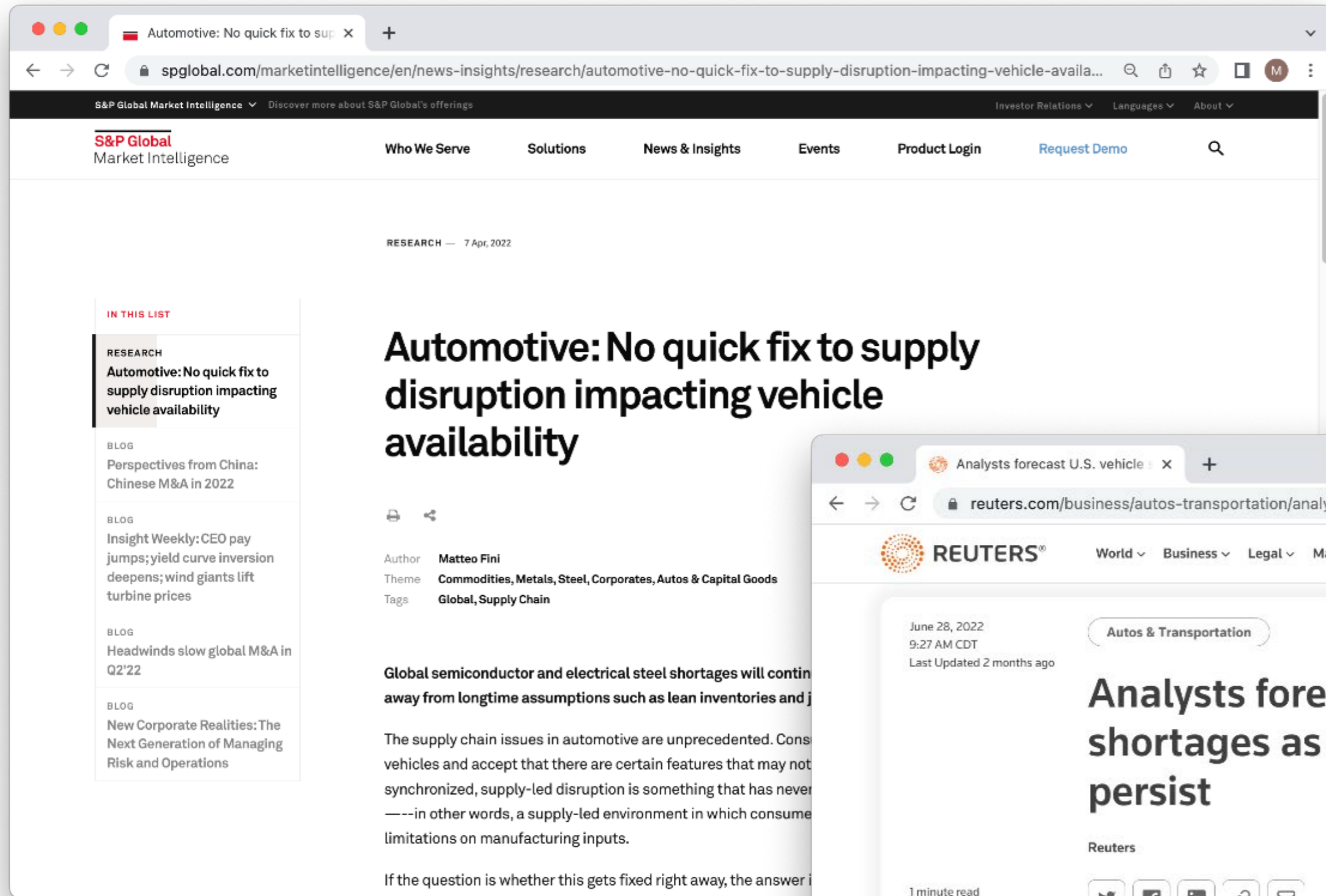




How credit unions can help members navigate the vehicle-affordability crisis

4 FACTORS AFFECTING CURRENT AFFORDABILITY CRISIS

SHORTAGES INDUCED BY SUPPLY CHAIN DISRUPTIONS



Automotive: No quick fix to supply disruption impacting vehicle availability

RESEARCH — 7 Apr, 2022

IN THIS LIST

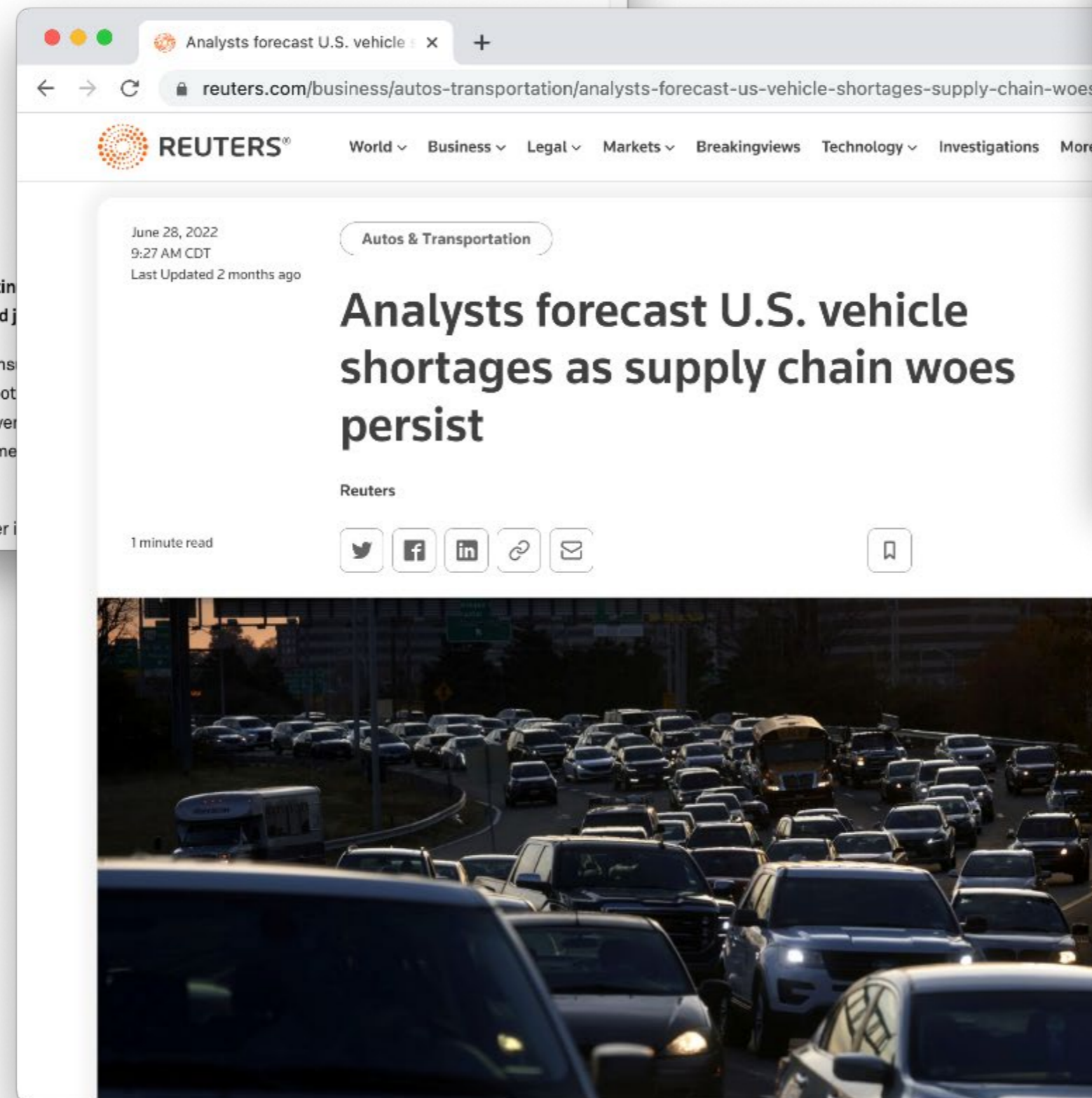
- RESEARCH Automotive: No quick fix to supply disruption impacting vehicle availability
- BLOG Perspectives from China: Chinese M&A in 2022
- BLOG Insight Weekly: CEO pay jumps; yield curve inversion deepens; wind giants lift turbine prices
- BLOG Headwinds slow global M&A in Q2'22
- BLOG New Corporate Realities: The Next Generation of Managing Risk and Operations

