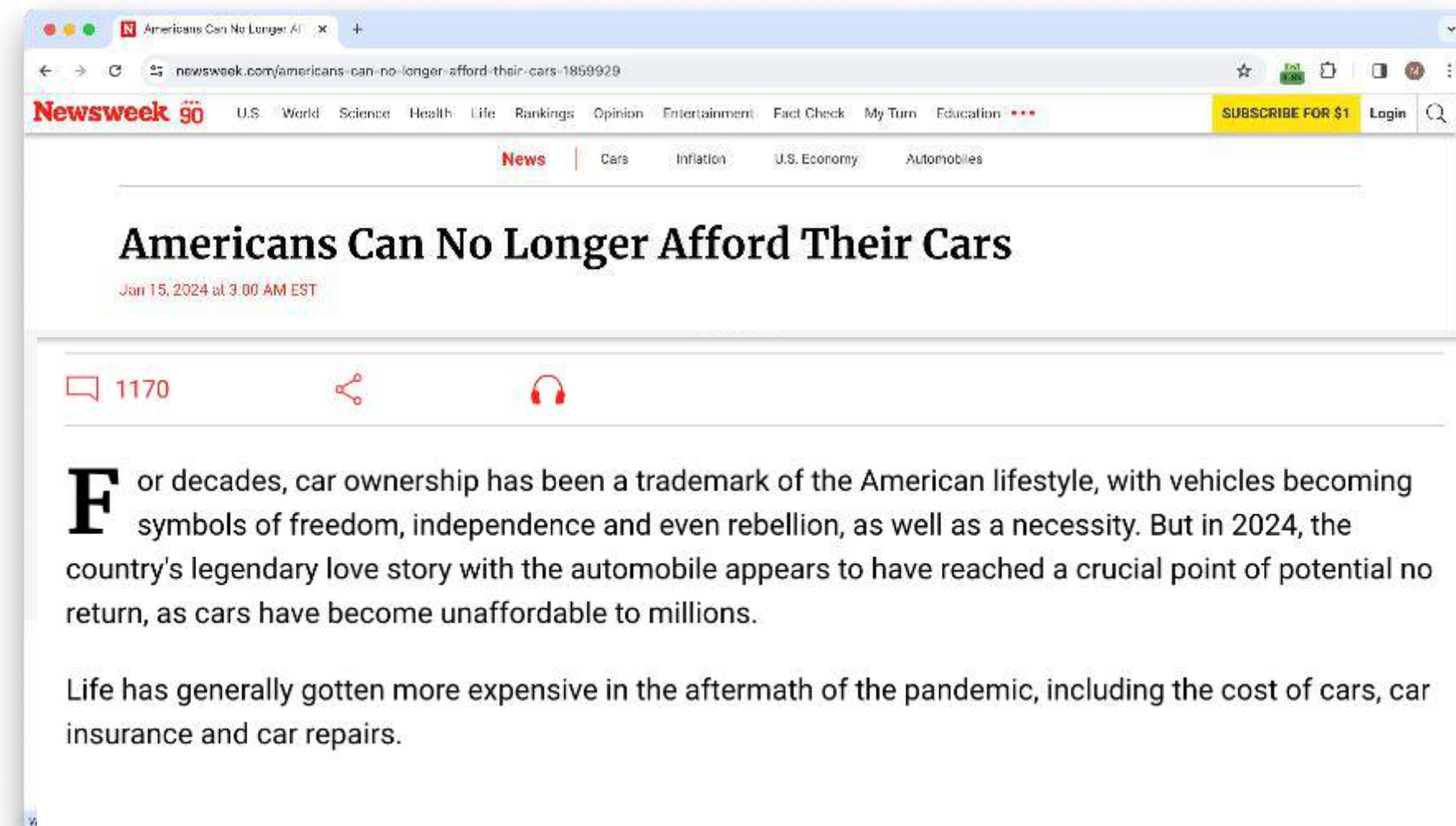




Understanding Residual Based Financing: Lower Payments, Higher Yields

MULTIPLE CHALLENGES FOR LENDERS TODAY

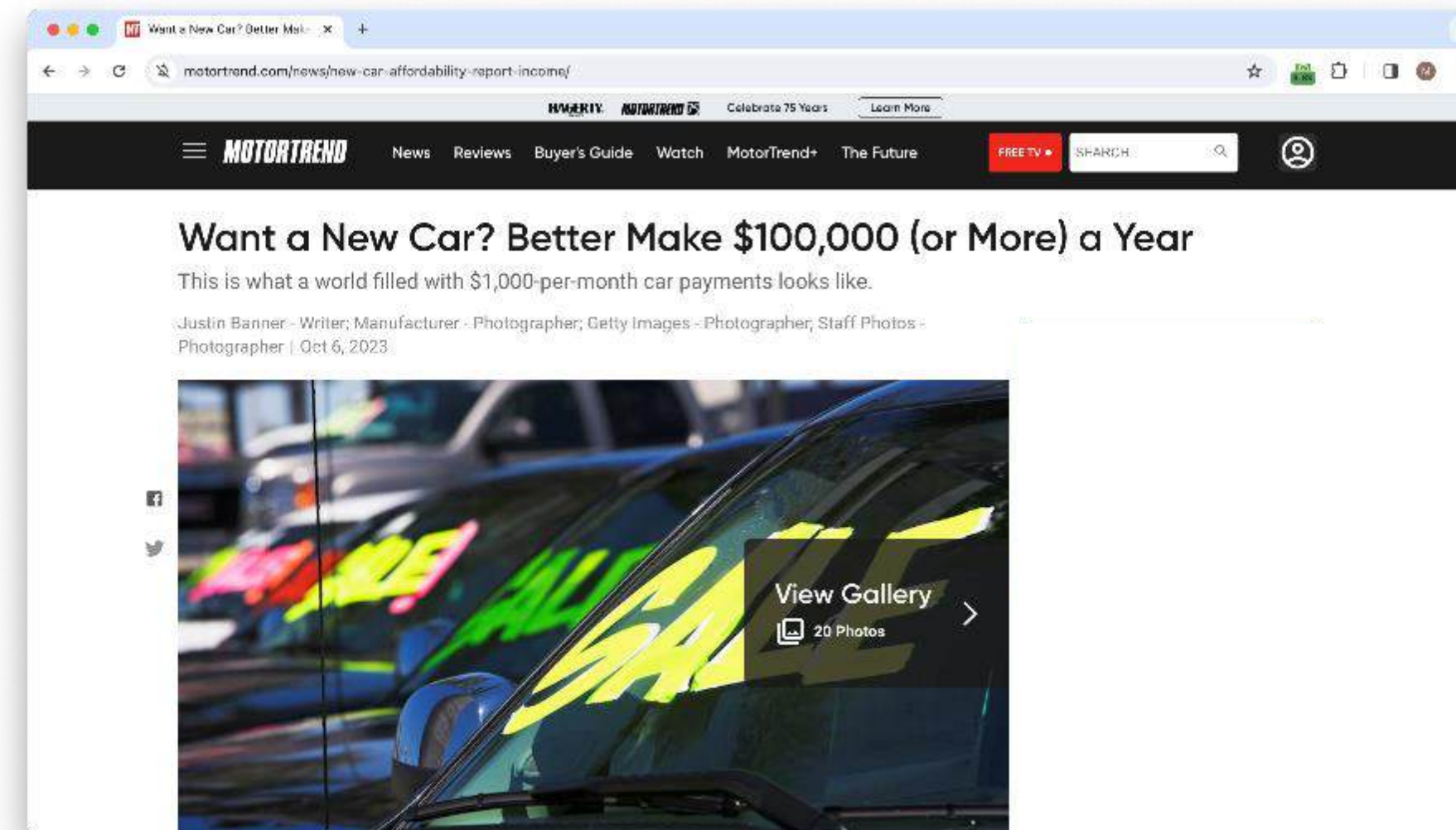


Americans Can No Longer Afford Their Cars
Jan 15, 2024 at 3:00 AM EST

1170

For decades, car ownership has been a trademark of the American lifestyle, with vehicles becoming symbols of freedom, independence and even rebellion, as well as a necessity. But in 2024, the country's legendary love story with the automobile appears to have reached a crucial point of potential no return, as cars have become unaffordable to millions.

