

2026 LGT Controllers' Roundtable

Dealer Finance Market Update

LGT Controllers' Roundtable

Agenda

- ▶ BMO Commercial Bank Introduction
- ▶ Auto Industry Overview
- ▶ Economic Update
- ▶ Banking market and acquisition financing
- ▶ Q&A

A Leading North American Financial Institution



- \$1.5 trillion in total assets
- \$37 billion in annualized revenue
- \$130 billion in market capitalization
- A+ S&P Senior Debt Rating
- More than 53,000 employees worldwide serving over 13 million clients
- 8th largest bank in North America as measured by assets
- Founded in 1817 and celebrating over 200 years of innovation

Canada



- Full-service retail bank with almost 900 Canadian branches serving over 7 million Canadian households
- Leader in business, commercial banking, investment banking and wealth management. Deep industry knowledge across all major sectors
- #1 Market Share for Commercial Dealer Finance with over \$20 billion in commitments (CAD).

United States



- Nearly 40 years under BMO ownership
- Personal, commercial and wealth services with nearly 1,000 branches
- Leveraging industry, business, and wealth expertise
- Over US\$10 billion in Dealer Finance loan commitments in the US
- Strong national footprint with offices in 37 states and global span through BMO Capital Markets and the Commercial Bank

The bank that defines great customer experience.

Leading North American Financial Institution

8TH LARGEST NORTH AMERICAN FINANCIAL INSTITUTION¹

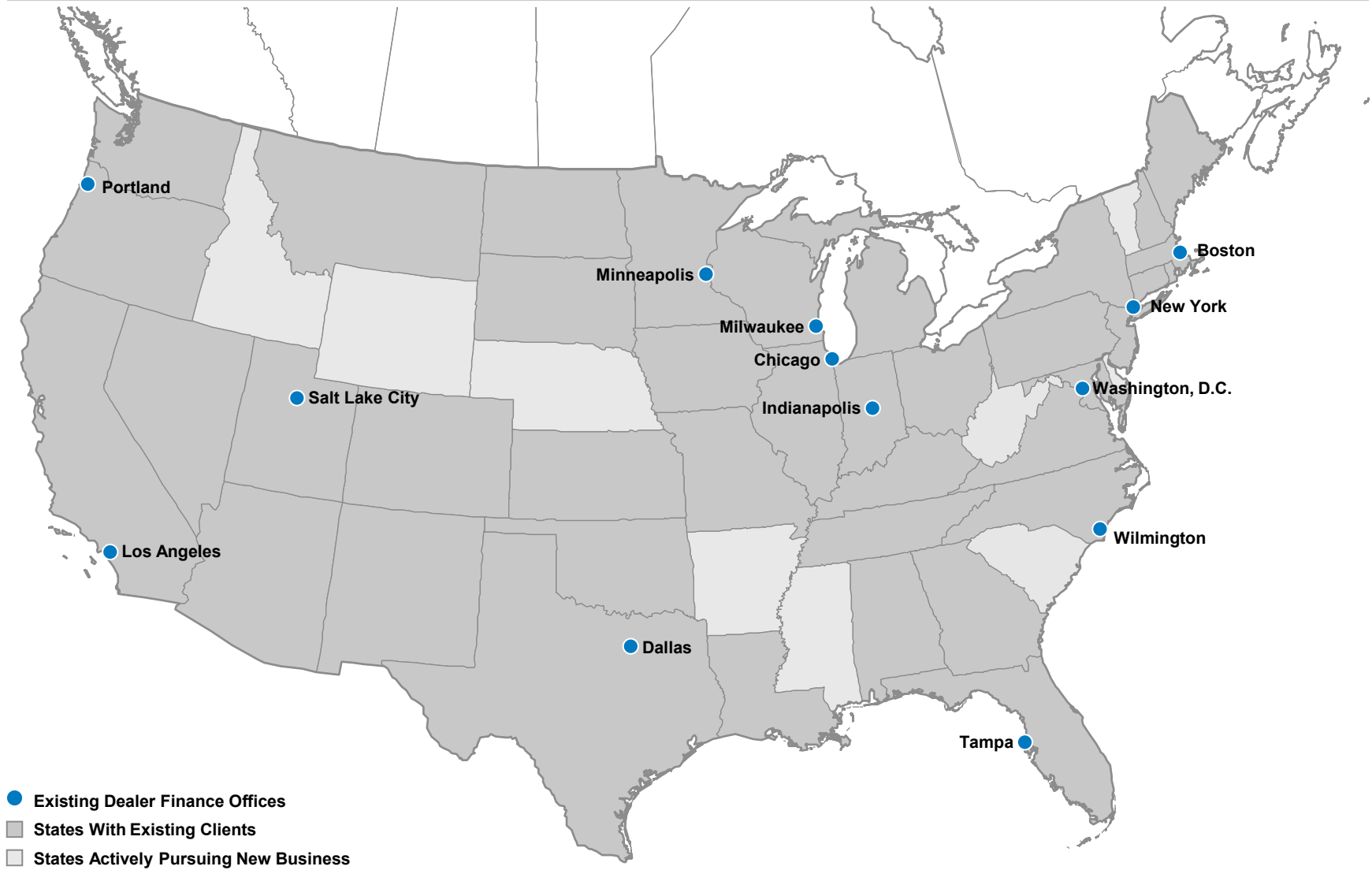
Rank	Institution
1	JPMorgan Chase
2	Bank of America
3	Citigroup Inc
4	Wells Fargo
5	Royal Bank of Canada
6	Toronto Dominion Bank (TD Bank)
7	Scotia Bank
8	BMO Financial Group
9	Canadian Imperial Bank of Commerce (CIBC)
10	US Bank

