

BUILT TO LEND A HAND

BUILT *Ford* PROUD

FORD CREDIT UNIVERSITY

June 2020



Ford Credit University Outline

- **Ford Credit Strategic Value**
- **Size and Scope of Operations**
- **Ford Credit Business Model**
 - **Originations and Servicing**
 - **Funding (Including Capital Structure and Self-Liquidating Balance Sheet)**
- **Relationship Agreement with Ford**
 - **Distributions to Parent**
- **CECL and Supplemental Depreciation**



Further Information

Ford Fixed Income Investor Relations:

Karen Rocoff

313-621-0965

krocoff@ford.com

Kristi Jones

313-845-1522

kjone302@ford.com

Information on Ford:

- www.shareholder.ford.com
- 10-K Annual Reports
- 10-Q Quarterly Reports
- 8-K Current Reports

Information on Ford Motor Credit Company:

- www.fordcredit.com/investor-center
- 10-K Annual Reports
- 10-Q Quarterly Reports
- 8-K Current Reports





Strategic Value



**MOBILITY
AND FINTECH**



**RETAIL
FINANCING**



**LEASE
FINANCING**



**INVENTORY
FINANCING**



**PERFORMANCE
CONSULTING**



FORD CREDIT



**COMMERCIAL
FINANCING**



**CAPITAL AND
FACILITY LOANS**



**VEHICLE OWNERSHIP
PROTECTION**



**INVENTORY
INSURANCE**

Ford Credit's Value Proposition

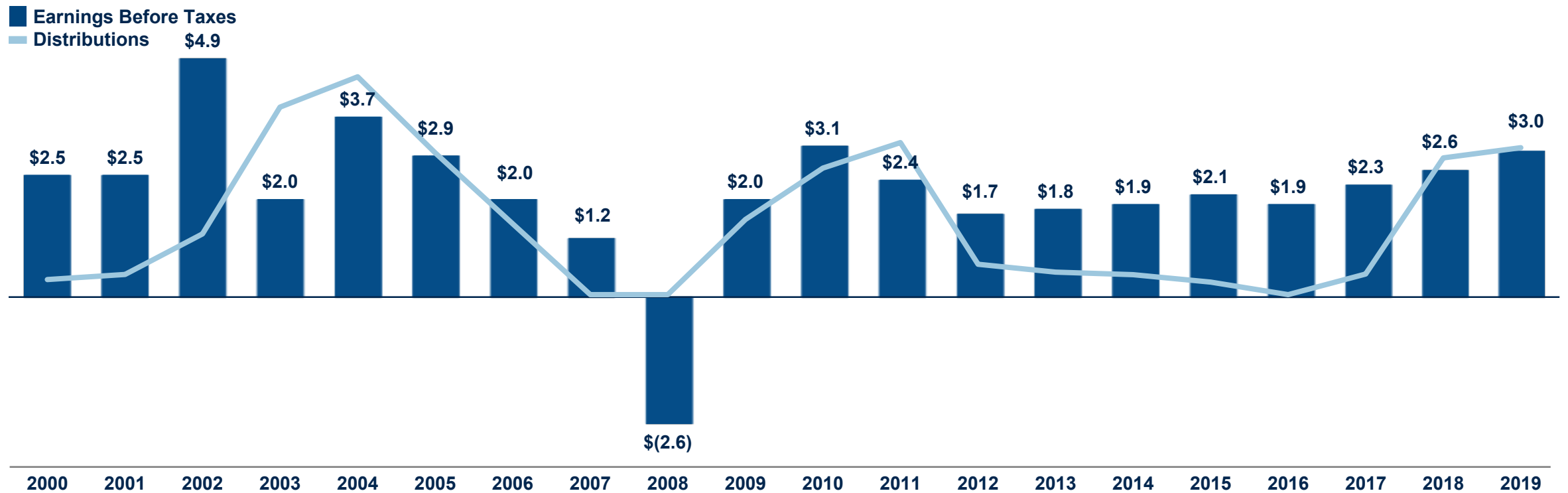


Highest Customer Satisfaction
Lincoln AFS: 2012 – 2019
Ford Credit: 2015, 2016, 2017, 2019

- Externally recognized loyalty and awards
- Highly refined model and best-in-class operating cost
- Success reinforcing long held beliefs

Consistency in Delivering Our Value Proposition Has Served Us Well

Ford Credit -- A Strategic Asset



Over The Last 20 Years, Ford Credit Generated \$44 Billion In Earnings Before Taxes And \$29 Billion In Distributions