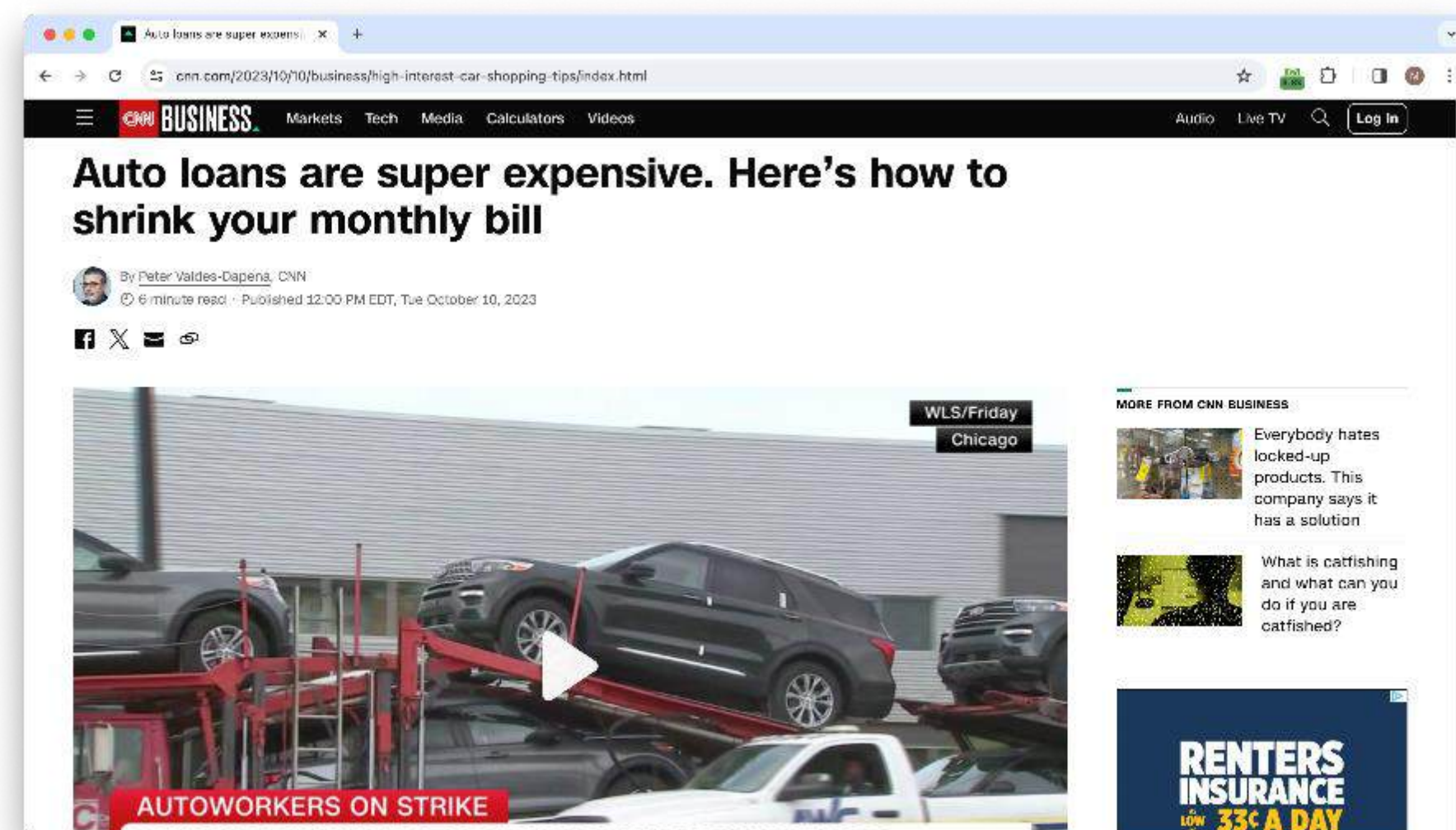
Life has generally gotten more expensive in the aftermath of the pandemic, including the cost of cars, car insurance and car repairs.



Want a New Car? Better Make \$100,000 (or More) a Year
This is what a world filled with \$1,000-per-month car payments looks like.