Author: Matteo Fini
Theme: Commodities, Metals, Steel, Corporates, Autos & Capital Goods
Tags: Global, Supply Chain

Global semiconductor and electrical steel shortages will continue away from longtime assumptions such as lean inventories and just-in-time supply chains.

The supply chain issues in automotive are unprecedented. Consumers must accept that there are certain features that may not be synchronized, supply-led disruption is something that has never been experienced before — in other words, a supply-led environment in which consumer demand is limited by manufacturing inputs.

If the question is whether this gets fixed right away, the answer is no.

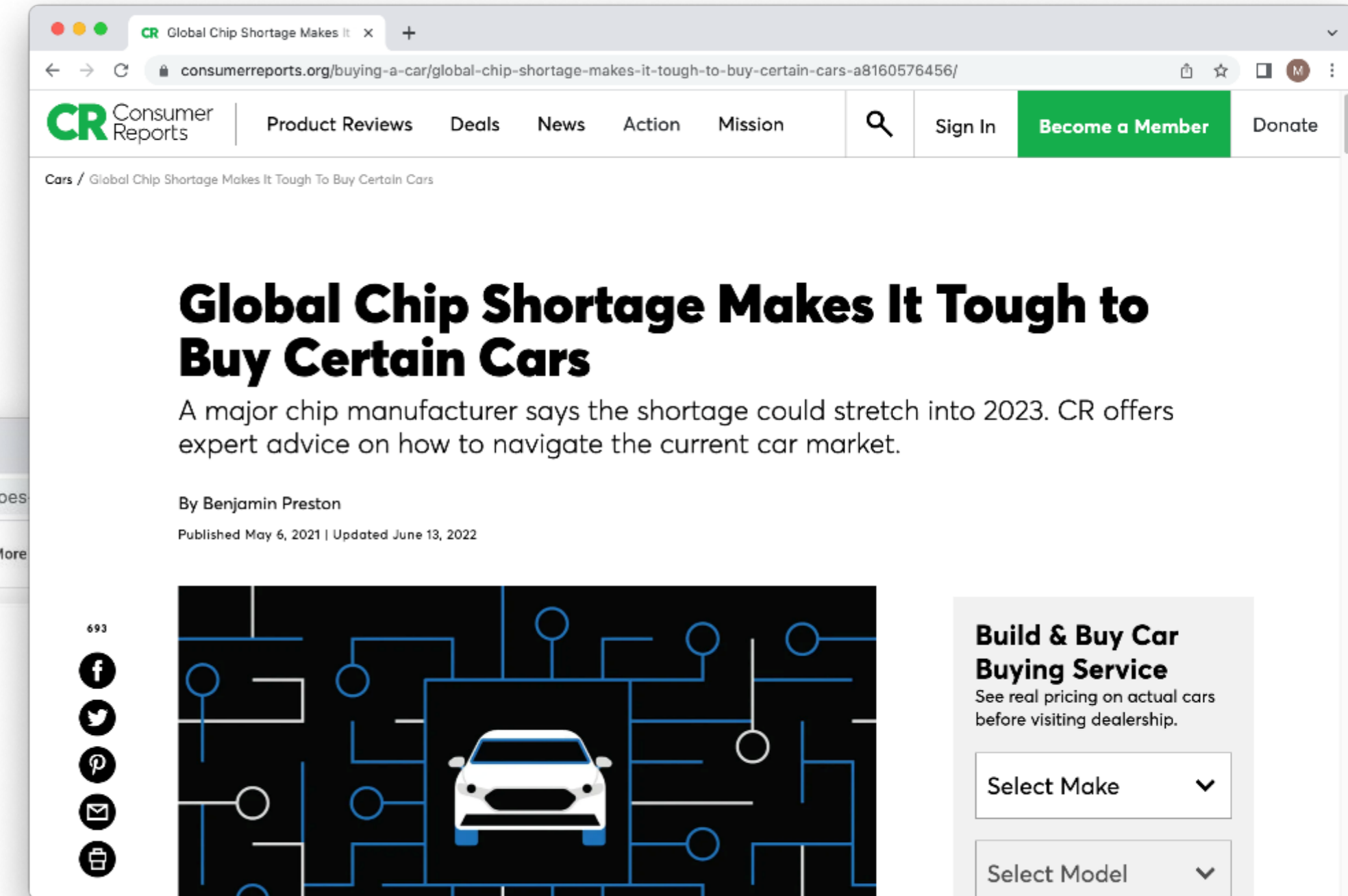



Analysts forecast U.S. vehicle shortages as supply chain woes persist

June 28, 2022 9:27 AM CDT
Last Updated 2 months ago

Autos & Transportation

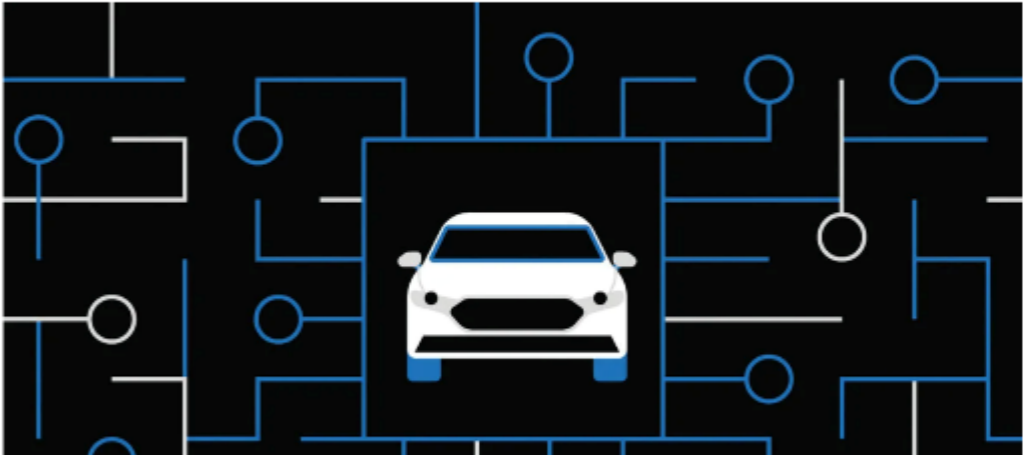
1 minute read



Global Chip Shortage Makes It Tough to Buy Certain Cars

A major chip manufacturer says the shortage could stretch into 2023. CR offers expert advice on how to navigate the current car market.

By Benjamin Preston
Published May 6, 2021 | Updated June 13, 2022



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MANUFACTURER INCENTIVES HAVE VANISHED

With New Cars Scarce, Discounts are Disappearing

kbb.com/car-news/with-new-cars-scarce-discounts-are-disappearing/

Kelley Blue Book
THE TRUSTED RESOURCE


Home Car Values Cars for Sale Car Reviews

Home / General / With New Cars Scarce, Discounts are Disappearing

General

With New Cars Scarce, Discounts are Disappearing

By **Sean Tucker** 10/01/2021 8:36am



Rebates, Incentives May be Gone Forever, Says AutoNation CEO

thedetroitbureau.com/2022/02/rebates-incentives-may-be-gone-forever-says-autonation-ceo/

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home > news > sales > rebates, incentives may be gone forever, says autonation ceo

Rebates, Incentives May be Gone Forever, Says AutoNation CEO

Auto dealers, automakers want to keep it a sellers' market.

BIG REBATES

Paul A. Eisenstein, Publisher & Editor-in-Chief
Feb. 18, 2022



VEHICLE TRANSACTION PRICES CONTINUE TO RISE

Cox AUTOMOTIVE

3 MIN READ

Data Point

New-Vehicle Prices Set New Record in July 2022, According to Kelley Blue Book, as Inventory Improves Year-Over-Year and Luxury Share Remains Elevated

Wednesday August 10, 2022

The average price paid for a new vehicle in the U.S. in July topped June's record and kept the average transaction price (ATP) solidly above the \$48,000 mark, according to new data released to...

The Kelley Blue Book new-vehicle ATP increased to \$48,083 in July, up from \$47,883 in June. The ATP rose 0.3% (\$139) from June and 11.9% (\$5,126) from July 2021.