Size and Scope of Operations

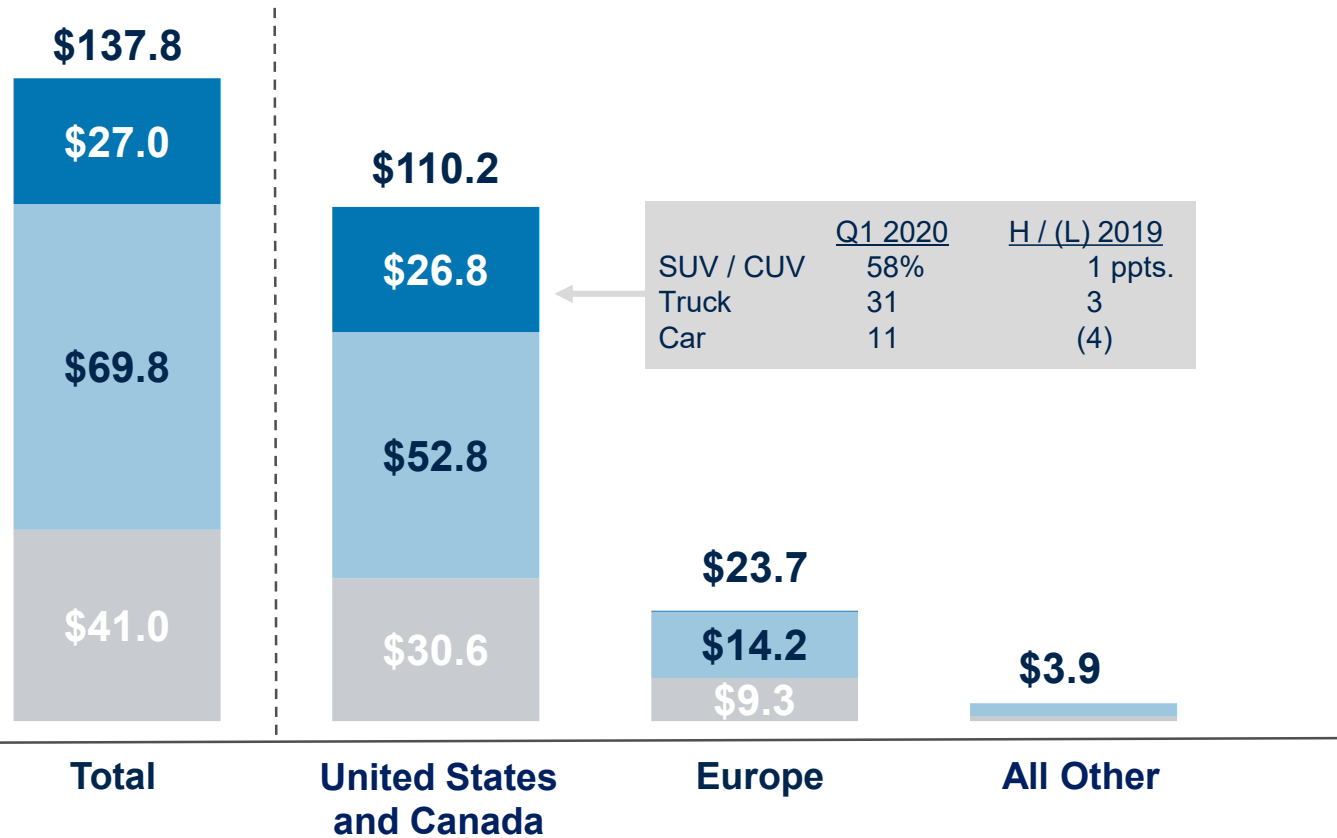
Ford Credit's Business

- Ford indirectly owns 100% of Ford Credit
- Operates in more than 70 countries
- 6,800-plus employees
- 3,000 dealers
- 5 million customer contracts
- \$146 billion in managed receivables (as of March 31, 2020)



Q1 2020 Net Receivables Mix (\$B)

- Net Investment in Operating Leases
- Consumer Financing
- Non-Consumer Financing



- Operating lease portfolio was 20% of total net receivables
- Receivables declined \$9 billion YoY and \$4 billion from Q4 2019 reflecting lower Ford sales

H/(L) Q1 2019
H/(L) Q4 2019

\$(9.1)
(4.2)