Justin Banner - Writer; Manufacturer - Photographer; Getty Images - Photographer; Staff Photos - Photographer | Oct 6, 2023

View Gallery
20 Photos



Auto loans are super expensive. Here's how to shrink your monthly bill
By Peter Valdes-Dapena, CNN
6 minute read · Published 12:00 PM EDT, Tue October 10, 2023

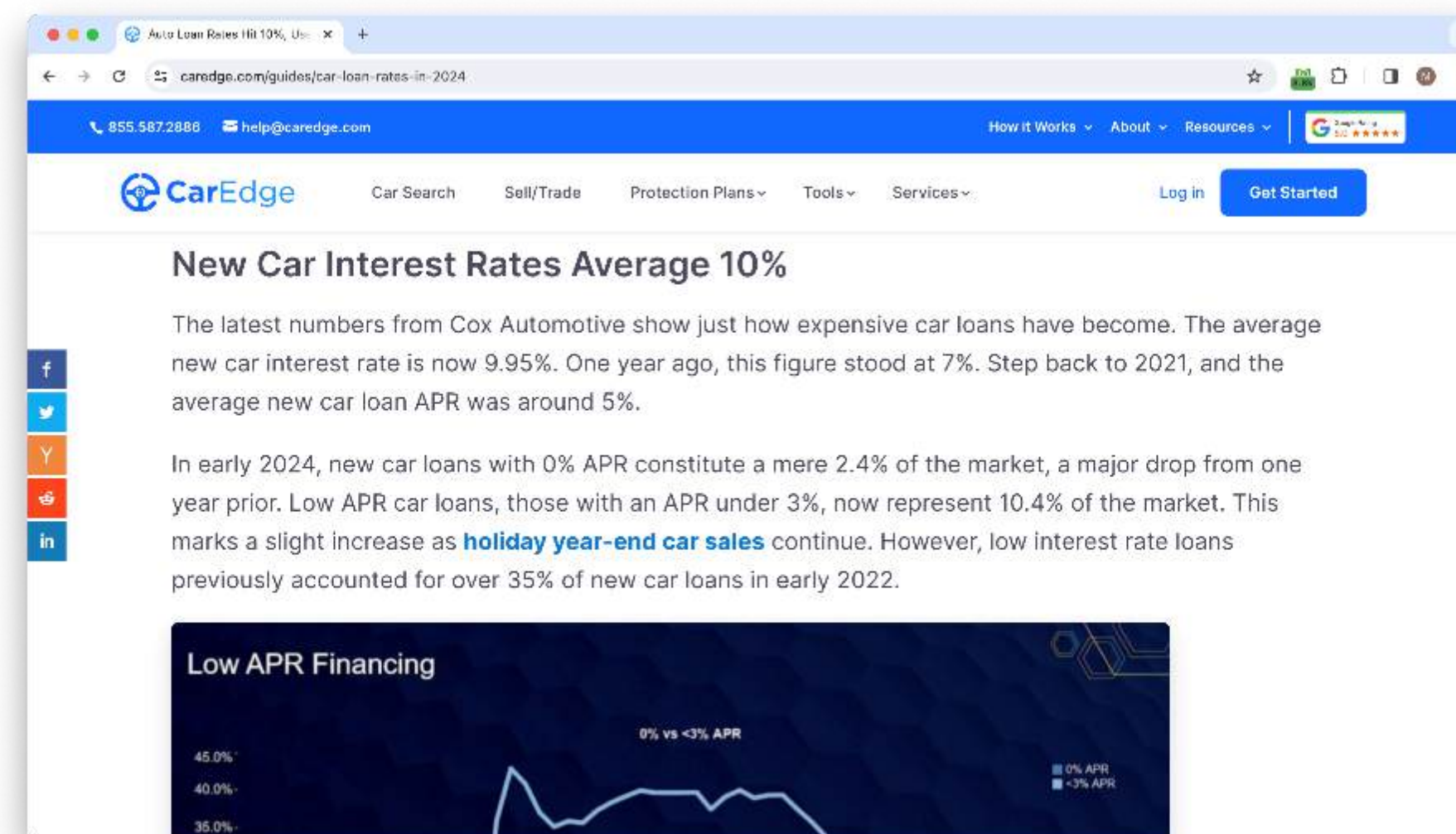
WLS/Friday
Chicago

MORE FROM CNN BUSINESS

- Everybody hates locked-up products. This company says it has a solution
- What is catfishing and what can you do if you are catfished?