STRONG, STABLE PARTNER

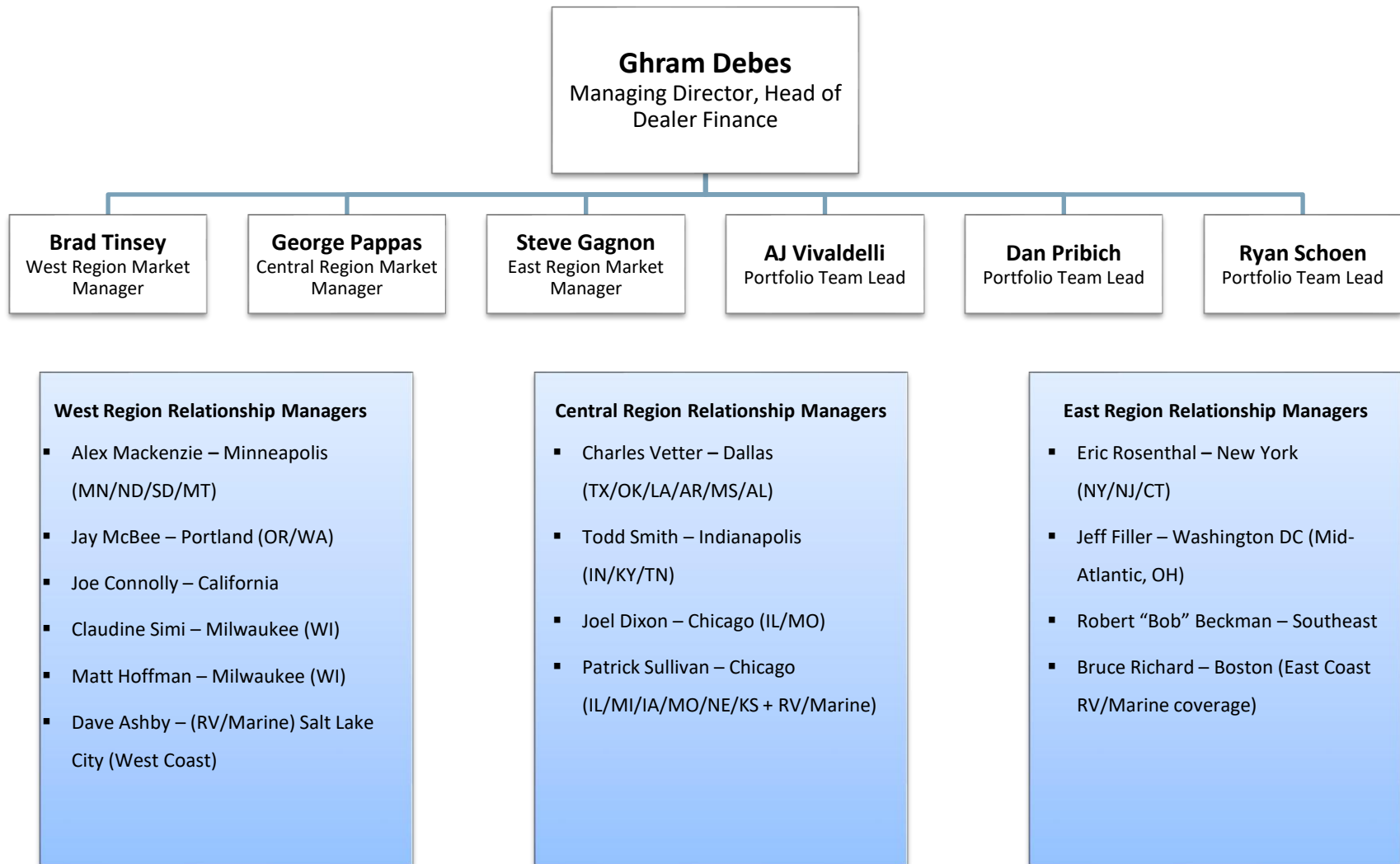
Institution	S&P Senior Debt Rating ²
BMO Financial Group	A+
JPMorgan Chase	A+
US Bank	A
PNC	A-
Bank of America	A-
Truist	A-
Huntington Bank	BBB+
Wells Fargo	BBB+
Fifth Third/Comerica	BBB+
Ally Bank	BB+