\$(5.6)
(3.3)

\$(2.7)
(1.3)

\$(0.8)
0.4





Ford Credit Business Model

Ford Credit Business Model



ORIGINATE

- Support Ford and Lincoln sales
- Strong dealer relationships
- Full spread of business
- Consistent underwriting
- Robust credit evaluation and verification
- Efficient use of capital



SERVICE

- High customer and dealer satisfaction
- World-class servicing
- Credit losses within expectations
- Operationally fit with lean cost structure



FUND

- Strong liquidity
- Diverse sources and channels
- Cost effective
- Credit availability through economic cycles

Ford Credit Maintains A Relentless Focus On Business Fundamentals

Originations and Servicing Process Overview

**Process
Discipline**

Technology

Speed
Efficiency
Control
Commonality

Low Variability
Consistent Approvals and Risk Management
High Quality Decisions
Centralized Process/Documentation

Judgment

Knowledge
Experience
Dealer Support
Standards

Accountability

Combine Technology And Judgment To Buy It Right And Minimize Credit Losses

Origination Process

- **Ford Credit's origination process is supported by proprietary scoring models and electronic decisioning**
 - **Analyze a number of factors for each credit application**
 - **Produce a proprietary risk score that is updated in real time throughout the evaluation process as inputs change**
- **Within the Credit application process:**
 - **Dealers submit credit applications and proposed financing terms electronically to Ford Credit**
 - **Ford Credit obtains a credit report for the applicant and any co-applicant**
 - » **Ford Credit uses its proprietary origination system to complete compliance and other checks, including fraud alerts, ID variation or to identify if the applicant is a current or former customer**
- **Origination process is not governed by strict limits and is judgment-based, using well-established purchasing guidelines and control processes**
- **Credit decisions are communicated electronically to the dealers**



Servicing Strategy

- **Ford Credit uses proprietary behavioral scoring models to assess the probability of payment default for each receivable and implements collection efforts based on its determination of the credit risk of the customer on the payment due date**
- **Output of the behavioral scoring models is a proprietary risk rating**
- **These models assess a number of variables including origination characteristics, customer account history, payment patterns, expected loss or severity and in the U.S credit bureau data**
- **Segmentation is determined from the proprietary risk rating and allows matching of account risk with the appropriate collection strategy**
- **Risk segmentation establishes:**
 - **Assignment issuance timing**
 - **Follow-up intensity**
 - **Assignment transfers from an early stage to a late stage delinquency strategy**
 - **Segmentation ensures past due customer accounts are assigned to the right collection work queue at the right time**

Ford Credit Funding Strategy

- **Our strong balance sheet and substantial liquidity provide Ford Credit considerable flexibility**
- **Despite the impact of COVID-19, Ford Credit ended the first quarter at \$28 billion in liquidity, exceeding target of about \$25 billion; liquidity target established to withstand a severe stress environment**
- **Completed \$7 billion of public issuance, year-to-date through May 31, 2020**
- **Expect to increase ABS mix and prudently issue unsecured debt. Even without any incremental unsecured issuance we expect to maintain liquidity around our target level for the rest of the year**
- **Key elements of funding strategy include:**
 - **Maintain liquidity around \$25 billion; continue to renew and expand committed ABS capacity**
 - **Continue to leverage public market issuance**
 - **Assets and committed capacity available to increase ABS mix as needed**
 - **Continue to target managed leverage of 8:1 – 9:1 in 2020**
 - **Maintain a self-liquidating balance sheet**



Funding Structure – Managed Receivables* (\$B)

	2019 Dec 31	2020 Mar 31
Term Debt (incl. Bank Borrowings)	\$ 73	\$ 72
Term Asset-Backed Securities	57	56
Commercial Paper	4	3
Ford Interest Advantage / Deposits	7	6
Other	9	6
Equity	14	14
Adjustments For Cash	(12)	(11)
Total Managed Receivables	\$ 152	\$ 146
Securitized Funding as Pct of Managed Receivables	38%	38%

- Funding is diversified across platforms and markets
- Well capitalized with a strong balance sheet
- Expect higher mix of ABS going forward



* See Appendix for definitions and reconciliation to GAAP

Liquidity Sources* (\$B)