AUTOWORKERS ON STRIKE

RENTERS INSURANCE
LOW 33¢ A DAY



New Car Interest Rates Average 10%

The latest numbers from Cox Automotive show just how expensive car loans have become. The average new car interest rate is now 9.95%. One year ago, this figure stood at 7%. Step back to 2021, and the average new car loan APR was around 5%.

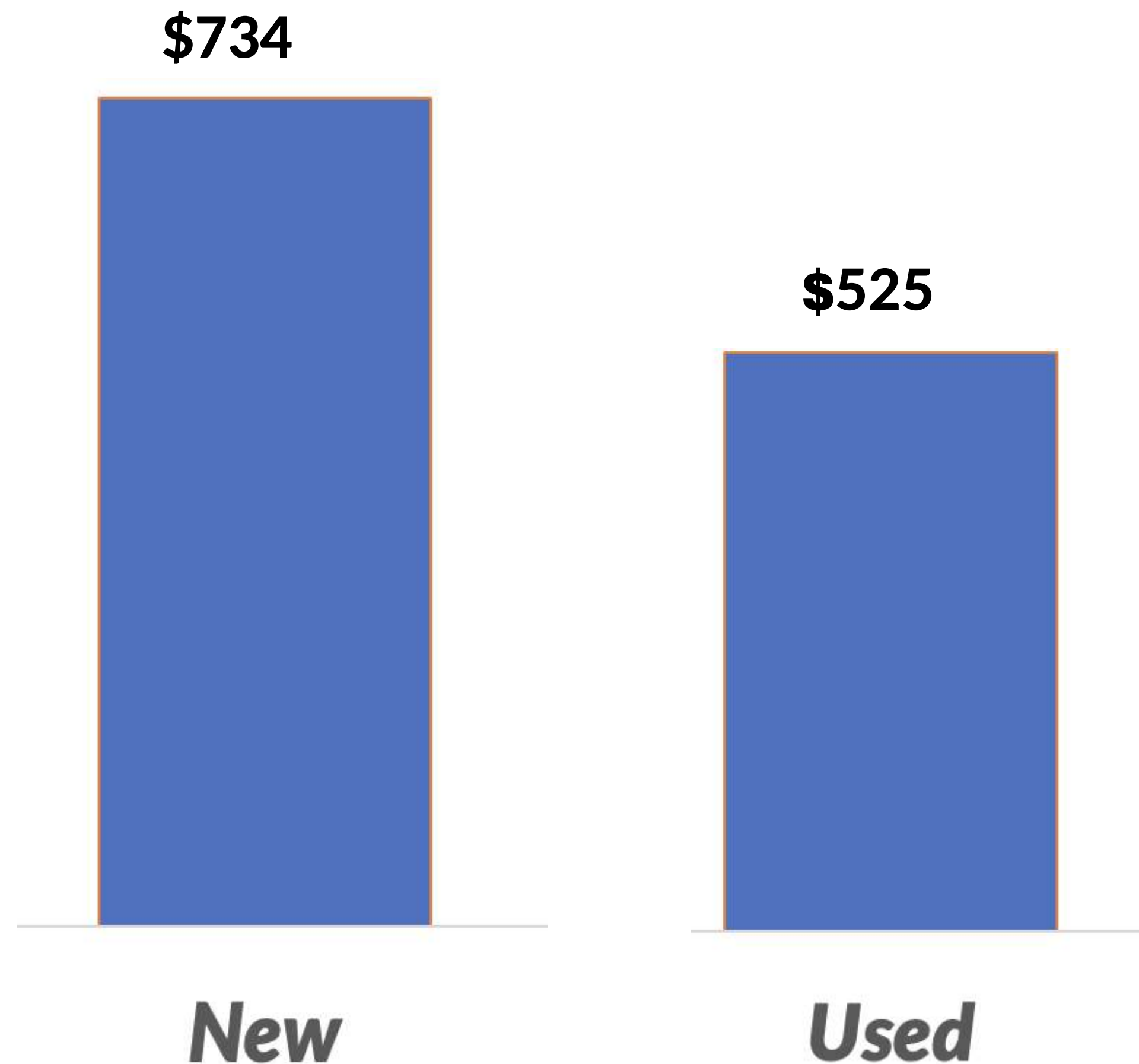
In early 2024, new car loans with 0% APR constitute a mere 2.4% of the market, a major drop from one year prior. Low APR car loans, those with an APR under 3%, now represent 10.4% of the market. This marks a slight increase as **holiday year-end car sales** continue. However, low interest rate loans previously accounted for over 35% of new car loans in early 2022.

