The State of the Credit Union Auto Industry

Presented by
Alain Nana-Sinkam
ALG / TrueCar

Industry Update
Sales History & Forecast

- Slight drop in overall sales, but retail is expected to remain at 2017 levels through 2020
- Residual value declines and off-lease value concerns driving decline in lease volume
- Many OEMs deliberately pulling back rental fleet volume (in an effort to support higher residual values)

Industry Demand Curve for 2018

- Avg MSRP = $38,731
- $3,735 incentives
- 17 million total sales

$2,800 incentives = 16.0 million units
$4,000 incentives = 17.25 million units
Increase of ~598k total units (1-5 yo) in 2018 vs. 2017; ~230k are 3yo (off-lease) units

**2018 to 2021 RV Outlook**

-3 pt CY2018 → CY2021

Auction values are down again YoY
Accelerated declines are factored into outlook

Incentive spend is up and forecasted to continue rising

Used supply will remain detrimentally high but stabilize by 2021
What factors will drive vehicle values in the next 5 years?
Real RV Market Drivers

Market ‘events’ are more of a ripple than a current

- ↑ returns following a natural disaster
- natural disaster occurs
- ↓ returns following a major OEM product issue
- OEM issue in mainstream media
- Expected RV Over Time
Sustained shifts in market behavior will foster long term change

Expected RV Over Time

- Consumers begin to shift preferences
- RV for preferred models increases
- Used supply equilibrates to new market demand
- RV for ill-favored models decreases

Possible near term disruptions to the RV landscape

- Moderate cyclical recession with depressed SAAR and credit availability
- Tax reform leads to SAAR growth then increases used supply long term
- Increased incentive spend and fleet to gain market share in a stagnant market
- Long term gas price increases
  - RV for high MPG increases
  - RV for low MPG decreases
Hot Button Disrupters

Expected RV for Similar Combustion Engine Models

Expected RV for Electric Vehicles

Longview for EVs

$\text{range} = \sim 1/3$ of combustion engines

$\text{range} = \sim 1/2$ of combustion engines

$\text{range} \geq \text{Combustion}$

7 - 10 yrs

next generation models launch

truly competitive EV's present a wider range of outcomes

next gen EVs push down previous gen values due to the steep technology curves
Ride Share Impact

The impact from ride sharing propagation will largely be dependent on 2 key factors:
- the mileage at disposal from fleet
- consumer adoption

- higher mileage fleets reduce 'competitive' off-fleet used supply
- improved reliability makes low priced, high mileage models viable competitors

- ride share adoption reduces cars per licensed driver

- 30k – 60k mileage in ride share fleet replicates daily rental usage

Autonomous...

- minimum 10 year horizon before autonomous makes a dent in traditional market share

- traditional vs autonomous mkt share

- autonomous accelerates shared ownership, reducing cars per licensed driver

- scrappage rate decreases with less collisions as autonomous technology improves, leading to over supply
Subscription Based Open Ended Leasing

Subscription lease programs could impact the used market positively or negatively depending on the execution and volume of subscribers.

Subscription plans for both new and used products is best practice.

Subscription consumers will ‘inflate’ demand as average time of ownership will decrease in step with the increase of transaction counts in the used market.

Understanding the Value of Collateral Risk in Retail Auto Loans

2018 Mitsubishi Outlander
$29,140 MSRP

2018 Toyota RAV4
$29,110 MSRP

Common lending guidelines may advance 100% of MSRP for new models, meaning these two vehicles could go out at very similar amounts financed.
Understanding the Value of Collateral Risk in Retail Auto Loans

2018 Mitsubishi Outlander
$13,800 wholesale value

2018 Toyota RAV4
$17,400 wholesale value

ALG Forecasted Value after 24 Months shows the Outlander will be worth $3,600 less than the RAV4.

Staying Competitive with Captive Lenders with Subvention and Rising Interest Rates

Current incentive program for 2017 Buick Envision - $3,000 in incentives, but only $1,750 of that amount is compatible with the 2.9% special APR for 60 months.

<table>
<thead>
<tr>
<th>Loan Principal</th>
<th>Annual % Rate</th>
<th>Length in Months</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM Financial</td>
<td>$29,741</td>
<td>2.90%</td>
<td>60</td>
</tr>
</tbody>
</table>
Staying Competitive with Captive Lenders with Subvention and Rising Interest Rates

Current incentive program for 2017 Buick Envision - $3,000 in incentives, but only $1,750 of that amount is compatible with the 2.9% special APR for 60 months.

<table>
<thead>
<tr>
<th>Loan Principal</th>
<th>Annual % Rate</th>
<th>Length in Months</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GM Financial</td>
<td>$29,741</td>
<td>2.90%</td>
<td>60</td>
</tr>
<tr>
<td>Credit Union</td>
<td>$28,491</td>
<td>3.50%</td>
<td>66</td>
</tr>
</tbody>
</table>

Thank You