State of the Automotive Finance Market

A look at loans and leases in Q2 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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<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 Q2</th>
<th>2016 Q2</th>
<th>2017 Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billions</td>
<td>$932</td>
<td>$1,027</td>
<td>$1,100</td>
</tr>
</tbody>
</table>

Credit Unions: $323, $323, $366

Source: Experian - Oliver Wyman Market Intelligence Reports
Majority of loan balances remain prime or higher with high risk segments remaining below 20%
30 day delinquency rates are improving

% of loans & leases 30 dpd

Bank: 1.87% (2016 Q2), 1.71% (2017 Q2), 2.03% (2016 Q2), 2.09% (2017 Q2)
Captive: 1.26% (2016 Q2), 1.28% (2017 Q2), 4.34% (2016 Q2), 4.31% (2017 Q2)
Credit Union: 2.22% (2016 Q2), 2.20% (2017 Q2), 2.47% (2016 Q2), 2.59% (2017 Q2)
Finance: 4.34% (2016 Q2), 4.31% (2017 Q2), 4.77% (2016 Q2), 4.94% (2017 Q2)
Total: 2.22% (2016 Q2), 2.20% (2017 Q2), 2.25% (2016 Q2), 2.26% (2017 Q2)

% of loan balances 30 dpd

Bank: 1.66% (2016 Q2), 1.59% (2017 Q2), 2.47% (2016 Q2), 2.59% (2017 Q2)
Captive: 1.13% (2016 Q2), 1.13% (2017 Q2), 4.77% (2016 Q2), 4.94% (2017 Q2)
Credit Union: 2.22% (2016 Q2), 2.20% (2017 Q2), 2.25% (2016 Q2), 2.26% (2017 Q2)
Finance: 4.34% (2016 Q2), 4.31% (2017 Q2), 4.77% (2016 Q2), 4.94% (2017 Q2)
Total: 2.22% (2016 Q2), 2.20% (2017 Q2), 2.25% (2016 Q2), 2.26% (2017 Q2)
Percentage of loan balances 30 dpd

AK = 1.70%
HI = 1.65%
60 day delinquency rates continue to deteriorate

% of loans & leases 60 dpd

- Bank: 2016 Q2 0.52% vs 2017 Q2 0.59%
- Captive: 2016 Q2 0.42% vs 2017 Q2 0.48%
- Credit Union: 2016 Q2 0.29% vs 2017 Q2 0.29%
- Finance: 2016 Q2 1.49% vs 2017 Q2 1.55%
- Total: 2016 Q2 0.62% vs 2017 Q2 0.67%

% of loan balances 60 dpd

- Bank: 2016 Q2 0.45% vs 2017 Q2 0.54%
- Captive: 2016 Q2 0.50% vs 2017 Q2 0.57%
- Credit Union: 2016 Q2 0.24% vs 2017 Q2 0.24%
- Finance: 2016 Q2 1.57% vs 2017 Q2 1.78%
- Total: 2016 Q2 0.60% vs 2017 Q2 0.68%

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

AK = 0.44%
HI = 0.46%
Originations in Q2 2017

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

Percentage of vehicles with financing

<table>
<thead>
<tr>
<th></th>
<th>Q2 2016</th>
<th>Q2 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>86.5%</td>
<td>85.9%</td>
</tr>
<tr>
<td>Used</td>
<td>55.9%</td>
<td>53.6%</td>
</tr>
</tbody>
</table>

Finance Market: new v used units

<table>
<thead>
<tr>
<th></th>
<th>Q2 2016</th>
<th>Q2 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>55.61%</td>
<td>55.79%</td>
</tr>
<tr>
<td>Used</td>
<td>44.39%</td>
<td>44.21%</td>
</tr>
</tbody>
</table>

% of all new vehicles that are leased

<table>
<thead>
<tr>
<th></th>
<th>Q2 2016</th>
<th>Q2 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.44%</td>
<td>30.83%</td>
</tr>
</tbody>
</table>