Strong and stable North American financial institution

BMO's U.S. Dealer Finance Team – Market Coverage



BMO Dealer Finance Leadership Team and Market Coverage



Auto Industry Update

YTD Sales Down (~4%)
Hybrids Accelerating
EV Demand Softening
Rising Incentives





2026 YTD Auto Retail Sales Overview

Market Downturn Factors

Auto sales declined 4% in 2026 due to affordability challenges, elevated interest rates, and high vehicle prices.

Consumer Purchase Behavior

Rising ownership costs and fuel price volatility led to delayed purchases and trade-downs among buyers.

Market Fragmentation and Winners

The market is fragmenting by powertrain and brand, with some manufacturers gaining market share despite declines.

2026 Transitional Year

Shifting consumer preferences and changing incentives define 2026 as a year of competitive retail demand shifts.

Key Market Themes Shaping 2026 Performance

Hybrid Vehicle Growth

Consumer preference is shifting rapidly towards hybrid vehicles with sales increasing by over 20% year over year.

Electric Vehicle Contraction

EV sales declined roughly 20% due to tax credit removals, charging issues, and residual value concerns.

Return of Incentives

Automakers are increasing cash incentives and financing support, stabilizing sales but pressuring margins.

Value Positioning Importance

Brands with competitive pricing, reliability, and efficient powertrains outperform premium and niche EV strategies.





YTD Winners – Segments and Models

Hybrid Segment Success

Hybrids are the leading segment in 2026, bridging traditional ICE vehicles and full electrification.

Truck Segment Performance

Ram trucks have shown strong growth in Q1, outperforming competitors in the full-size pickup segment.