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autoblog

Average new car transaction price hits \$48,043, setting new record

Jonathon Ramsey
July 25, 2022 · 3 min read



cnbc.com

MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV INVESTING CLUB PRO

Americans are paying record-high prices for new vehicles


PUBLISHED WED, JUL 13 2022-5:23 PM EDT | UPDATED WED, JUL 13 2022-7:40 PM EDT

Michael Wayland @MIKEWAYLAND

SHARE f t in e

KEY POINTS

- Fueled by pent-up consumer demand, low vehicle inventories and rising sales of luxury vehicles, Cox Automotive reports the average transaction price of a new vehicle last month was \$48,083.
- That average price was a 1.9% increase from May and higher than the previous high of \$47,202 set in December.
- The spending for a new vehicle was part of a broader increase in consumer spending in June, according to the Bureau of Labor Statistics.



UNCERTAIN ECONOMIC ENVIRONMENT WITH INFLATION AND RISING INTEREST RATES

U.S. BUREAU OF LABOR STATISTICS

TED: The Economics Daily

Consumer prices up 9.1 percent over the year ended June 2022, largest increase in 40 years

JULY 18, 2022

Over the 12 months ended June 2022, the Consumer Price Index for All Urban Consumers increased 9.1 percent. The 9.1-percent increase in the all-items index was the largest 12-month increase since the 12-month period ending November 1981.

Consumer Price Index for All Urban Consumers, 12-month percent change, by expenditure category, June 2022

Expenditure Category	12-month percent change, Jun. 2021–Jun. 2022	Largest percent change before June 2022
All items	9.1%	~8.5%
Food	~10.5%	~10.0%
Food at home	~12.5%	~12.0%

Bloomberg
US Edition

US Inflation Quickens to 9.1%, Amping Up Fed Pressure to Go Big

- Consumer price index climbed 1.3% from May, most since 2005
- Increase reflected higher gasoline, shelter and food costs

NAVIGATING THE MARKETS with the WORLD'S TOP INVESTORS

SEPTEMBER 28
NEW YORK CITY

FEDERAL RESERVE

Fed's Mester sees benchmark rate above 4% and no cuts at least through 2023

PUBLISHED WED, AUG 31 2022-8:00 AM EDT | UPDATED WED, AUG 31 2022-8:36 PM EDT

Jeff Cox
@JEFF.COX.7528
#JEFFCOXCNBCOM

KEY POINTS

- Cleveland Federal Reserve President Loretta Mester said Wednesday she sees benchmark interest rates rising above 4% by early next year.
- Mester anticipates the rate increases to slow economic growth, which she sees as running "well below 2%."

THE IMPACT ON CONSUMERS

Car Prices Further Outpace Drivers' Income

Cox Automotive reports it took a record 37 weeks for the average household to buy the average new car in June.