Used % of lease market

<table>
<thead>
<tr>
<th></th>
<th>Q2 2016</th>
<th>Q2 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.71%</td>
<td>3.61%</td>
</tr>
</tbody>
</table>
Captives and Credit Unions gain market share across the board (loan and lease units combined)

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

- **Q2 2016**
  - Bank: 34.8%
  - BHPH: 7.1%
  - Captive: 27.7%
  - Credit Union: 18.7%
  - Finance Co: 11.6%

- **Q2 2017**
  - Bank: 32.3%
  - BHPH: 7.1%
  - Captive: 28.6%
  - Credit Union: 20.3%
  - Finance Co: 11.6%

**Market Share of New Financing**

- **Q2 2016**
  - Bank: 31.7%
  - BHPH: 0.2%
  - Captive: 52.2%
  - Credit Union: 11.4%
  - Finance Co: 4.6%

- **Q2 2017**
  - Bank: 28.8%
  - BHPH: 0.2%
  - Captive: 53.2%
  - Credit Union: 12.7%
  - Finance Co: 5.1%

**Market Share of Used Financing**

- **Q2 2016**
  - Bank: 37.3%
  - BHPH: 13.0%
  - Captive: 12.9%
  - Credit Union: 7.4%
  - Finance Co: 8.1%

- **Q2 2017**
  - Bank: 35.2%
  - BHPH: 12.9%
  - Captive: 24.9%
  - Credit Union: 26.7%
  - Finance Co: 17.5%
Credit scores increase across all transaction types

Average new credit scores

- New lease
- All new
- New loan

Average used credit scores

- Franchise used
- All used
- Independent used

Q2 2013 | Q2 2014 | Q2 2015 | Q2 2016 | Q2 2017
---|---|---|---|---
New lease | 724 | 720 | 717 | 716 | 722
All new | 717 | 712 | 711 | 710 | 714
New loan | 711 | 709 | 708 | 708 | 711

Franchise used | 673 | 672 | 671 | 674 | 673
All used | 645 | 644 | 645 | 648 | 652
Independent used | 611 | 600 | 603 | 608 | 611
Score range refresh

<table>
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<td>Super prime</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.
Total finance market (loan & lease) becomes increasingly prime across all, new and used financing.

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

- **Q2 2016**
  - New: 17.90%
  - Used: 20.28%
  - Total: 39.01%

- **Q2 2017**
  - New: 19.10%
  - Used: 19.62%
  - Total: 39.41%

### New risk distribution

- **Q2 2016**
  - New: 26.72%
  - Used: 17.86%
  - Total: 44.97%

- **Q2 2017**
  - New: 28.29%
  - Used: 17.05%
  - Total: 44.64%

### Used risk distribution

- **Q2 2016**
  - New: 10.80%
  - Used: 22.22%
  - Total: 34.20%

- **Q2 2017**
  - New: 11.72%
  - Used: 21.69%
  - Total: 33.41%
Leasing remains very prime as more consumers across all risk tiers choose to lease. (loans not included)

New lease risk distribution

- **Q2 2016**
  - Deep Subprime: 26.82%
  - Subprime: 48.10%
  - Nonprime: 17.17%
  - Prime: 7.41%
  - Super Prime: 6.59%

- **Q2 2017**
  - Deep Subprime: 29.02%
  - Subprime: 48.10%
  - Nonprime: 15.85%
  - Prime: 6.59%
  - Super Prime: 6.59%

% of new borrowers choosing to lease

- **Prime +**
  - Q2 2017: 37.0%
  - Q2 2016: 36.5%

- **Nonprime**
  - Q2 2017: 32.5%
  - Q2 2016: 33.6%

- **Deep & Sub**
  - Q2 2017: 24.5%
  - Q2 2016: 26.5%
Subprime remains near-record low for the loan market while deep subprime hits Q2 record low for used loans