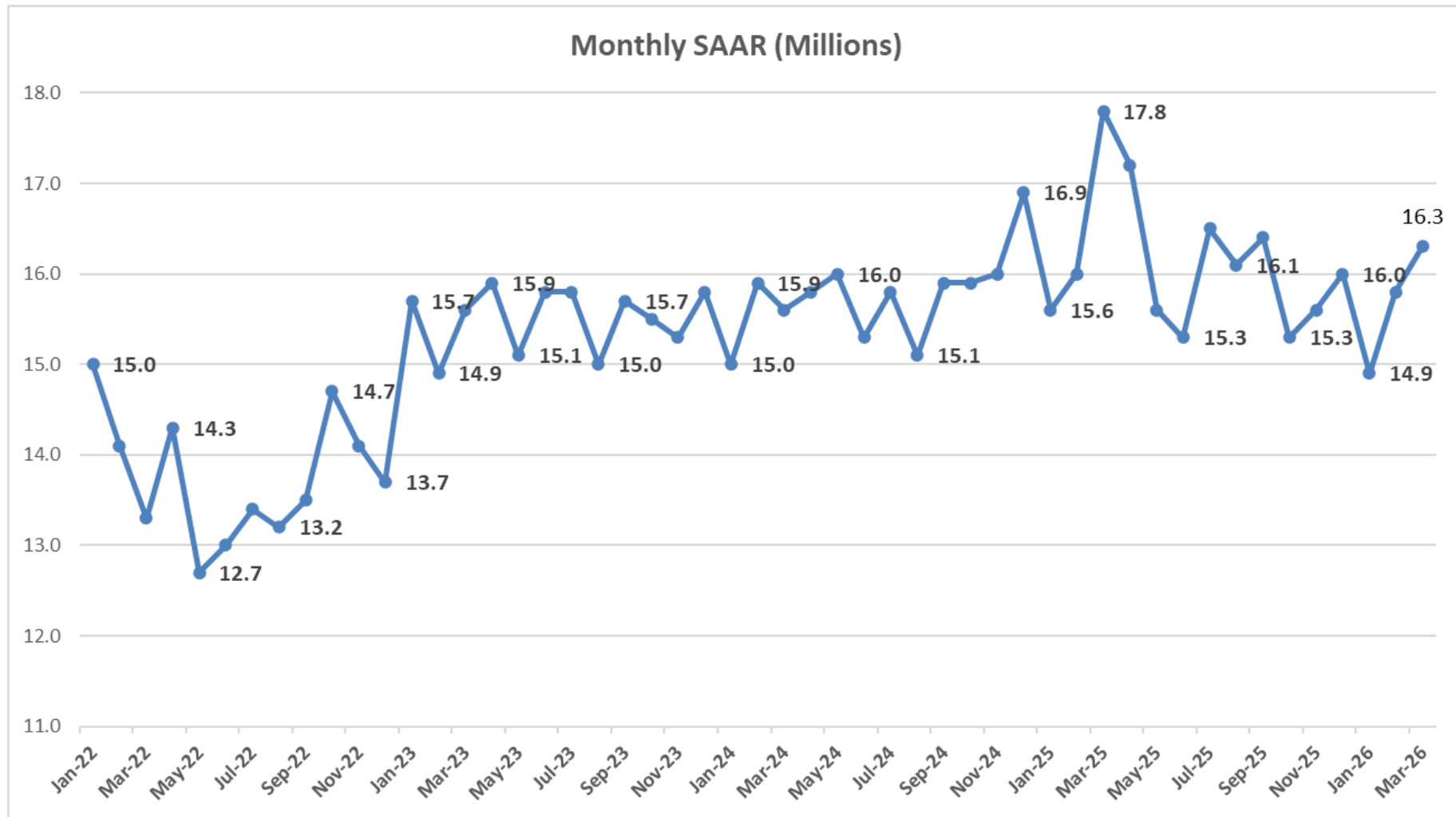
Model-Level Gains

Certain models like the Ford Mustang and BMW X3 achieved notable growth due to redesigns and unique positioning.

Electric Vehicle Growth

Select EV models like Toyota's bZ and Lexus RZ have shown strong growth despite challenging market conditions.

2026 New Vehicle Sales



May New Vehicle Sales Data

- May SAAR finished at 16.1 million, a strong result given the negatives news from the Middle East and lower consumer confidence.
- Sales volume was 1.47 million units, slightly higher than year-ago levels but up 7% from April. May had 26 selling days, one day less than May of 2025 but flat to April levels.
- Retail SAAR in May was estimated at 13.4 million, higher than last May's 12.7 million pace.
- On a year-to-date basis, fleet sales are up 3.3%, led by a 7% gain in the commercial fleet segment.
- Fleet share was estimated at 17.9% in May, down from 18.8% last May. The fleet SAAR declined to 2.7 million, down nearly 7% year over-year.

Auto Affordability Leaders

Who is winning in a high-cost vehicle environment

Top Tier

Hyundai / Kia – Best overall value

Toyota – Lowest total cost of ownership

Nissan – Lowest entry price

Mid Tier

Honda – Balanced value & reliability

Subaru – Affordable AWD niche

Mitsubishi – Ultra low-cost positioning

Key Insight: Asian OEMs dominate affordability as U.S. OEMs shift toward higher-margin trucks and SUVs

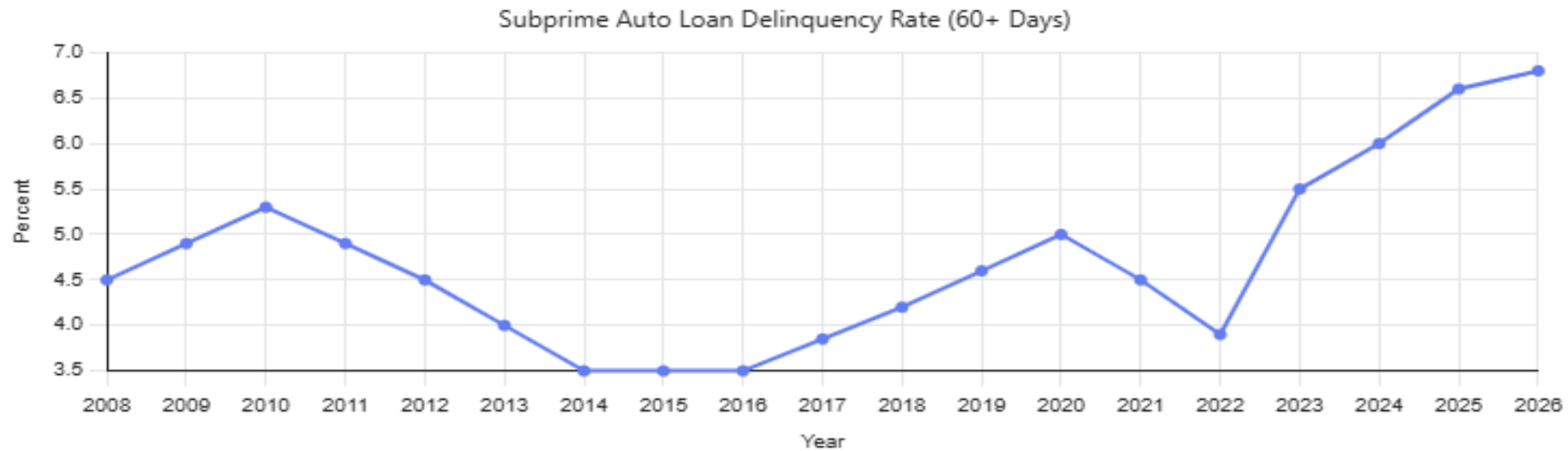
Dealertrack Credit Availability Index

All Auto Loans Index (Jan 2019 = 100)



