

- Q4 2016: 28.94%
- Q4 2017: 28.28%

Used % of lease market

- Q4 2016: 3.97%
- Q4 2017: 4.06%
Captives and Credit Unions continue to gain market share (loan and lease units combined)

Market Share of Total Financing (new/used units & loan/lease)

- **Q4 2016**
  - Bank: 32.9%
  - BHPH: 6.0%
  - Captive: 28.4%
  - Credit Union: 29.9%
  - Finance Co: 13.5%

- **Q4 2017**
  - Bank: 32.2%
  - BHPH: 6.4%
  - Captive: 29.9%
  - Credit Union: 21.1%
  - Finance Co: 10.4%

Market Share of New Financing

- **Q4 2016**
  - Bank: 30.6%
  - BHPH: 0.1%
  - Captive: 52.0%
  - Credit Union: 11.9%
  - Finance Co: 5.4%

- **Q4 2017**
  - Bank: 29.4%
  - BHPH: 0.1%
  - Captive: 52.4%
  - Credit Union: 13.4%
  - Finance Co: 4.7%

Market Share of Used Financing

- **Q4 2016**
  - Bank: 35.0%
  - BHPH: 12.4%
  - Captive: 8.0%
  - Credit Union: 25.4%
  - Finance Co: 20.5%

- **Q4 2017**
  - Bank: 34.8%
  - BHPH: 12.4%
  - Captive: 8.6%
  - Credit Union: 28.4%
  - Finance Co: 15.8%
Score range refresh

<table>
<thead>
<tr>
<th>Category</th>
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<tbody>
<tr>
<td>Super prime</td>
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<tr>
<td>Deep subprime</td>
<td>300 – 500</td>
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Note: ranges above are those used by Experian Automotive for automotive finance market analysis and trending purposes. Other industries and lenders may use other ranges based on unique scores, portfolio and industry trends.
Credit scores show year-over-year improvement

Average new credit scores

- New lease
- All new
- New loan

Average used credit scores

- Franchise used
- All used
- Independent used

Q4 2013 | Q4 2014 | Q4 2015 | Q4 2016 | Q4 2017
Total finance (loan & lease) market remains at record, or near record lows for subprime financing.

**Total (new & used units) risk distribution**

- **Q4 2016**
  - Deep Subprime: 3.20%
  - Subprime: 17.62%
  - Nonprime: 40.01%
  - Prime: 19.77%
  - Super Prime: 19.40%

- **Q4 2017**
  - Deep Subprime: 2.86%
  - Subprime: 16.93%
  - Nonprime: 40.68%
  - Prime: 19.64%
  - Super Prime: 19.89%

**New risk distribution**

- **Q4 2016**
  - Deep Subprime: 11.90%
  - Subprime: 35.86%
  - Nonprime: 22.09%
  - Prime: 24.79%
  - Super Prime: 5.36%

- **Q4 2017**
  - Deep Subprime: 11.97%
  - Subprime: 36.55%
  - Nonprime: 22.20%
  - Prime: 24.92%
  - Super Prime: 4.92%

**Used risk distribution**

- **Q4 2016**
  - Deep Subprime: 5.36%
  - Subprime: 45.22%
  - Nonprime: 16.83%
  - Prime: 17.12%
  - Super Prime: 44.74%

- **Q4 2017**
  - Deep Subprime: 5.36%
  - Subprime: 45.22%
  - Nonprime: 16.83%
  - Prime: 17.12%
  - Super Prime: 44.74%
Leasing remains very prime despite a drop in prime consumers choosing to lease

New lease risk distribution

Q4 2016
- Deep Subprime: 6.93%
- Subprime: 48.12%
- Nonprime: 16.32%
- Prime: 28.15%

Q4 2017
- Deep Subprime: 6.40%
- Subprime: 48.37%
- Nonprime: 15.71%
- Prime: 29.09%

% of new borrowers choosing to lease

Prime +
- Q4 2016: 34.8%
- Q4 2017: 33.8%

Nonprime
- Q4 2016: 31.6%
- Q4 2017: 30.0%

Deep & Sub
- Q4 2016: 24.2%
- Q4 2017: 23.4%
Record low for deep subprime in the total and used loan markets

Total (new & used units) loan risk distribution

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<thead>
<tr>
<th></th>
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<th>Q4 2017</th>
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<tbody>
<tr>
<td>Deep Subprime</td>
<td>3.66%</td>
<td>3.27%</td>
</tr>
<tr>
<td>Subprime</td>
<td>19.56%</td>
<td>18.82%</td>
</tr>
<tr>
<td>Nonprime</td>
<td>20.43%</td>
<td>20.39%</td>
</tr>
<tr>
<td>Prime</td>
<td>38.54%</td>
<td>39.31%</td>
</tr>
<tr>
<td>Super Prime</td>
<td>17.81%</td>
<td>18.22%</td>
</tr>
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New loan risk distribution