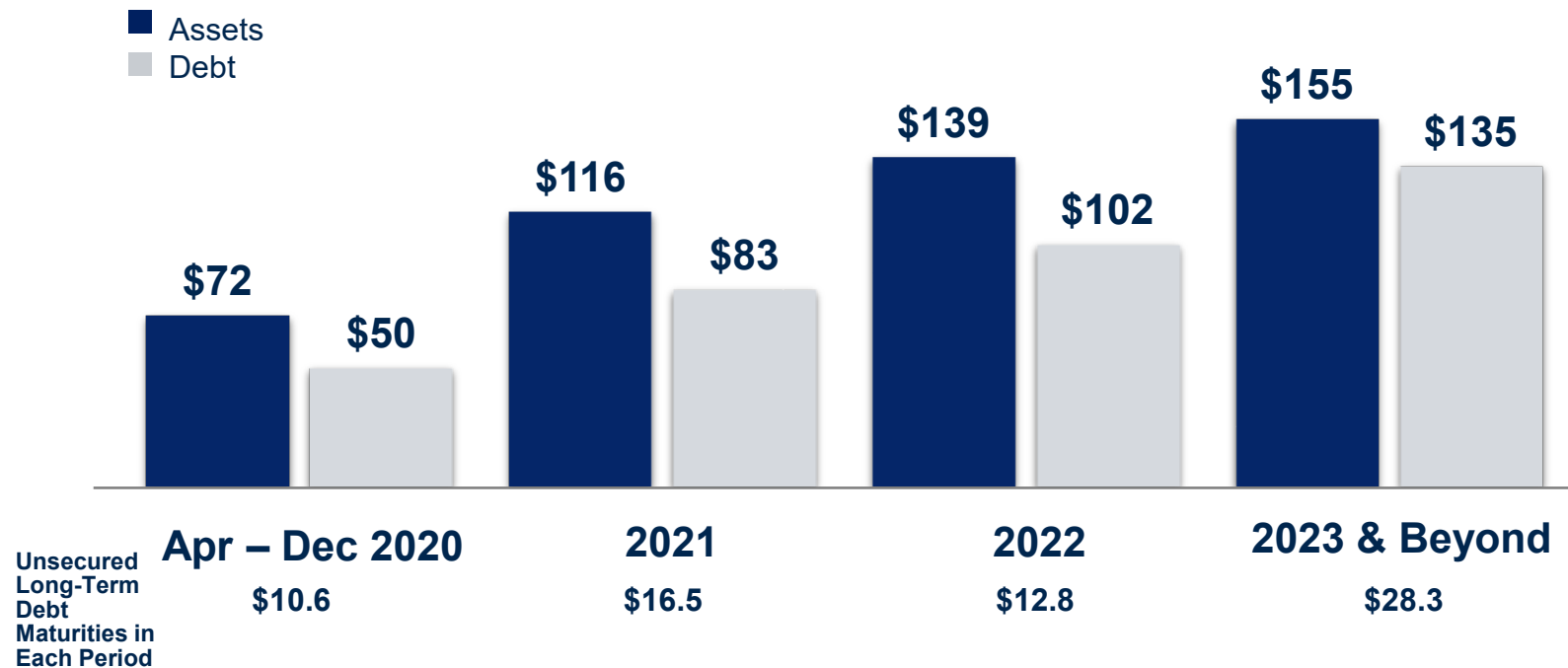
	2019 Mar 31	2019 Dec 31	2020 Mar 31
<u>Liquidity Sources</u>			
Cash	\$ 12.8	\$ 11.7	\$ 11.3
Committed asset-backed facilities	35.2	36.6	35.9
Other unsecured credit facilities	3.3	3.0	2.8
Ford corporate credit facility allocation	3.0	3.0	-
Total liquidity sources	\$ 54.3	\$ 54.3	\$ 50.0
<u>Utilization of Liquidity</u>			
Securitization cash	\$ (3.3)	\$ (3.5)	\$ (2.9)
Committed asset-backed facilities	(19.8)	(17.3)	(18.6)
Other unsecured credit facilities	(0.6)	(0.8)	(0.5)
Ford corporate credit facility allocation	-	-	-
Total utilization of liquidity	\$ (23.7)	\$ (21.6)	\$ (22.0)
Gross liquidity	\$ 30.6	\$ 32.7	\$ 28.0
Adjustments	0.4	0.4	0.3
Net liquidity available for use	\$ 31.0	\$ 33.1	\$ 28.3

- Given excess liquidity, waived \$3 billion allocation to corporate revolver in March
- Liquidity of \$28 billion is above target of about \$25 billion