By Jim DuPlessis | July 16, 2021 at 03:36 PM

Period	All items	New vehicles	Used cars and trucks
March to April	0.8%	0.5%	10.0%
April to May	0.6%	1.6%	7.3%
May to June	0.9%	2.0%	10.5%

SOURCE: U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers (CPI-U).
Chart by Jim DuPlessis, correspondent-at-large, CU Times.

Trending Stories

- 1 RBFCU Raises Minimum Pay to \$18, Reflecting Upward Trend Across Industry
- 2 State Regulators Shut Down Four Fake Websites of a Credit Union & Three Banks
- 3 Royal Credit Union's Busy M&A Year Continues
- 4 Leaders, It's Time to Lead
- 5 Careers Shine & Conclude at CUs Nationwide

Car buyers paid record prices in June, and minivans were highest

Kelley Blue Book

Published: July 26, 2021 at 5:01 a.m. ET

By Sean Tucker

These are the brands marked up the most; EV shoppers are in luck

Partner Center

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Most Popular

- Stock-market investors brace for 'quadruple witching' this Friday
- Kim Jong Un's sister warns of 'complete destruction' of South Korean ties if slander continues
- I received a 30% pay raise, but my girlfriend is struggling financially. I would like to treat myself to a new car. Should I buy it?
- COVID-19 may accelerate these 3 trends in real estate
- My deadbeat dad arrived at my brother's Communion high on cocaine. He punched the cab driver. Am I liable for his end-of-life care?

Consumers Will Pay High Prices for New and Used Cars for Next 2 Years

By Jamie L. LaReau | Sunday, August 29, 2021 at 6:37 pm | ב"א אלול תשפ"א

That's even after the shortage of semiconductor chips abates, which is expected to start later this year and take all of next year as a recovery period, industry experts say.

"We may never see normal in the near future or we've redefined normal," said Jeff Schuster, LMC Automotive's president of Americas Operations and Global Vehicle Forecasts. "The industry and consumers need to be flexible. For the industry, it means moving around production and inventory as the market dictates."

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TODAY

Market Watch

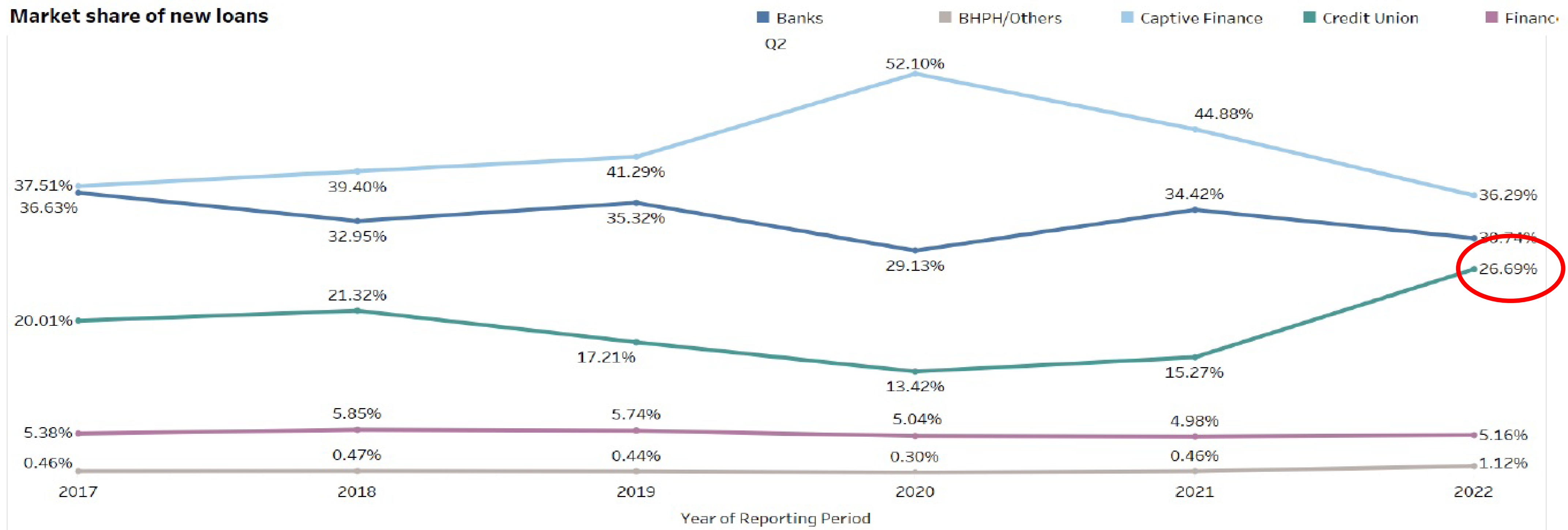
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VEHICLE FINANCING TRENDS

VEHICLE FINANCING TRENDS

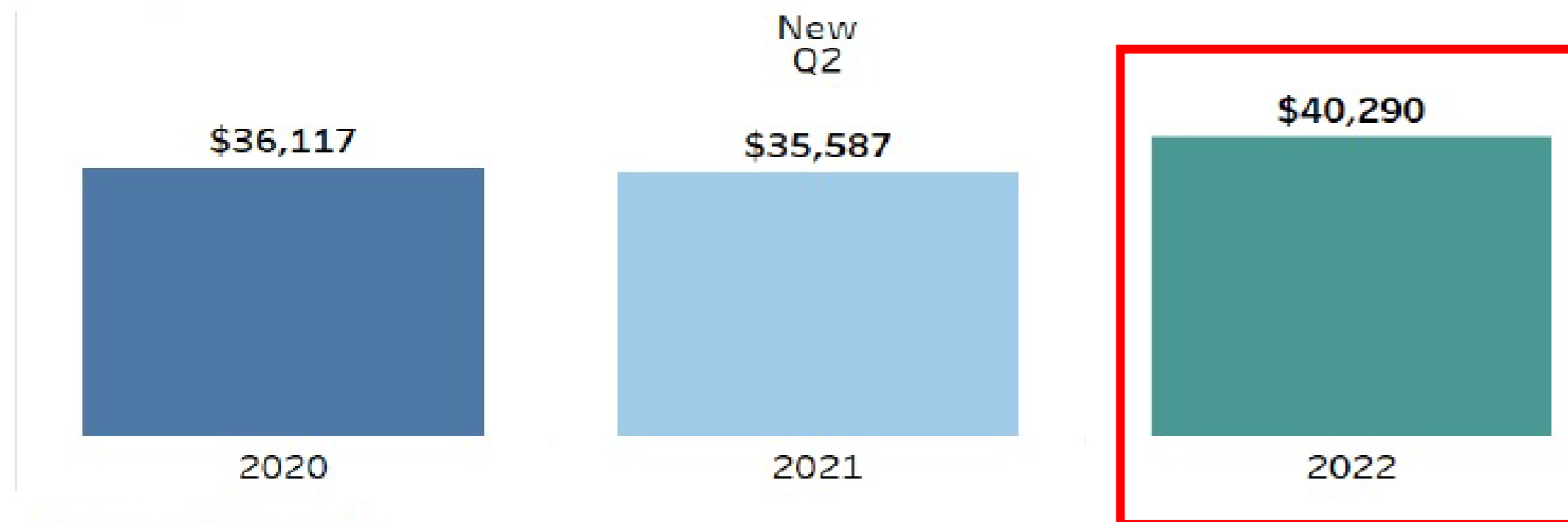
Credit Unions reach nearly 27% share of new loans