Total (new & used units) loan risk distribution

- Q2 2016: 16.26% Deep Subprime, 37.34% Subprime, 20.88% Nonprime, 21.46% Prime, 4.06% Super Prime
- Q2 2017: 17.27% Deep Subprime, 37.83% Subprime, 20.35% Nonprime, 20.57% Prime, 3.98% Super Prime

New loan risk distribution

- Q2 2016: 26.67% Deep Subprime, 43.29% Subprime, 18.24% Nonprime, 11.02% Prime, 10.75% Super Prime
- Q2 2017: 27.89% Deep Subprime, 42.78% Subprime, 17.70% Nonprime, 10.79% Prime, 11.68% Super Prime

Used loan risk distribution

- Q2 2016: 10.75% Deep Subprime, 34.20% Subprime, 22.28% Nonprime, 26.98% Prime, 5.79% Super Prime
- Q2 2017: 11.68% Deep Subprime, 35.23% Subprime, 21.75% Nonprime, 25.71% Prime, 5.63% Super Prime
Prime+ borrowers choose used vehicles reaches record high; prime distributions across all used dealers increase

Percentage of consumers by risk tier choosing used loans

- **Deep Subprime**: Q2 2016 - 93.25%, Q2 2017 - 92.74%
- **Subprime**: Q2 2016 - 82.24%, Q2 2017 - 81.92%
- **Nonprime**: Q2 2016 - 69.79%, Q2 2017 - 70.02%
- **Prime**: Q2 2016 - 59.90%, Q2 2017 - 61.02%
- **Super Prime**: Q2 2016 - 43.26%, Q2 2017 - 44.32%

Used Franchise loan risk distribution

- **Q2 2016**: Deep Subprime - 13.92%, Subprime - 41.63%, Nonprime - 23.78%, Prime - 18.71%, Super Prime - 5.57%

Used Independent loan risk distribution

- **Q2 2016**: Deep Subprime - 5.57%, Subprime - 23.48%, Nonprime - 20.78%, Prime - 39.00%, Super Prime - 11.18%
Average loan amounts remain high

**Average loan amount by tier**

<table>
<thead>
<tr>
<th>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>Avg New</td>
<td>$24,487</td>
<td>$27,853</td>
<td>$31,556</td>
<td>$31,964</td>
<td>$27,754</td>
<td>$24,086</td>
</tr>
<tr>
<td>All Used</td>
<td>$14,661</td>
<td>$16,240</td>
<td>$18,253</td>
<td>$20,886</td>
<td>$22,251</td>
<td>$16,930</td>
</tr>
<tr>
<td>Franchise used</td>
<td>$15,499</td>
<td>$16,360</td>
<td>$17,860</td>
<td>$16,617</td>
<td>$18,680</td>
<td>$14,340</td>
</tr>
<tr>
<td>Independent used</td>
<td>$3,928</td>
<td>$4,721</td>
<td>$5,262</td>
<td>$5,167</td>
<td>$4,057</td>
<td>$1,438</td>
</tr>
</tbody>
</table>

**Year-over-year change in balance**

<table>
<thead>
<tr>
<th>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>Avg New</td>
<td>$276</td>
<td>$537</td>
<td>$335</td>
<td>$558</td>
<td>$338</td>
<td>$308</td>
</tr>
<tr>
<td>All Used</td>
<td>$1,123</td>
<td>$1,120</td>
<td>$1,118</td>
<td>$1,135</td>
<td>$1,114</td>
<td>$1,126</td>
</tr>
<tr>
<td>Franchise used</td>
<td>$1,194</td>
<td>$1,149</td>
<td>$1,110</td>
<td>$1,100</td>
<td>$1,114</td>
<td>$1,114</td>
</tr>
<tr>
<td>Independent used</td>
<td>$108</td>
<td>$49</td>
<td>$52</td>
<td>$194</td>
<td>$81</td>
<td>$194</td>
</tr>
</tbody>
</table>