* See Appendix for definitions

Cumulative Maturities at March 31, 2020* (\$B)



- Strong balance sheet is inherently liquid with cumulative debt maturities having a longer tenor than asset maturities
- As of March 31, \$80 billion (including \$2.9 billion cash) of \$155 billion assets are encumbered



* See Appendix for assets and debt definitions



Relationship Agreement with Ford

Relationship Agreement with Ford

- **Ford and Ford Credit have a relationship agreement that governs our interactions. This ensures that intercompany transactions are arm's length and our financing activities are prudent and commercially reasonable.**
- **Ford Credit will not guarantee more than \$500 million of indebtedness of, or make equity investments in any of, Ford or its automotive affiliates**
- **Ford Credit can require Ford to make a capital contribution if Ford Credit's managed leverage is greater than 11.5 to 1**
- **Ford Credit will not be required to accept credit or residual risk beyond what it would be willing to accept acting in a prudent and commercially reasonable manner**
- **Ford and Ford Credit are separate, legally distinct companies and will continue to maintain separate books, accounts, assets and liabilities**



Financial Statement Leverage Reconciliation To Managed Leverage* (\$B)

	2019 Mar 31	2019 Dec 31	2020 Mar 31
<u>Leverage Calculation</u>			
Debt	\$ 142.9	\$ 140.0	\$ 136.8
Adjustments for cash	(12.8)	(11.7)	(11.3)
Adjustments for derivative accounting	(0.1)	(0.5)	(1.6)
Total adjusted debt	<u>\$ 130.0</u>	<u>\$ 127.8</u>	<u>\$ 123.9</u>
Equity	\$ 14.9	\$ 14.3	\$ 13.5
Adjustments for derivative accounting	(0.2)	(0.0)	(0.0)
Total adjusted equity	<u>\$ 14.7</u>	<u>\$ 14.3</u>	<u>\$ 13.5</u>
Financial statement leverage (to 1) (GAAP)	9.6	9.8	10.1
Managed leverage (to 1) (Non-GAAP)	8.8	8.9	9.2