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<thead>
<tr>
<th></th>
<th>Q4 2016</th>
<th>Q4 2017</th>
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<tbody>
<tr>
<td>Deep Subprime</td>
<td>11.85%</td>
<td>11.90%</td>
</tr>
<tr>
<td>Subprime</td>
<td>35.87%</td>
<td>36.55%</td>
</tr>
<tr>
<td>Nonprime</td>
<td>22.15%</td>
<td>22.27%</td>
</tr>
<tr>
<td>Prime</td>
<td>24.81%</td>
<td>24.39%</td>
</tr>
<tr>
<td>Super Prime</td>
<td>5.32%</td>
<td>4.88%</td>
</tr>
</tbody>
</table>

Used loan risk distribution

<table>
<thead>
<tr>
<th></th>
<th>Q4 2016</th>
<th>Q4 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>10.67%</td>
<td>9.89%</td>
</tr>
<tr>
<td>Subprime</td>
<td>17.52%</td>
<td>17.36%</td>
</tr>
<tr>
<td>Nonprime</td>
<td>43.06%</td>
<td>43.72%</td>
</tr>
<tr>
<td>Prime</td>
<td>17.81%</td>
<td>18.22%</td>
</tr>
<tr>
<td>Super Prime</td>
<td>27.89%</td>
<td>28.33%</td>
</tr>
</tbody>
</table>
Prime consumers shift slightly away from used vehicles yet used subprime financing remains at record lows.

Percentage of consumers by risk tier choosing used loans:

- **Deep Subprime**
  - Q4 2016: 91.27%
  - Q4 2017: 91.92%

- **Subprime**
  - Q4 2016: 79.75%
  - Q4 2017: 79.80%

- **Nonprime**
  - Q4 2016: 68.17%
  - Q4 2017: 67.27%

- **Prime**
  - Q4 2016: 58.52%
  - Q4 2017: 57.25%

- **Super Prime**
  - Q4 2016: 41.85%
  - Q4 2017: 40.23%

**Used Franchise loan risk distribution**:

- **Q4 2016**
  - Deep Subprime: 14.70%
  - Subprime: 42.44%
  - Nonprime: 23.38%
  - Prime: 17.56%
  - Super Prime: 14.70%

- **Q4 2017**
  - Deep Subprime: 15.13%
  - Subprime: 43.58%
  - Nonprime: 23.22%
  - Prime: 16.42%
  - Super Prime: 15.13%

**Used Independent loan risk distribution**:

- **Q4 2016**
  - Deep Subprime: 6.28%
  - Subprime: 24.92%
  - Nonprime: 21.09%
  - Prime: 36.91%
  - Super Prime: 10.80%

- **Q4 2017**
  - Deep Subprime: 6.51%
  - Subprime: 25.74%
  - Nonprime: 21.23%
  - Prime: 36.73%
  - Super Prime: 9.79%
Record highs for average new and used loan amounts

Average loan amount by tier

Year-over-year change in balance
New loan term at 69 months and show increases in higher credit tiers

Average new term by risk tier

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>New Loan Term</th>
<th>New Lease Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>72.06</td>
<td>37.36</td>
</tr>
<tr>
<td>Subprime</td>
<td>72.52</td>
<td>37.25</td>
</tr>
<tr>
<td>Nonprime</td>
<td>72.78</td>
<td>37.06</td>
</tr>
<tr>
<td>Prime</td>
<td>70.13</td>
<td>36.46</td>
</tr>
<tr>
<td>Super Prime</td>
<td>63.69</td>
<td>35.51</td>
</tr>
<tr>
<td>Total</td>
<td>69.06</td>
<td>36.33</td>
</tr>
</tbody>
</table>

Year-over-year change in term

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>Change in Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>-0.01</td>
</tr>
<tr>
<td>Subprime</td>
<td>0.05</td>
</tr>
<tr>
<td>Nonprime</td>
<td>0.25</td>
</tr>
<tr>
<td>Prime</td>
<td>0.54</td>
</tr>
<tr>
<td>Super Prime</td>
<td>0.99</td>
</tr>
<tr>
<td>Total</td>
<td>0.53</td>
</tr>
</tbody>
</table>

Experian Public State of the Automotive Finance Market Q4 2017
Used loan terms rise, yet decrease for high risk franchise used loans

<table>
<thead>
<tr>
<th>Average used loan term by tier</th>
<th>Deep Subprime</th>
<th>Subprime</th>
<th>Nonprime</th>
<th>Prime</th>
<th>Super Prime</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Used</td>
<td>58.25</td>
<td>61.71</td>
<td>65.11</td>
<td>65.73</td>
<td>62.06</td>
<td>64.12</td>
</tr>
<tr>
<td>Franchise used</td>
<td>65.35</td>
<td>66.94</td>
<td>67.94</td>
<td>67.13</td>
<td>62.84</td>
<td>66.63</td>
</tr>
<tr>
<td>Independent used</td>
<td>54.62</td>
<td>57.25</td>
<td>60.86</td>
<td>63.00</td>
<td>60.62</td>
<td>60.20</td>
</tr>
</tbody>
</table>