- Deep Subprime
- Subprime
- Nonprime
- Prime
- Super Prime
- Total
New loan term creeping toward 69 months with longer terms on the higher risk new loans

Average new term 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>72.07</td>
<td>36.88</td>
</tr>
<tr>
<td>Subprime</td>
<td>72.49</td>
<td>36.98</td>
</tr>
<tr>
<td>Nonprime</td>
<td>72.66</td>
<td>36.80</td>
</tr>
<tr>
<td>Prime</td>
<td>69.94</td>
<td>36.24</td>
</tr>
<tr>
<td>Super Prime</td>
<td>62.94</td>
<td>35.35</td>
</tr>
<tr>
<td>Total</td>
<td>68.80</td>
<td>36.12</td>
</tr>
</tbody>
</table>

Year-over-year change in term

<table>
<thead>
<tr>
<th>Risk Tier</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>0.13</td>
</tr>
<tr>
<td>Subprime</td>
<td>0.24</td>
</tr>
<tr>
<td>Nonprime</td>
<td>0.42</td>
</tr>
<tr>
<td>Prime</td>
<td>0.61</td>
</tr>
<tr>
<td>Super Prime</td>
<td>0.96</td>
</tr>
<tr>
<td>Total</td>
<td>0.52</td>
</tr>
</tbody>
</table>

-0.07
Used loan terms increase

Average used loan term by tier

<table>
<thead>
<tr>
<th>Tier</th>
<th>All Used</th>
<th>Franchise used</th>
<th>Independent used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>58.95</td>
<td>66.09</td>
<td>55.27</td>
</tr>
<tr>
<td>Subprime</td>
<td>61.78</td>
<td>67.28</td>
<td>57.33</td>
</tr>
<tr>
<td>Nonprime</td>
<td>64.98</td>
<td>68.02</td>
<td>60.80</td>
</tr>
<tr>
<td>Prime</td>
<td>65.61</td>
<td>67.17</td>
<td>62.93</td>
</tr>
<tr>
<td>Super Prime</td>
<td>61.86</td>
<td>62.71</td>
<td>66.72</td>
</tr>
<tr>
<td>Total</td>
<td>63.98</td>
<td>66.87</td>
<td>67.09</td>
</tr>
</tbody>
</table>

Year-over-year change in used loan term

<table>
<thead>
<tr>
<th>Tier</th>
<th>All Used</th>
<th>Franchise used</th>
<th>Independent used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>1.03</td>
<td>1.59</td>
<td>0.30</td>
</tr>
<tr>
<td>Subprime</td>
<td>0.31</td>
<td>0.10</td>
<td>0.12</td>
</tr>
<tr>
<td>Nonprime</td>
<td>0.12</td>
<td>0.05</td>
<td>0.01</td>
</tr>
<tr>
<td>Prime</td>
<td>0.13</td>
<td>0.11</td>
<td>0.33</td>
</tr>
<tr>
<td>Super Prime</td>
<td>0.29</td>
<td>0.27</td>
<td>0.47</td>
</tr>
<tr>
<td>Total</td>
<td>0.24</td>
<td>0.23</td>
<td>0.88</td>
</tr>
</tbody>
</table>
Longer term loans continue to dominate the market

**Percentage of new loans by term**
- **Q2 2016**
  - 49 - 60: 20.99%
  - 61 - 72: 39.57%
  - 73 - 84: 31.28%
  - 85 - 96: 0.95%
- **Q2 2017**
  - 49 - 60: 18.55%
  - 61 - 72: 40.40%
  - 73 - 84: 32.50%
  - 85 - 96: 1.25%