* See Appendix for definitions

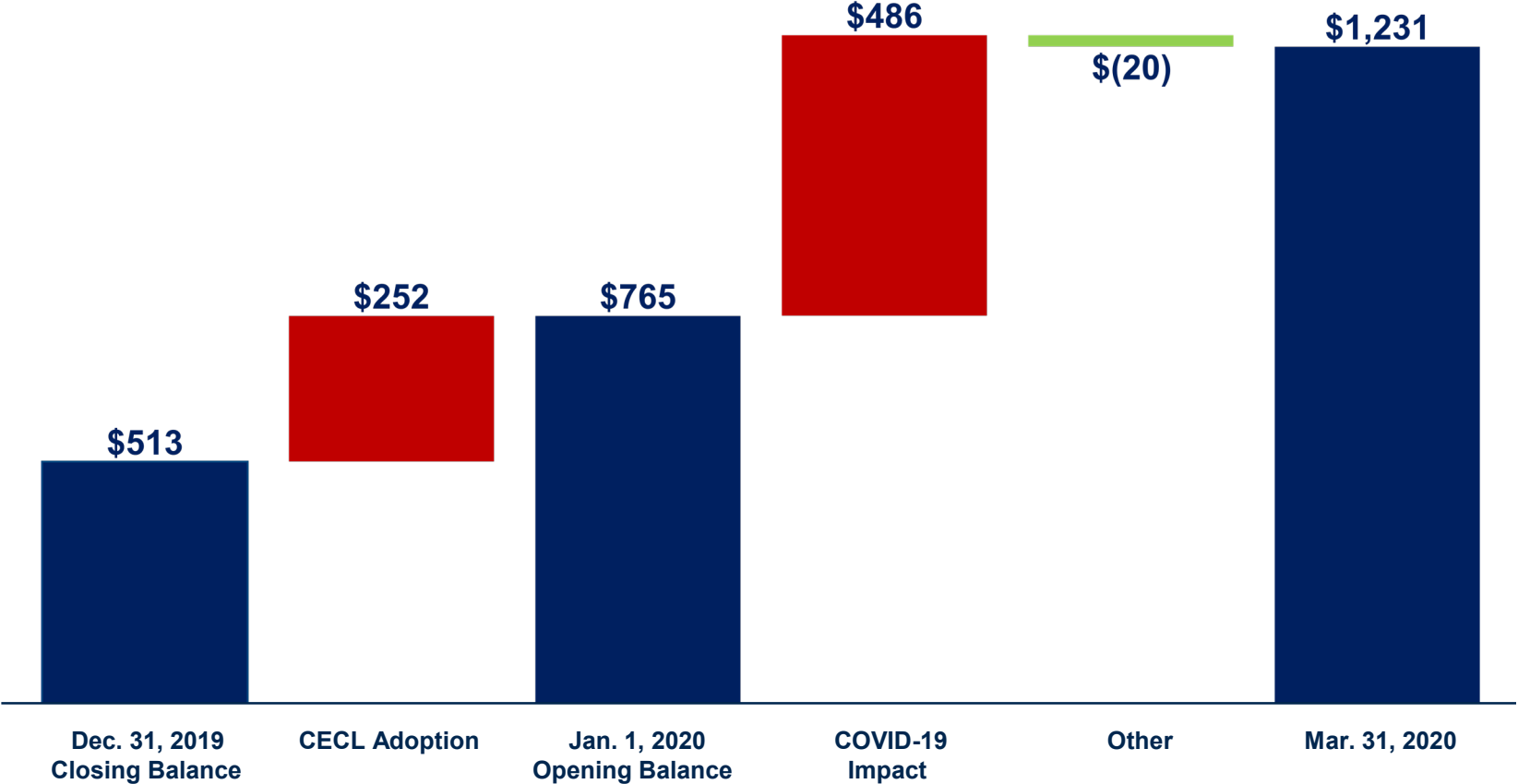
Distributions

- **Distributions are a function of**
 - **Net income,**
 - **Balance sheet size, and**
 - **Leverage**
- **Increases in net income and reductions in balance sheet size could result in larger distributions**
- **We expect to maintain managed leverage in an 8:1 – 9:1x range in 2020**
- **A rule of thumb is \$100 million of distributions for each \$1 billion decline in receivables, assuming 9:1x managed leverage**



Profit Impact of CECL and Supplemental Depreciation

Q1 2020 Credit Loss Reserve Adjustment (\$M)



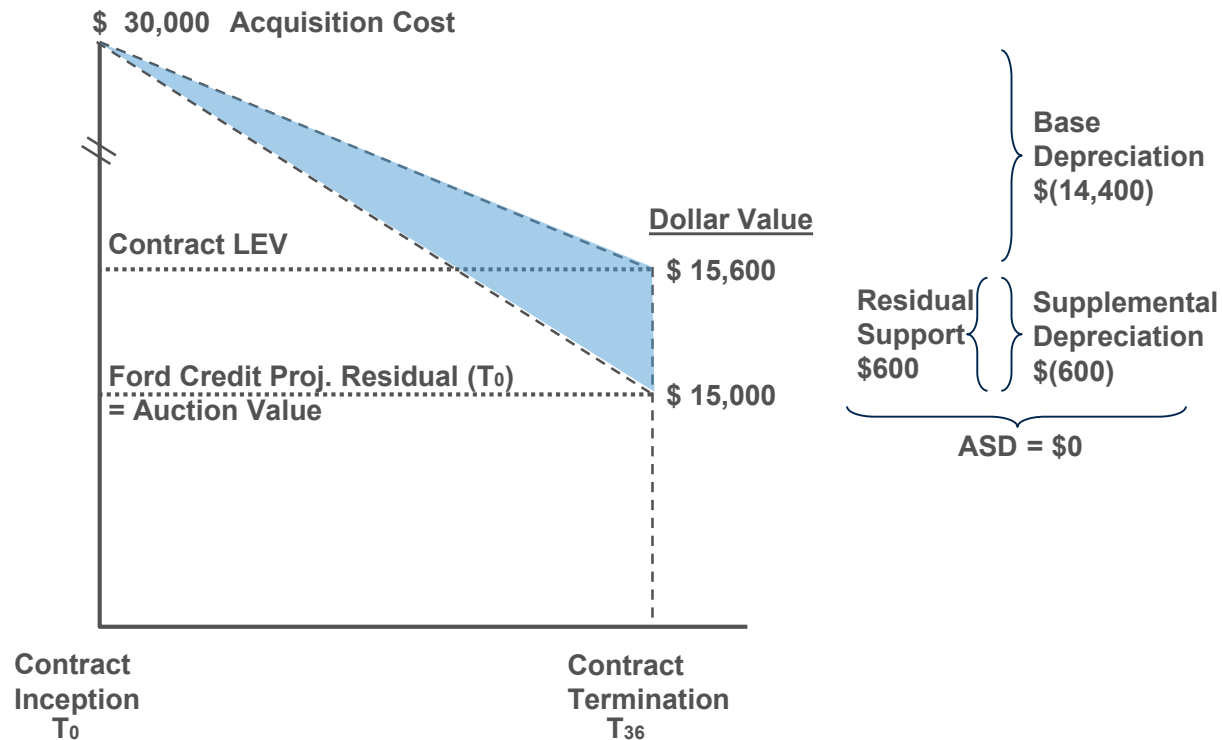
- Current Expected Credit Losses (CECL) accounting standard reflects forward-looking estimate of lifetime losses
- \$252M adjustment at adoption recorded through retained earnings
- Increase in retail reserve driven by probability of default primarily reflecting outlook for increase in unemployment