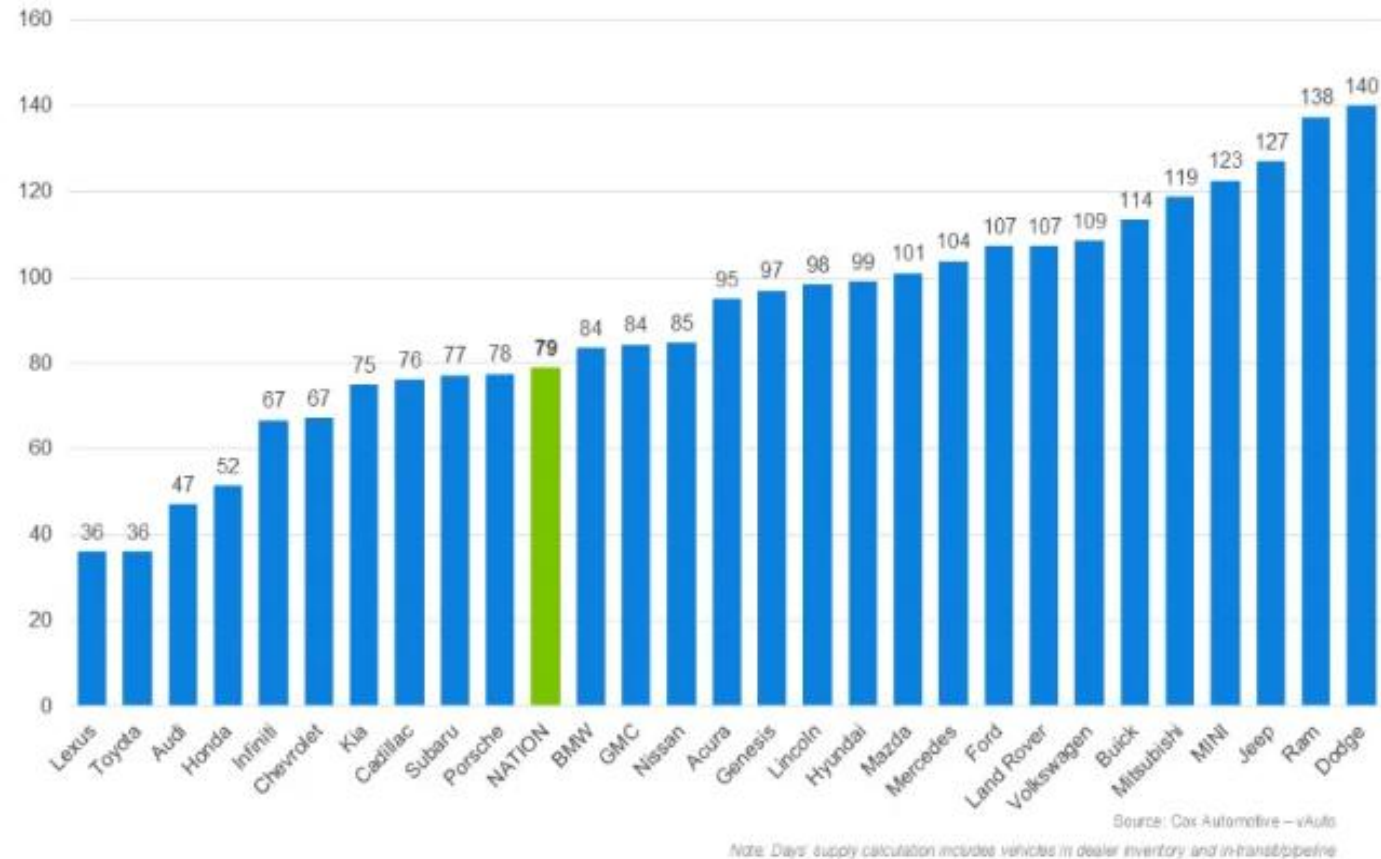
Key Metrics

- **Approval Rates:** The overall loan approval rate rose to 72.4% in May, up 180 bps from April's 70.6%, a notable monthly gain, and up 50 bps year over year from 71.9%.
- **Subprime Share:** The share of loans to subprime borrowers declined 70 bps month over month from 17.4% to 16.7%, the second consecutive monthly decline following March's spike at 19.5%.
- **Loan Term Length:** The share of loans with terms greater than 72 months reached 30% in May (highest on record). Year over year, long-term loan share is up 370 bps from 26.3% in May 2025.
- **Negative Equity Share:** The share of loans with negative equity declined 120 bps from 58.5% to 57.3% in May. Despite the monthly easing, negative equity remains up 250 bps year over year from 54.8% in May 2025.