VEHICLE FINANCING TRENDS

New loan attribute summary: new loan amount up 13% resulting in record high finance amount and new loan payment

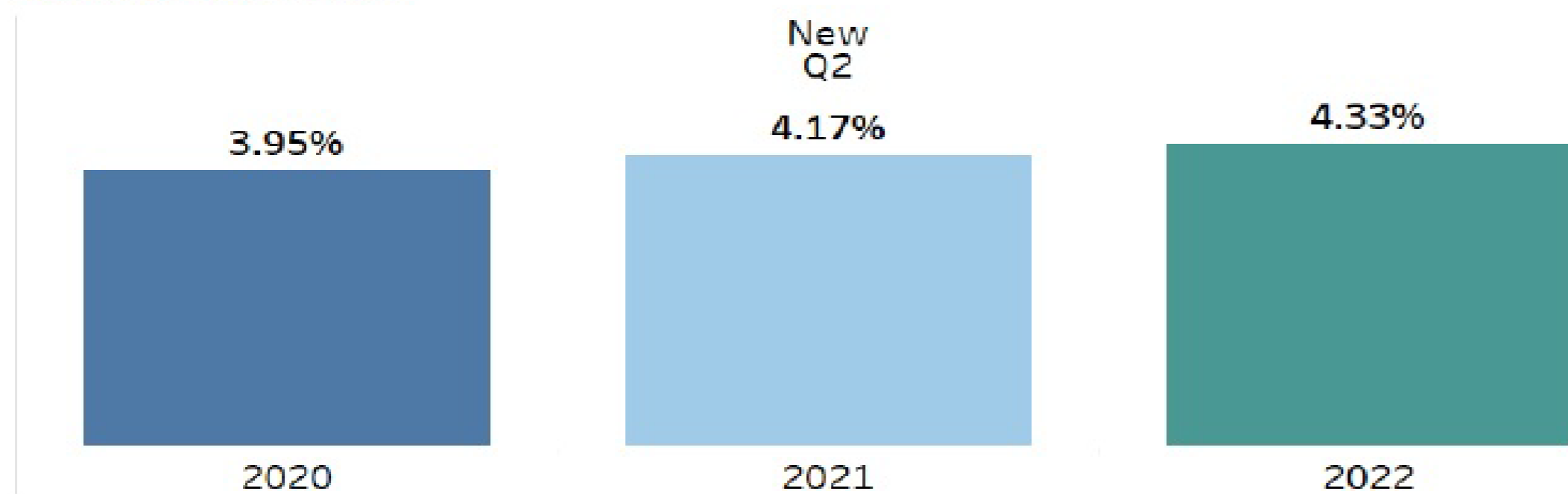
Average amount financed



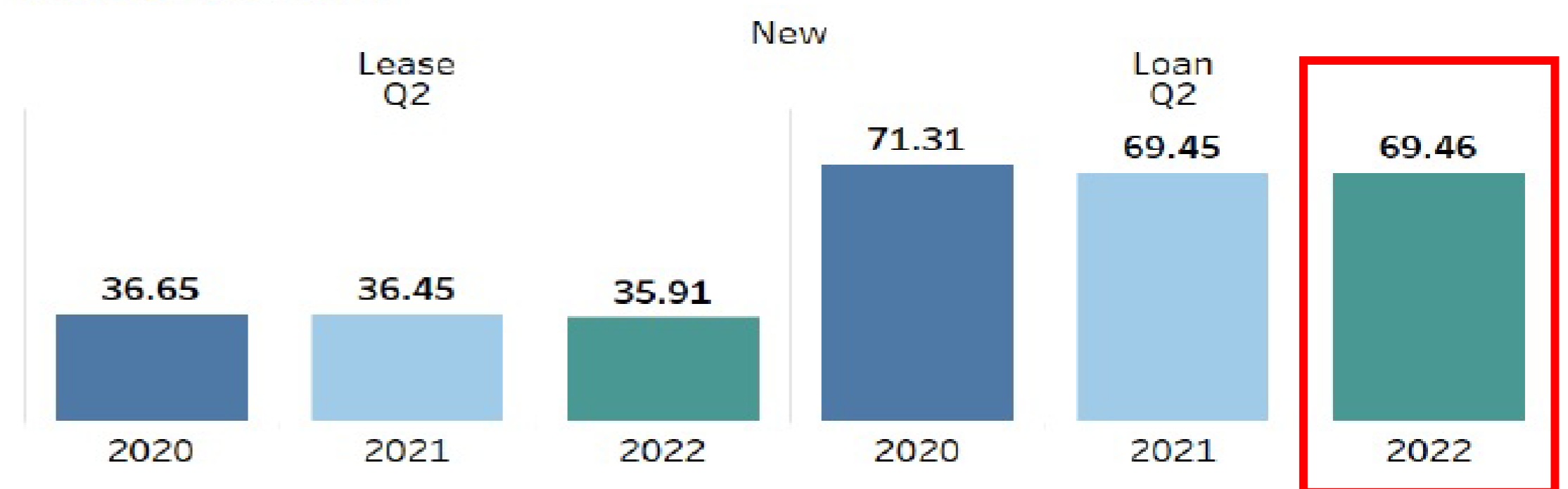
Average monthly payment



Average loan rate



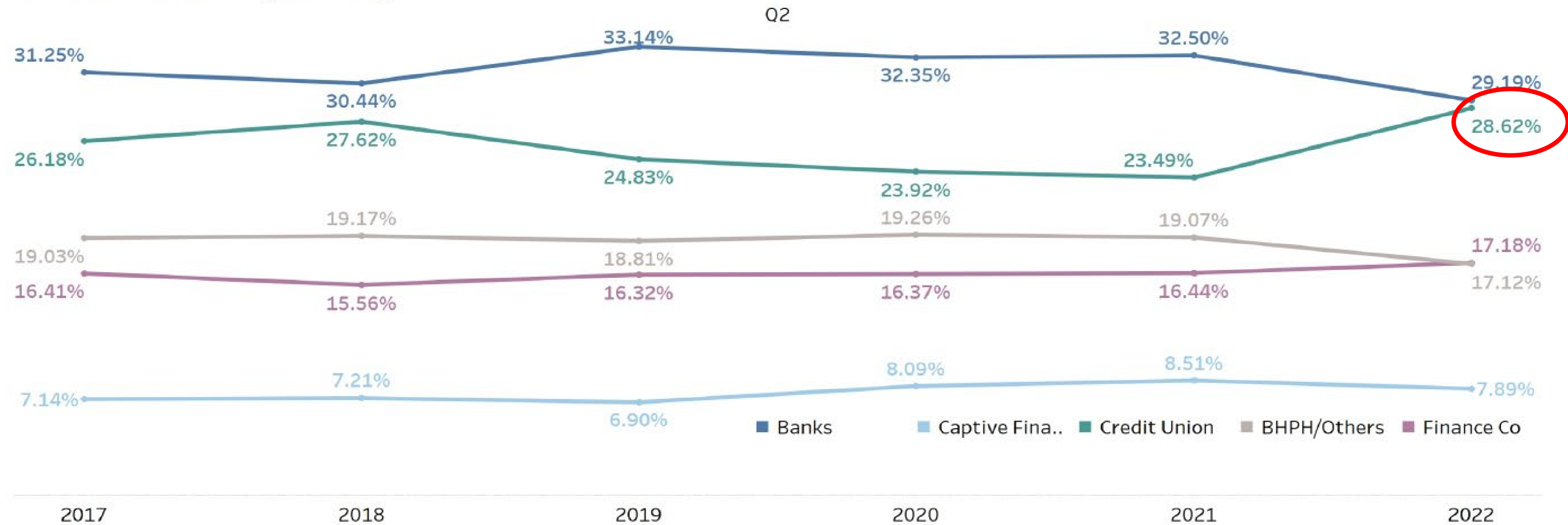
Average loan term



VEHICLE FINANCING TRENDS

Credit unions and finance companies increase share

Used market share by lender type



VEHICLE FINANCING TRENDS

Used loan attribute summary: loan amount, payment and term reach record high

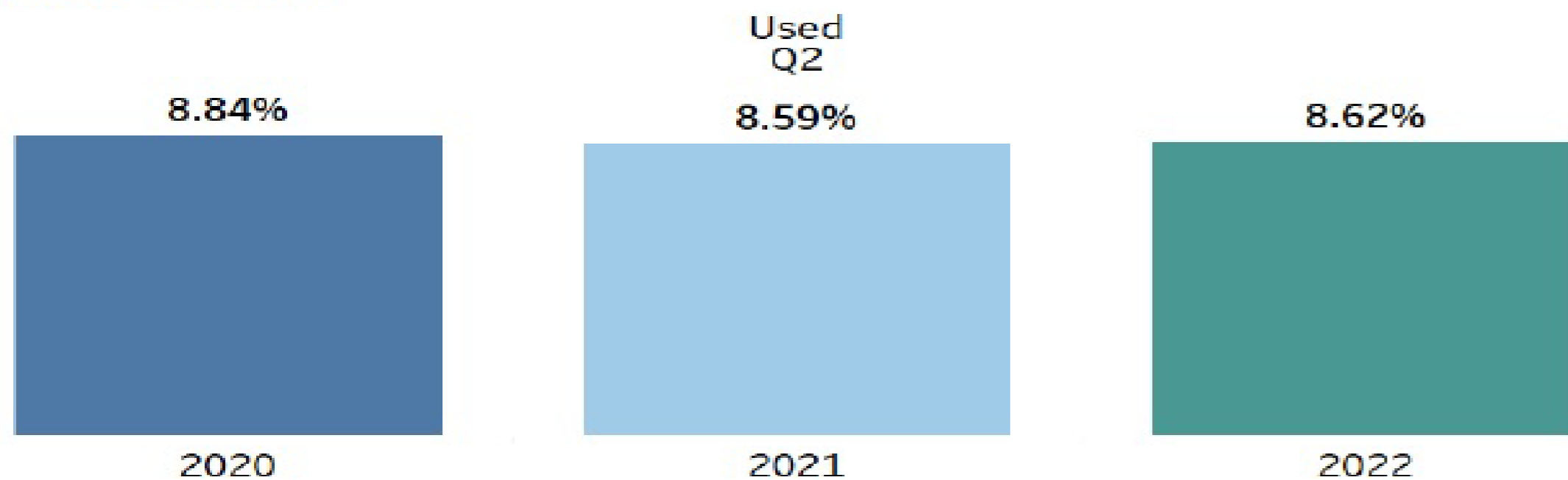
Average amount financed



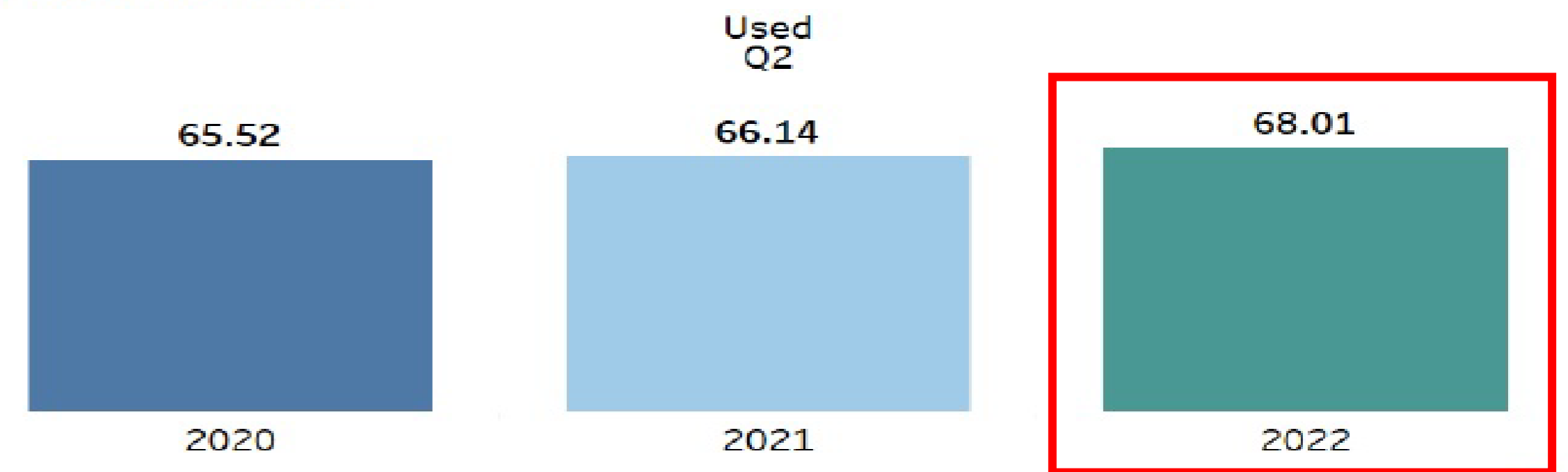
Average monthly payment



Average loan rate



Average loan term



RESIDUAL BASED FINANCING

Walk-away Balloon & Leasing Programs

WHAT IS RESIDUAL BASED FINANCING?

Any loan that uses a future value
(commonly known as a **residual value**)
to determine the payment.

- Balloon Lending
 - Includes a walk away option
- Leasing

WHAT ARE THE DIFFERENCES?

Leasing

- Title is in the Lessor's name
- Sales tax is calculated on the monthly payment (Called "Use Tax" and it's State Dependent)
- Typically require a security deposit
- Can be serviced by credit union core systems as a simple interest lease
- Lease may use a money factor instead of an interest rate to calculate the payment
- Term