Lease Example With No Residual Gain / Loss

Example Assumptions:

Acquisition Cost = MSRP	\$	30,000	
Contract Lease-end Value (LEV)		15,600	(52% MSRP)
Ford Credit Projected Residual at Contract Inception		15,000	(50% MSRP)
Ford Residual Support		600	
Lease Term in months		36	



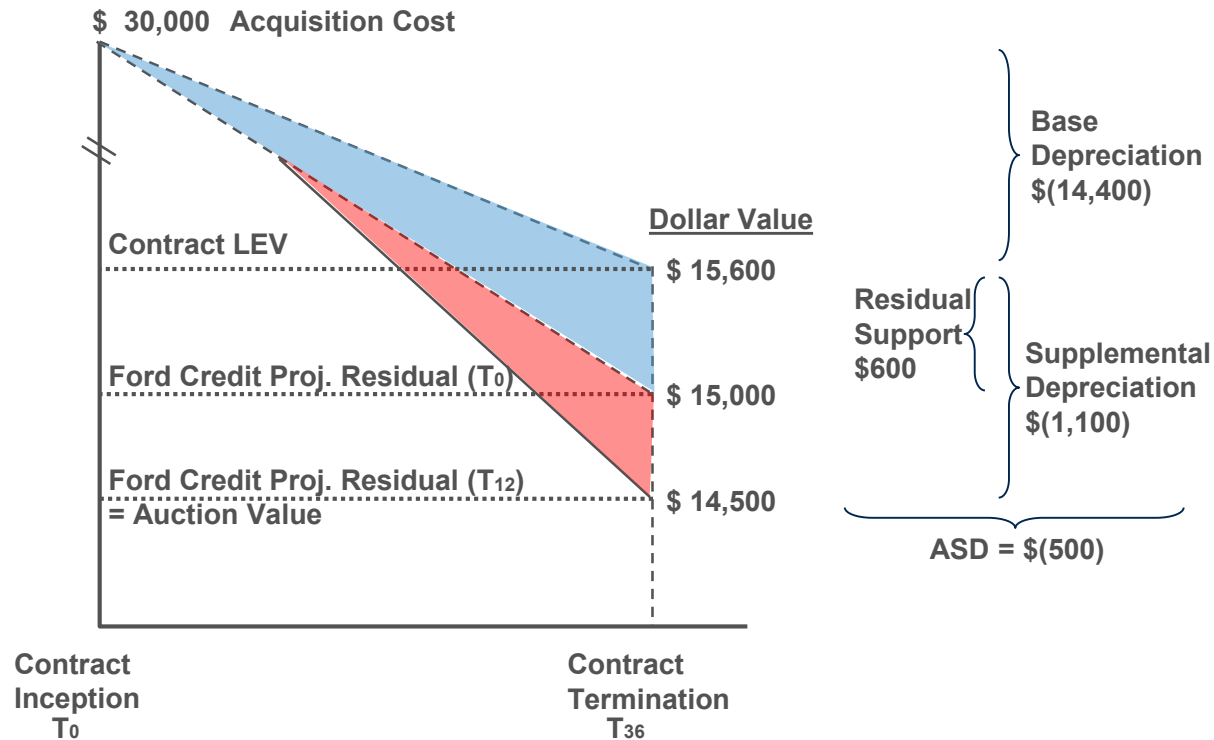
Generally, depreciation for leases is the sum of base and supplemental depreciation, net of residual support