Low APR Financing

APR Range	Percentage
0% vs <3% APR	10.4%
3.5% - 4.0%	~10%
4.5% - 5.0%	~10%
5.5% - 6.0%	~10%
6.5% - 7.0%	~10%
7.5% - 8.0%	~10%
8.5% - 9.0%	~10%
9.5% - 10.0%	~10%
10.5% - 11.0%	~10%
11.5% - 12.0%	~10%

THE IMPACT ON AUTO BORROWERS

Record average monthly payments!



RESIDUAL BASED FINANCING (RBF)

Balloon Lending and Leasing

A financing method that uses a vehicle's future value (residual value) at the end of a term to determine the monthly payment.

This residual value is due at the end of the term as the final payment.

The payment is based on the difference between the loan amount and the residual value.

This allows the borrower to pay for only the portion of the vehicle that they use.

Amortization from the loan amount down to the future value provides a higher yield for the financial institution.

WHY PAY FOR THE WHOLE VEHICLE?

\$65,000 VEHICLE LOAN



GUARANTEED FUTURE VALUE
\$39,757

PAY FOR WHAT YOU USE
\$25,243

GFV means options at loan maturity

Actual Vehicle Value at Loan Maturity

\$41,757

- Trade in
- Sell
- Pay off
- Refinance

\$37,757

- "Walk Away"

AFG'S RBF PROGRAMS OFFER
PAYMENTS ON AVERAGE
25-40% LOWER
VS
CONVENTIONAL FINANCING

WALK-AWAY BALLOON FINANCING VS CONVENTIONAL FINANCING

DETERMINE YOUR ROI

2024 Jeep Wrangler 4 dr. Convertible Unlimited Rubicon 4xe
 Guaranteed Future Value: \$39,757

60-month loan term

	Conventional (5.99% rate)	AFG Balloon Same Rate (5.99% rate)	AFG Balloon Lower Rate (5.49% rate)	AFG Balloon Pass Fee (5.99% rate)	AFG Balloon Rate Bump (6.99% rate)
Amount Financed	\$65,000	\$65,000	\$65,000	\$65,825	\$65,000
Monthly Payment	\$1,256	\$696	\$674	\$713	\$742
Total Payment Savings Over Term	\$0	\$33,600	\$34,920	\$32,580	\$30,840
Net Interest Income	\$10,380	\$15,016	\$13,682	\$15,145	\$17,691
ROI (Net Interest Income/Amount financed)	15.97%	23.10%	21.05%	23.01%	27.22%

Notes:

- AFG Balloon Net Interest Income calculations include an \$825 lender acquisition fee deduction.
- Balloon Monthly Payments 1-59 (term of loan minus 1)



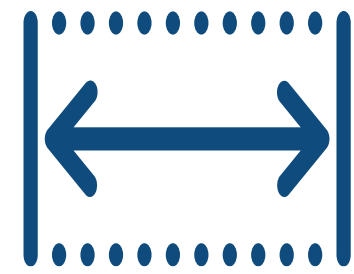
AFG'S RBF PROGRAM VS CONVENTIONAL

	<i>AFG Balloon</i>	<i>Conventional</i>
<i>* HIGHER AVERAGE LOAN AMOUNT</i>	\$51,000	\$43,000
<i>* HIGHER AVERAGE PAYOFF TERM</i>	37	27
<i>RATE</i>	6.99%	5.99%
INTEREST INCOME	\$9,438	\$4,787