**Percentage of used loans by term**
- **Q2 2016**
  - 37 - 48: 10.45%
  - 49 - 60: 23.59%
  - 61 - 72: 41.05%
  - 73 - 84: 16.13%
- **Q2 2017**
  - 37 - 48: 9.99%
  - 49 - 60: 23.05%
  - 61 - 72: 41.59%
  - 73 - 84: 17.69%

**Average new score by loan term**
- **Q2 2016**
  - 49 - 60: 753
  - 61 - 72: 695
  - 73 - 84: 679
  - 85 - 96: 693
- **Q2 2017**
  - 49 - 60: 757
  - 61 - 72: 699
  - 73 - 84: 682
  - 85 - 96: 699

**Average used score by loan term**
- **Q2 2016**
  - 37 - 48: 648
  - 49 - 60: 680
  - 61 - 72: 656
  - 73 - 84: 668
- **Q2 2017**
  - 37 - 48: 655
  - 49 - 60: 685
  - 61 - 72: 661
  - 73 - 84: 668
New payments remain near record highs

Average new payment by risk tier

Year-over-year change in new payment
Average used payments also climb

Average used payment by risk tier

Year-over-year change in used payment
Average new rate rises while prime shift to used and overall higher scores results in lower rates in the used market

**Average loan rates by tier**

<table>
<thead>
<tr>
<th>Tier</th>
<th>Avg New</th>
<th>All Used</th>
<th>Franchise used</th>
<th>Independent used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep Subprime</td>
<td>14.43%</td>
<td>19.73%</td>
<td>11.35%</td>
<td>16.49%</td>
</tr>
<tr>
<td>Subprime</td>
<td>11.36%</td>
<td>18.68%</td>
<td>15.14%</td>
<td>16.14%</td>
</tr>
<tr>
<td>Nonprime</td>
<td>9.06%</td>
<td>10.06%</td>
<td>9.73%</td>
<td>11.79%</td>
</tr>
<tr>
<td>Prime</td>
<td>5.42%</td>
<td>5.24%</td>
<td>5.24%</td>
<td>6.09%</td>
</tr>
<tr>
<td>Super Prime</td>
<td>3.05%</td>
<td>3.68%</td>
<td>3.65%</td>
<td>3.78%</td>
</tr>
<tr>
<td>Total</td>
<td>9.02%</td>
<td>7.88%</td>
<td>8.00%</td>
<td>11.70%</td>
</tr>
</tbody>
</table>

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

| Tier          | 106 | 44 | 56 | 39 | 76 | 43 | 28 | 33 | 18 | 27 | 19 | 23 | 13 | 40 | 28 | 29 | 30 | 36 | 4 | 9 |
|---------------|-----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Deep Subprime |     |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Subprime      | 44  | 56 | 39 | 26 | 39 | 43 | 28 | 33 | 18 | 27 | 19 | 23 | 13 | 40 | 28 | 29 | 30 | 36 | 4 | 9 |
| Nonprime      | 39  | 43 | 26 | 18 | 27 | 19 | 23 | 13 |    |    |    |    |    |    |    |    |    |    |    |    |
| Prime         | 28  | 33 | 18 |    | 40 | 28 | 29 | 30 |    |    |    |    |    |    |    |    |    |    |    |    |
| Super Prime   | 33  | 18 |    |    | 29 | 30 |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Total         | 106 | 44 | 56 | 39 | 76 | 43 | 28 | 33 | 18 | 27 | 19 | 23 | 13 | 40 | 28 | 29 | 30 | 36 | 4 | 9 |

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Summary

- Portfolio balances reach record levels
- 30 day delinquency seeing improvement with 60-day increases tapering off for some lending segments
- Leasing continues over 30% of all new consumer vehicle sales as consumers across all risk tiers increasingly choose to lease
- Credit scores improve as lending continues to shift into more prime segments
- Prime consumers also increasing choosing used vehicles resulting in score increases and greater percentage of prime loans
- Terms continue to extend and seeing growth in 85+ for new financing