- Base Depreciation reflects scheduled depreciation from the acquisition cost to the contract LEV and does not change after inception
- Supplemental Depreciation reflects the difference between contract LEV and projected auction value. It is depreciated over the life of the contract
- Residual Support is received up front from Ford and amortized within depreciation
- Accumulated Supplemental Depreciation (ASD) reflects the accumulated balance of Supplemental Depreciation and Residual Support. In this example, ASD is \$0

Lease Example With Residual Gain / Loss

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- Auction value projections are assessed quarterly and changes are made accordingly
- In this example, the projected residual is lowered at month 12
- Supplemental Depreciation is increased to depreciate the vehicle to the revised auction value projection
- In this example, ASD is \$(500) at contract termination
- Supplemental Depreciation can be increased or decreased; however, it can never “un-depreciate” above base depreciation
- Auction Performance is the difference between the auction value and the depreciated value at contract termination



Appendix

Understanding Credit Loss Terminology

BALANCE SHEET

Allowance for Credit Losses (Reserve): Estimate of the lifetime credit losses inherent in finance receivables as of the date of the financial statements

INCOME STATEMENT IMPACT

Charge-offs (net): Actual losses incurred on our receivables plus recoveries collected from customers after the account is charged off

+

Change in Allowance for Credit Losses : Reflects the increase or decrease in allowance for credit losses during the period, net of changes in reserves resulting from exchange rate movements, which flow through Accumulated Other Comprehensive Income and not through the Income Statement

=

Provision for Credit Losses: Expense that flows through the income statement to provide appropriate allowance for credit losses

Definitions And Calculations

Adjustments (as shown on the Liquidity Sources chart)

- Includes asset-backed capacity in excess of eligible receivables; cash related to the Ford Credit Revolving Extended Variable-utilization program (“FordREV”), which can be accessed through future sales of receivables

Assets (as shown on the Cumulative Maturities chart)

- Includes gross finance receivables less the allowance for credit losses, investment in operating leases net of accumulated depreciation, cash and cash equivalents, and marketable securities (excluding amounts related to insurance activities). Amounts shown include the impact of expected prepayments

Cash (as shown on the Funding Structure, Liquidity Sources and Leverage charts)

- *Cash and cash equivalents* and *Marketable securities* reported on Ford Credit’s balance sheet, excluding amounts related to insurance activities

Debt (as shown on the Cumulative Maturities chart)

- Includes all of the wholesale ABS term maturities of \$9.2 billion in the next 12 months that otherwise contractually extend beyond Q1 2021. Retail and lease ABS are treated as amortizing to match the underlying assets

Debt (as shown on the Leverage chart)

- *Debt* on Ford Credit’s balance sheet. Includes debt issued in securitizations and payable only out of collections on the underlying securitized assets and related enhancements. Ford Credit holds the right to receive the excess cash flows not needed to pay the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions

Committed Asset-Backed Security (“ABS”) Facilities (as shown on the Liquidity Sources chart)

- Committed ABS facilities are subject to availability of sufficient assets, ability to obtain derivatives to manage interest rate risk, and exclude FCE Bank plc (“FCE”) access to the Bank of England’s Discount Window Facility

Earnings Before Taxes (EBT)

- Reflects *Income before income taxes* as reported on Ford Credit’s income statement

Securitization cash (as shown on the Liquidity Sources chart)

- Securitization cash is cash held for the benefit of the securitization investors (for example, a reserve fund)

Securitized (as shown on the Public Term Funding Plan chart)

- Public securitization transactions, Rule 144A offerings sponsored by Ford Credit, and widely distributed offerings by Ford Credit Canada

Term Asset-Backed Securities (as shown on the Funding Structure chart)

- Obligations issued in securitization transactions that are payable only out of collections on the underlying securitized assets and related enhancements

Total net receivables (as shown on the Total Net Receivables Reconciliation To Managed Receivables chart)

- Includes finance receivables (retail financing and wholesale) sold for legal purposes and net investment in operating leases included in securitization transactions that do not satisfy the requirements for accounting sale treatment. These receivables and operating leases are reported on Ford Credit’s balance sheet and are available only for payment of the debt issued by, and other obligations of, the securitization entities that are parties to those securitization transactions; they are not available to pay the other obligations of Ford Credit or the claims of Ford Credit’s other creditors

Unallocated other (as shown on the EBT By Segment chart)

- Items excluded in assessing segment performance because they are managed at the corporate level, including market valuation adjustments to derivatives and exchange-rate fluctuations on foreign currency-denominated transactions