Balloon Lending

- Title is in the Consumer's name
- Sales tax is calculated the same as a conventional loan
- No security deposit
- No early termination fees
- Can be serviced by credit union core systems
- Interest rates are used to calculate the payment
- Term

WHERE DO RESIDUAL VALUES COME FROM?

Automotive Lease Guide (A J.D. Power Company)

- The industry's most prolific provider of residual values for the last 50 years

WHY PAY FOR THE WHOLE VEHICLE?

\$65,000 VEHICLE



GUARANTEED FUTURE VALUE
\$37,472

PAY FOR WHAT YOU USE
\$27,528

GFV means options at loan maturity

Actual Vehicle Value at Loan Maturity

\$39,472

- Trade in
- Sell
- Pay off
- Refinance

\$35,472

- "Walk Away"

AFG'S RBF PROGRAMS OFFER PAYMENTS ON AVERAGE

30-45% LOWER

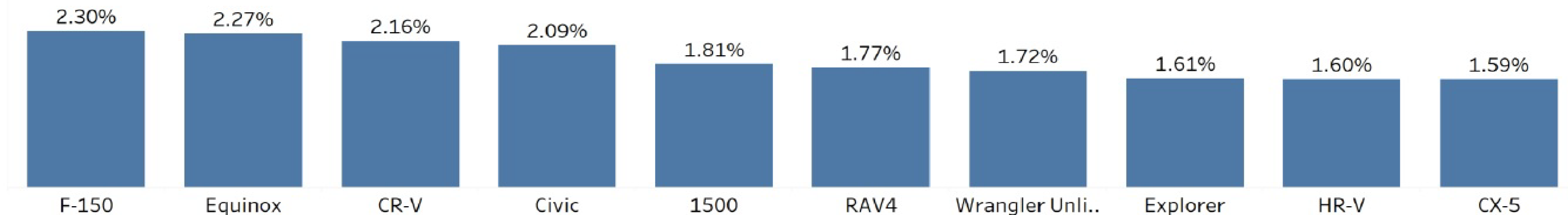
VS

CONVENTIONAL FINANCING

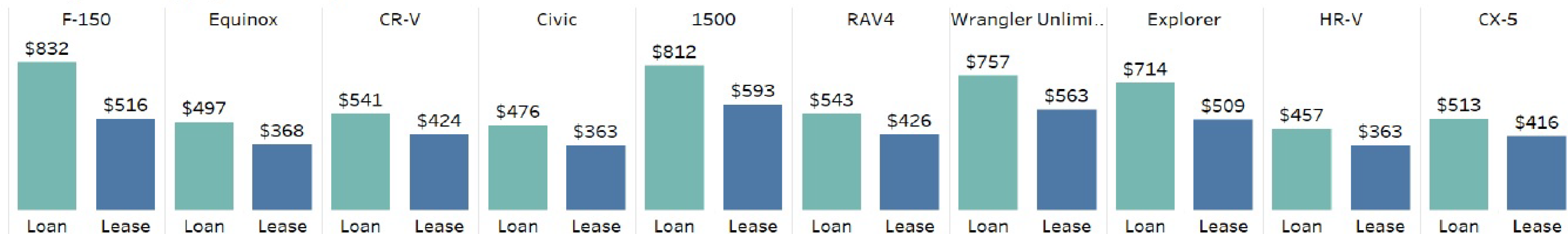
VEHICLE FINANCING TRENDS

Only one sedan among top leased vehicles; average payment difference of \$127

Top 10 leased models



Average monthly payment on top leased models



AFG WALK-AWAY BALLOON VS CONVENTIONAL FINANCING

2022 Jeep Wrangler 4 dr. Convertible Unlimited Rubicon 4xe

60-month loan term			
	Conventional (4.95% rate)	AFG (4.95% rate)	AFG (5.95% rate)
Amount financed	\$65,000	\$65,000	\$65,000
Monthly Payment	\$1,225	\$669	\$713
Net Interest Income	\$8,508	\$12,121	\$14,758
ROI	13.09%	18.65%	22.70%