- **Delinquencies are at multi-decade highs:** Subprime auto borrowers now show **~6–7%+ rates of 60+ day delinquency**, with recent data hitting the **highest levels in over 20 years** and even exceeding prior peaks in some series. [\[tradingeconomics.com\]](https://tradingeconomics.com), [\[philadelphiafed.org\]](https://philadelphiafed.org)
- **Stress is heavily concentrated in subprime borrowers:** Although subprime borrowers represent a **minority of total auto loans**, they account for a **disproportionate share of delinquencies (nearly two-thirds)**, highlighting significant credit stratification in the market. [\[philadelphiafed.org\]](https://philadelphiafed.org)
- **Recent vintages and affordability pressures are driving deterioration:** Rising vehicle prices and larger loan balances since 2022 have pushed up monthly payments, contributing to the **recent surge in delinquencies**, particularly among newer subprime originations. [\[federalreserve.gov\]](https://federalreserve.gov)

March Days' Supply of Inventory



Automaker with days' supply at least twice the industry average: Chrysler

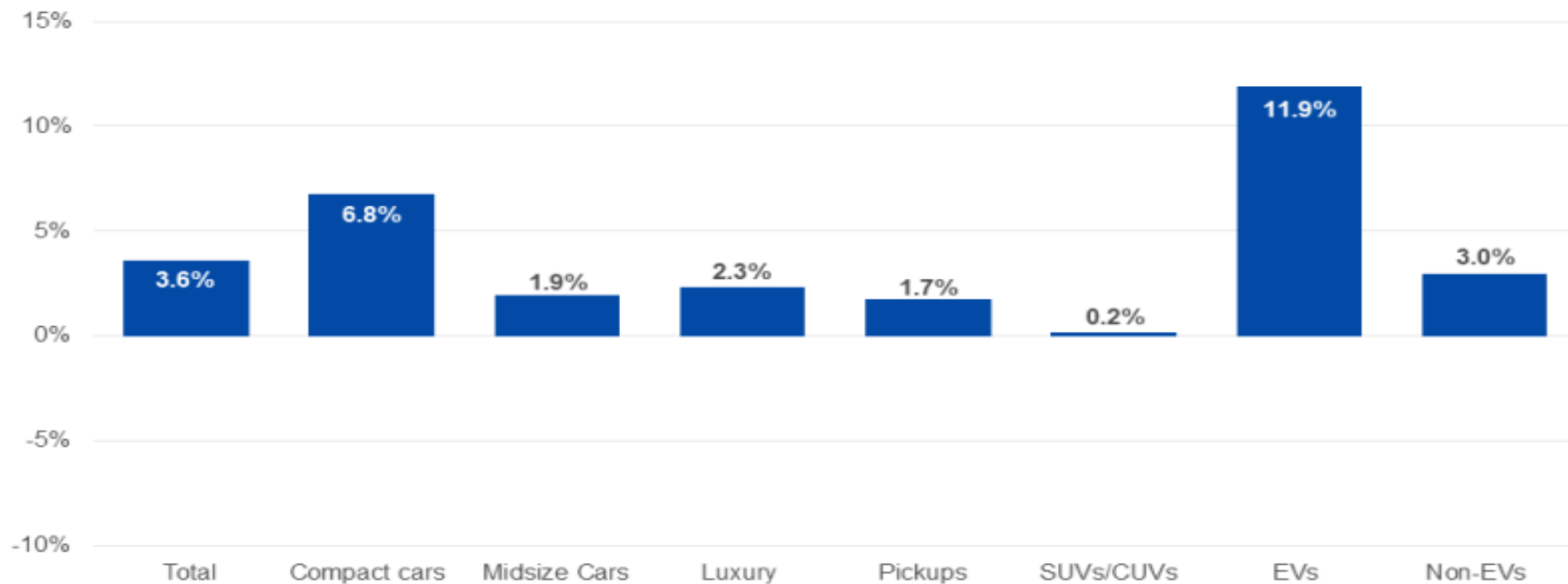
Used Vehicle Sales

USED-VEHICLE RETAIL SALES



Price Changes for Selective Market Classes

year-over-year % change, May 2026

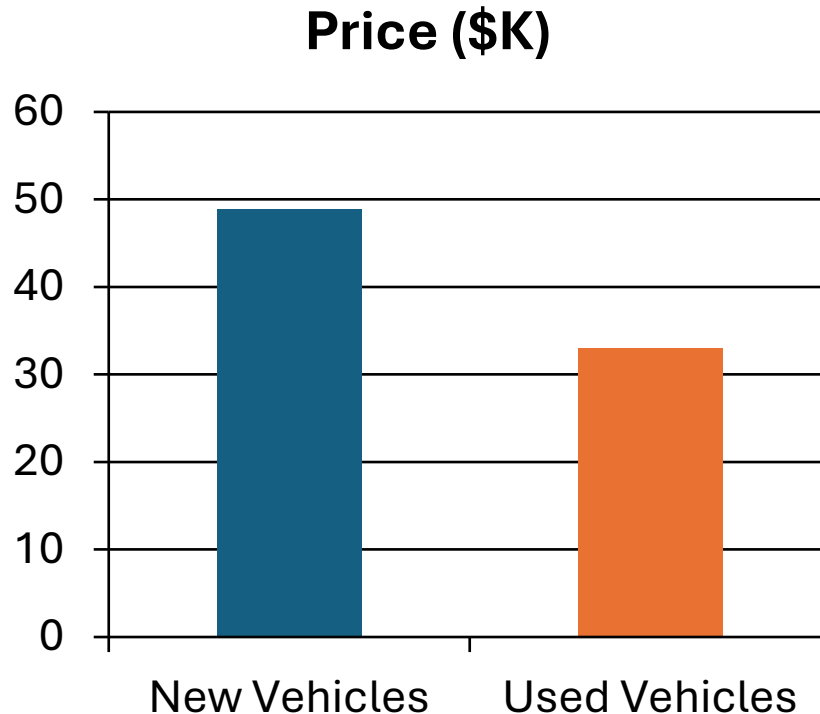


Cox
AUTOMOTIVE



Manheim
by Cox Automotive

U.S. Used Vehicle Market- May 2026



Market Snapshot

\$871B Market Size (2026)

\$980B by 2031

Manheim Index: ~215

Tariffs: +\$4K-\$12K price impact

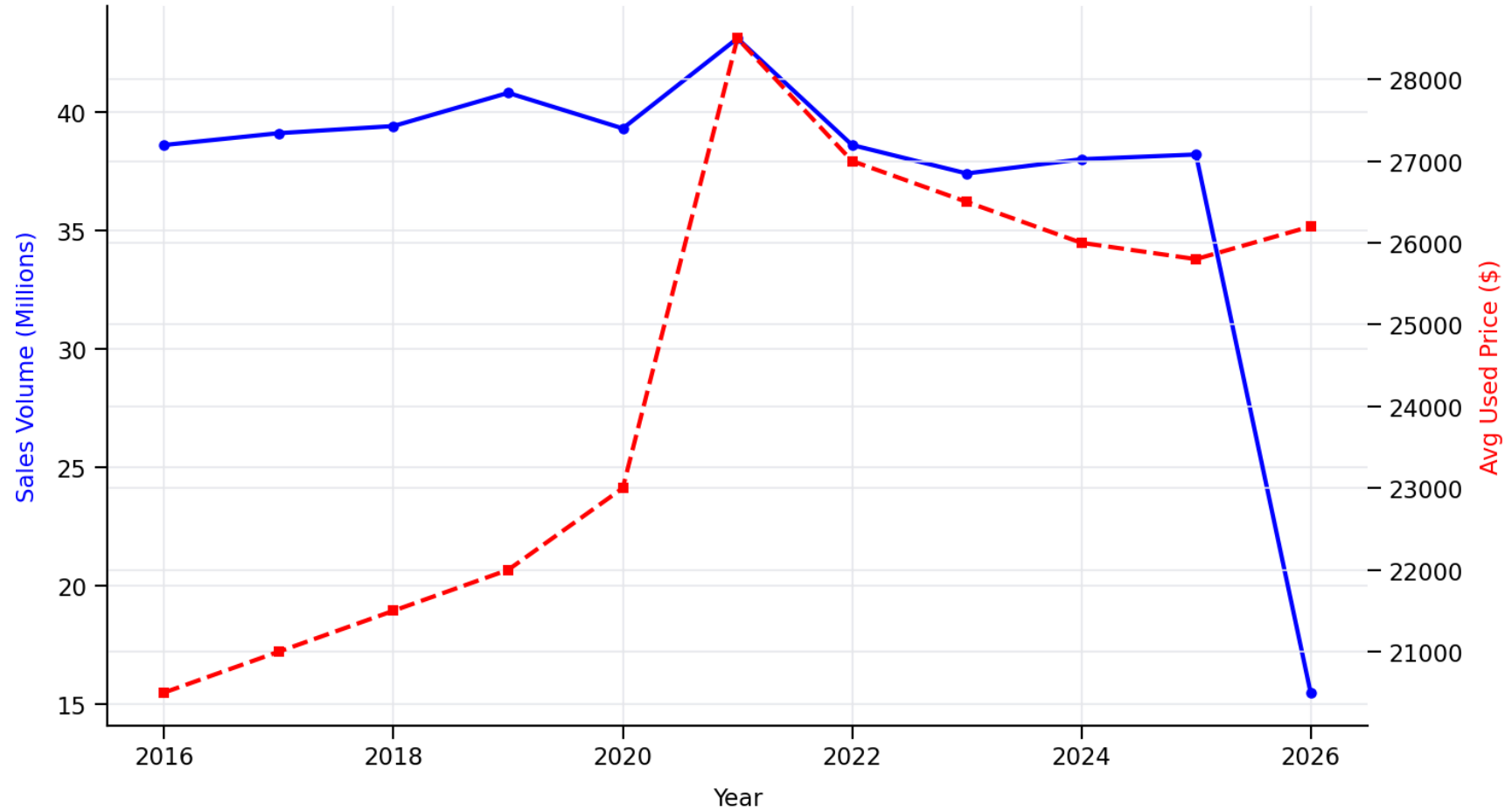
Used EV Surge: 93K units Q1 (+12% YoY)