Year-over-year change in used loan term

<table>
<thead>
<tr>
<th>Deep Subprime</th>
<th>Subprime</th>
<th>Nonprime</th>
<th>Prime</th>
<th>Super Prime</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>-0.09</td>
<td>-0.07</td>
<td>-0.41</td>
<td>0.20</td>
<td>0.13</td>
<td>0.41</td>
</tr>
<tr>
<td>-0.72</td>
<td>-0.36</td>
<td>0.26</td>
<td>0.31</td>
<td>0.10</td>
<td>0.30</td>
</tr>
<tr>
<td>0.20</td>
<td>-0.03</td>
<td>0.13</td>
<td>0.17</td>
<td>0.18</td>
<td>0.53</td>
</tr>
</tbody>
</table>
Longer term loans continue to dominate the market

Percentage of new loans by term:

- **49 - 60**: 18.7% (2016), 18.5% (2017)
- **61 - 72**: 40.3% (2016), 44.0% (2017)
- **73 - 84**: 32.1% (2016), 30.0% (2017)
- **85 - 96**: 0.9% (2016), 1.0% (2017)

Percentage of used loans by term:

- **37 - 48**: 10.0% (2016), 10.0% (2017)
- **49 - 60**: 23.6% (2016), 23.8% (2017)
- **61 - 72**: 41.1% (2016), 41.8% (2017)
- **73 - 84**: 18.2% (2016), 17.9% (2017)

Average new score by loan term:

- **49 - 60**: 756 (2016), 759 (2017)
- **61 - 72**: 700 (2016), 702 (2017)
- **73 - 84**: 682 (2016), 687 (2017)

Average used score by loan term:

- **49 - 60**: 686 (2016), 687 (2017)
- **61 - 72**: 661 (2016), 663 (2017)
- **73 - 84**: 669 (2016), 674 (2017)
New monthly payments leap to $515 hitting all time high

### Average new payment by risk tier

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>New Loan</th>
<th>New Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>$509</td>
<td>$460</td>
</tr>
<tr>
<td>Subprime</td>
<td>$527</td>
<td>$447</td>
</tr>
<tr>
<td>Nonprime</td>
<td>$534</td>
<td>$435</td>
</tr>
<tr>
<td>Prime</td>
<td>$521</td>
<td>$428</td>
</tr>
<tr>
<td>Super Prime</td>
<td>$489</td>
<td>$426</td>
</tr>
<tr>
<td>Total</td>
<td>$515</td>
<td>$430</td>
</tr>
</tbody>
</table>

### Year-over-year change in new payment

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>$5</td>
</tr>
<tr>
<td>Subprime</td>
<td>$6</td>
</tr>
<tr>
<td>Nonprime</td>
<td>$9</td>
</tr>
<tr>
<td>Prime</td>
<td>$9</td>
</tr>
<tr>
<td>Super Prime</td>
<td>$5</td>
</tr>
<tr>
<td>Total</td>
<td>$8</td>
</tr>
</tbody>
</table>
Average used payments reach record highs

### Average used payment by risk tier

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>All used</th>
<th>Franchise used</th>
<th>Independent used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>$390</td>
<td>$393</td>
<td>$394</td>
</tr>
<tr>
<td>Subprime</td>
<td>$385</td>
<td>$397</td>
<td>$384</td>
</tr>
<tr>
<td>Nonprime</td>
<td>$371</td>
<td>$389</td>
<td>$356</td>
</tr>
<tr>
<td>Prime</td>
<td>$364</td>
<td>$364</td>
<td>$341</td>
</tr>
<tr>
<td>Super Prime</td>
<td>$365</td>
<td>$379</td>
<td>$344</td>
</tr>
<tr>
<td>Total</td>
<td>$371</td>
<td>$385</td>
<td>$360</td>
</tr>
</tbody>
</table>

### Year-over-year change in used payment

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>Year-over-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>$9</td>
</tr>
<tr>
<td>Subprime</td>
<td>$6 $10</td>
</tr>
<tr>
<td>Nonprime</td>
<td>$8 $5 $9</td>
</tr>
<tr>
<td>Prime</td>
<td>$8 $7 $6 $4 $5 $6 $8</td>
</tr>
<tr>
<td>Super Prime</td>
<td>$8 $8 $5 $6 $8 $6 $8</td>
</tr>
<tr>
<td>Total</td>
<td>$8 $8 $7</td>
</tr>
</tbody>
</table>
Rates rise across the entire automotive loan market

Average loan rates by tier

Year-over-year change (bps) in loan rate
Summary

• Outstanding loan balances continue to set record highs
• Delinquency rates beginning to improve
• Leasing remains strong with over 28% of all new consumer vehicle sales
• Credit scores improve as lending continues to shift into more prime segments
• Deep subprime reaches record lows in used lending
• Loan amounts and payments reach record highs for both new and used vehicle financing
• While longer term loan remain the norm, there’s a decrease in 72-84 month loans in both new and used financing; while new sees slight growth in 85+