Notes:

- All interest income/ROI calculations have included the \$795 enrollment fee.
- Balloon Monthly Payments 1-59 (term of loan minus 1)
- Interest as a % of Principal



AFG PROGRAMS VERSUS CONVENTIONAL FINANCING



Increase your yield



Cut your borrowers' monthly payment

AFG PROGRAM OPPORTUNITIES



NEW VEHICLES



*LEASE BUYOUT**



*USED VEHICLES
UP TO 5 YEARS OLD*



*RECAPTURE/REFINANCE**



*PRIVATE PARTY
PURCHASE**



*COLLECTION/WORKOUT**

** Applicable to direct lending program*

AFG RESIDUAL BASED FINANCING ADVANTAGES



FOR BORROWERS

- Lower monthly payments
- Shorter terms to align with buying habits
- Reduce/eliminate negative equity
- No trade-in hassle or prepayment penalty
- Guaranteed buyer at maturity
- Flexible loan options during the loan/lease terms
- Flexible mileage options: 7.5k, 10k, 12k, 15k, and 18k



FOR LENDERS

- Increase net interest income/ROI
- Expand market share/portfolio growth
- Increase new membership
- Improve member retention
- Member satisfaction through shorter terms
- Market differentiator - low payment option
- "A" Rated Residual Value Insurer



FOR DEALERS

- No cost to participate in the program
- Move pre-owned inventory
- Market differentiator
- Dealer Inventory Download (DID)
- Shorter terms = higher CSI and customer retention

WHAT SHOULD YOU LOOK FOR IN A RESIDUAL BASED FINANCING PROVIDER?