**As reported by AFG clients*



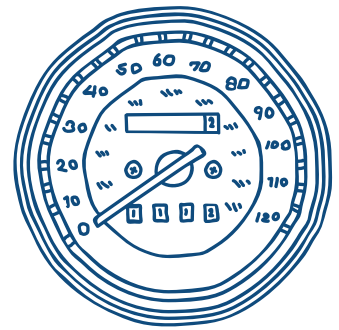
RBF PROGRAM BASICS



Range of term options



Variety of eligible vehicles



Annual mileage allowances



End of term process



End of term options

- Turn in Vehicle
- Trade in
- Sell
- Refinance



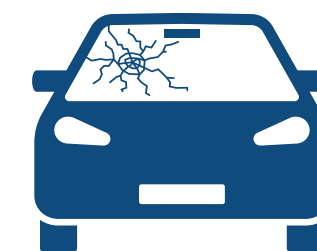
Acquisition fee



Disposition fee



Over mileage fee



Excess wear and tear fee

RESIDUAL BASED FINANCING ADVANTAGES



FOR BORROWERS

- Lower monthly payments
- Shorter terms to align with buying habits
- Reduce/eliminate negative equity
- Guaranteed buyer at maturity
- Flexible options during the loan/lease terms
- Flexible mileage options



FOR LENDERS

- True product differentiator-low payment option
- Increase interest income
- Expand market share/portfolio growth
- Increase new membership/customers
- Improve member/customer retention
- Enhance dealer value proposition



FOR DEALERS

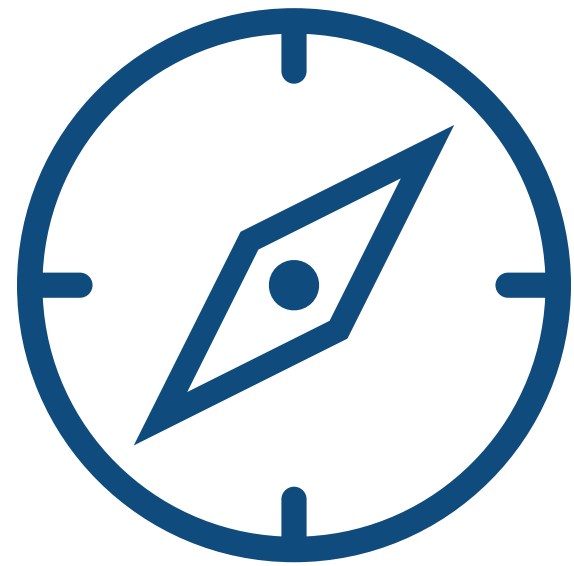
- Market differentiator-low payment option
- Room to add back-end products; increase gross
- Increase unit sales volume
- Shorter terms = higher CSI and customer retention

CONSIDER RBF PROGRAMS THAT...

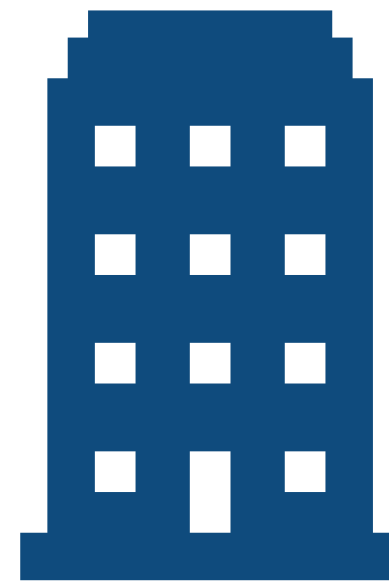
- Guarantee 100% of the future/residual value at end of term walk-away
- Support both new and used vehicles
- Offer a wide range of terms, outside of standard 24-36 months
- Offer a wide range of mileage options per year, outside of standard 10k, 12k, 15k
- Can be offered for both Direct and Indirect lending
- Enhance dealer relationships
- Offer competitive program fees ex. disposition, over mileage
- Require no pre-payment or early termination fees
- Can be used for refinance/recapture, lease buyout, private party purchase, workout loan
- Integrate with online auto shopping/financing sites

COMPANY OVERVIEW

AFG'S mission is to provide innovative, revenue producing products for financial institutions.



ESTABLISHED IN
1999



HEADQUARTERS
IN HOUSTON, TX



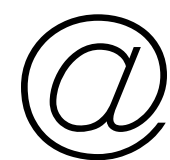
RESIDUAL BASED FINANCING
&
VEHICLE REMARKETING



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REGIONAL SALES MANAGER



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***THANK YOU FOR
YOUR INTEREST IN
AFG!***