- Provider must take 100% of the residual value risk
- Provider must have an A rated insurance carrier to insure residual value risk
- End of Term Process
 - Member Friendly
 - Start early (at least a year prior to loan maturity)
 - No credit union staff involved
- Provider must have a minimum of 20+ years of continuous operation

WHAT SHOULD YOU LOOK FOR IN A RESIDUAL BASED FINANCING PROVIDER?

- Flexible Technology
- Integration
 - Loan Origination Systems – MeridianLink, Sync1
 - Auto Link
- Assigned Account Management personnel
- Provider must offer both Balloon Lending and Leasing
- Provider must offer unlimited amounts of training
 - Loan Staff
 - Dealers

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

ADDITIONAL RESOURCES

Find more information on the program (product overview videos, testimonials, case studies, and more) at:

<https://www.autofinancialgroup.com/additional-resources/>

CASE STUDY

Highlights of Frankenmuth Credit Union's Partnership with Auto Financial Group

As described by Amy Buchinger, Indirect Lending Supervisor, Frankenmuth Credit Union

EXPERIENCE WITH THE PROGRAM

YEARS ON THE PROGRAM »
Launched the Balloon Lending Program in 2009

CHALLENGES »
We were looking for a solution that would help our members get into a better vehicle with a lower payment. We were seeing that some of our members had to downgrade from the vehicle they wanted because they couldn't afford the payment with a conventional loan.

Loan-to-value was also a concern of ours. To afford the vehicle they wanted, members were extending their loan term, which meant that if they didn't finish their loan, they were getting stuck in the cycle of negative equity.

SOLUTION »
Auto Financial Group's Balloon Lending Program has been a win for both the credit union and our members.

- The program keeps our members where they do their financing – with us – so that they don't have to go to an outside company like they would with a lease.
- We set our own parameters. We decide how much negative equity can roll into the program, and we set our own guidelines for the underwriting process.
- Members can afford the vehicle they want, instead of having to settle for something they can afford but don't want.

CREDIT UNION PROFILE

Assets
\$1 Billion

Membership
57,000 Members
Anyone who lives, works, worships, or attends school in Michigan

Founding
Chartered in 1964 for millers and brewers

- It helps our members get out of or avoid the negative equity cycle.
- Unlike a lease, members own the vehicle and have the freedom to do what they want with the loan at any time, and they even have the option to walk away at the end of the loan term.
- We can still sell our ancillary auto loan products like GAP and warranty.
- Getting members into better vehicles results in better collateral for the credit union.

1-877-354-4234
www.autofinancialgroup.com




Tom Becker
Hanscom FCU,
SVP, Lending



AFG
AUTO FINANCIAL GROUP

BALLOON LENDING PROGRAM

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ADDITIONAL MILEAGE OPTIONS Balloon Program

2019 Jeep Grand Cherokee 4WD 4dr Wgn Laredo

AMOUNT FINANCED	RATE	CURRENT ODOMETER
\$33,900	Conventional: 2.99% AFG Balloon: 3.99%	30,000

TERM	CONVENTIONAL LOAN MONTHLY PAYMENT	AFG 12,000 MILES MONTHLY PAYMENT SAVINGS (GFV ¹)	AFG 10,000 MILES MONTHLY PAYMENT SAVINGS (GFV ¹)	AFG 7,500 MILES MONTHLY PAYMENT SAVINGS (GFV ¹)
24	\$1,457	\$837 42.6% (\$16,678)	\$828 43.2% (\$16,881)	\$817 43.9% (\$32,937)
36	\$986	\$650 34.1% (\$14,039)	\$641 35% (\$14,378)	\$630 36.1% (\$14,784)
		\$539 28.1% (\$12,308)	\$530 29.3% (\$12,749)	\$519 30.8% (\$13,291)
		\$466 23.5% (\$10,978)	\$457 25% (\$11,520)	\$447 26.6% (\$12,198)
		\$414 19.6% (\$9,847)	\$406 21.2% (\$10,491)	\$396 23.1% (\$11,305)

1-877-354-4234
info@autofinancialgroup.com
www.autofinancialgroup.com

The AFG Leasing program is the ultimate win-win situation. Your consumers get great value from a financial institution they trust. Your financial institution gets increased loan volume and higher yields.

30% According to Experian's State of the Automotive Finance Market Report, roughly 30% of all new car purchases use some form of residual based financing. Your borrowers look to you for the best rates on conventional loans, but have been forced to captives and your competitors for alternative low payment financing, until now.

The AFG Leasing Program

- MARKET DIFFERENTIATOR**
Recapture consumer loans currently being lost to competitive residual based financing products through a solution that carries your brand name.
- HIGHER YIELDS**
More interest income for your financial institution due to higher average daily balances.
- GUARANTEED FUTURE VALUE AND WALK-AWAY OPTION**
AFG guarantees 100% of the future value of the vehicle at the time of financing to your institution, so the borrower can walk away from the vehicle at the end of the term. The guaranteed future value is established based on the term of the lease using industry approved guidelines.
- LOWER MONTHLY PAYMENTS**
With AFG's leasing program, borrower benefits from up to 40% lower monthly payments compared with conventional financing.
- END OF TERM PROCESS**
Auto Financial Group handles disposition of the vehicle with no end-of-term hassles.
- USER-FRIENDLY TECHNOLOGY**
A customized, web-based payment and residual value quoting technology makes it easy for you to offer low payment financing.

Guaranteed Future Value
group.com/mileage-options



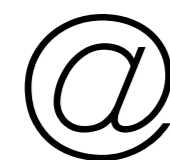


TIM KELLY

PRESIDENT



713-817-5858



tkelly@autofinancialgroup.com

THANK YOU FOR
YOUR INTEREST IN
AFG!