Carvana: ~597K units / \$20B

Used vehicle demand is structurally elevated driven by affordability and supply shifts

Used Vehicle Sales & Prices

Used Vehicle Sales & Prices (2016-May 2026 YTD)

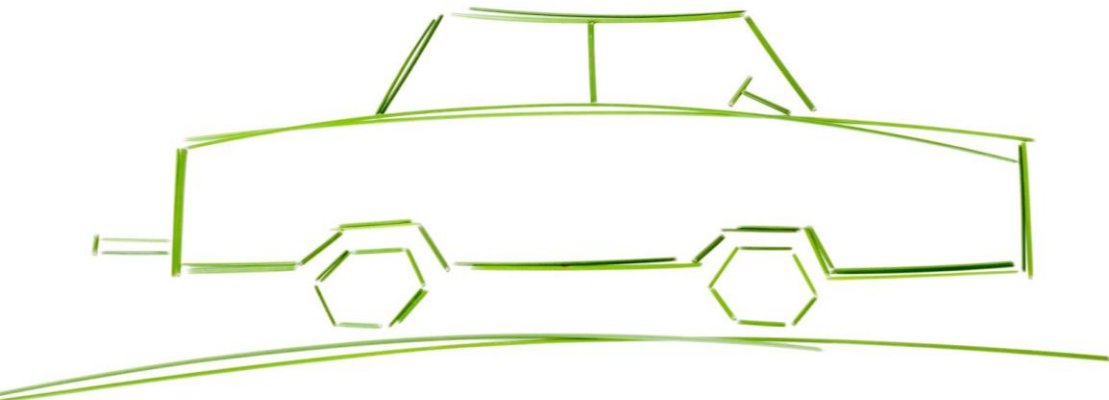


Automobile Tariff Update



- Auto tariffs are imposed under a different law not impacted by the Supreme Court decision to strike down emergency tariffs
- 25% tariff on all imported units; 15% for Japan and South Korea and 10% for UK (total limit of 100k vehicles/year).
- Vehicles manufactured in North America are exempt provided they are United States-Mexico-Canada Agreement (USMCA) compliant
 - Applies to approximately 75% of the vehicles produced in North America
- Auto parts carry between 12.5% and 25% tariff unless USMCA compliant
- Steel and Aluminum carry separate tariffs

Key policy developments and strategic implications for automakers



USMCA Review and Extension

USMCA's six-year review by July 2026 may extend or shift to annual reviews, impacting automotive trade policies in North America.

Tightening Rules of Origin

Proposed increase in regional content from 75% to 82% and 50% U.S.-specific content would reshape production models.

Electric Vehicle Supply Chain Challenges

Current rules misalign with EV supply chains, prompting concerns about Chinese components and stricter tariff enforcement.

Strategic Implications for Automakers

Automakers face higher compliance costs, localization pressures, and supply chain redesign amid policy uncertainty.

Oil prices spike on Iran war

(US\$/bbl : as of June 9, 2026)

West Texas Intermediate crude oil price



'Shaky' ceasefire:

U.S. is blockading Iranian ships

Iran is keeping the Strait of Hormuz restricted

Skirmishes continue

Seaborne trade in key commodities impacted:

Crude oil, LPG, LNG, refined oil products

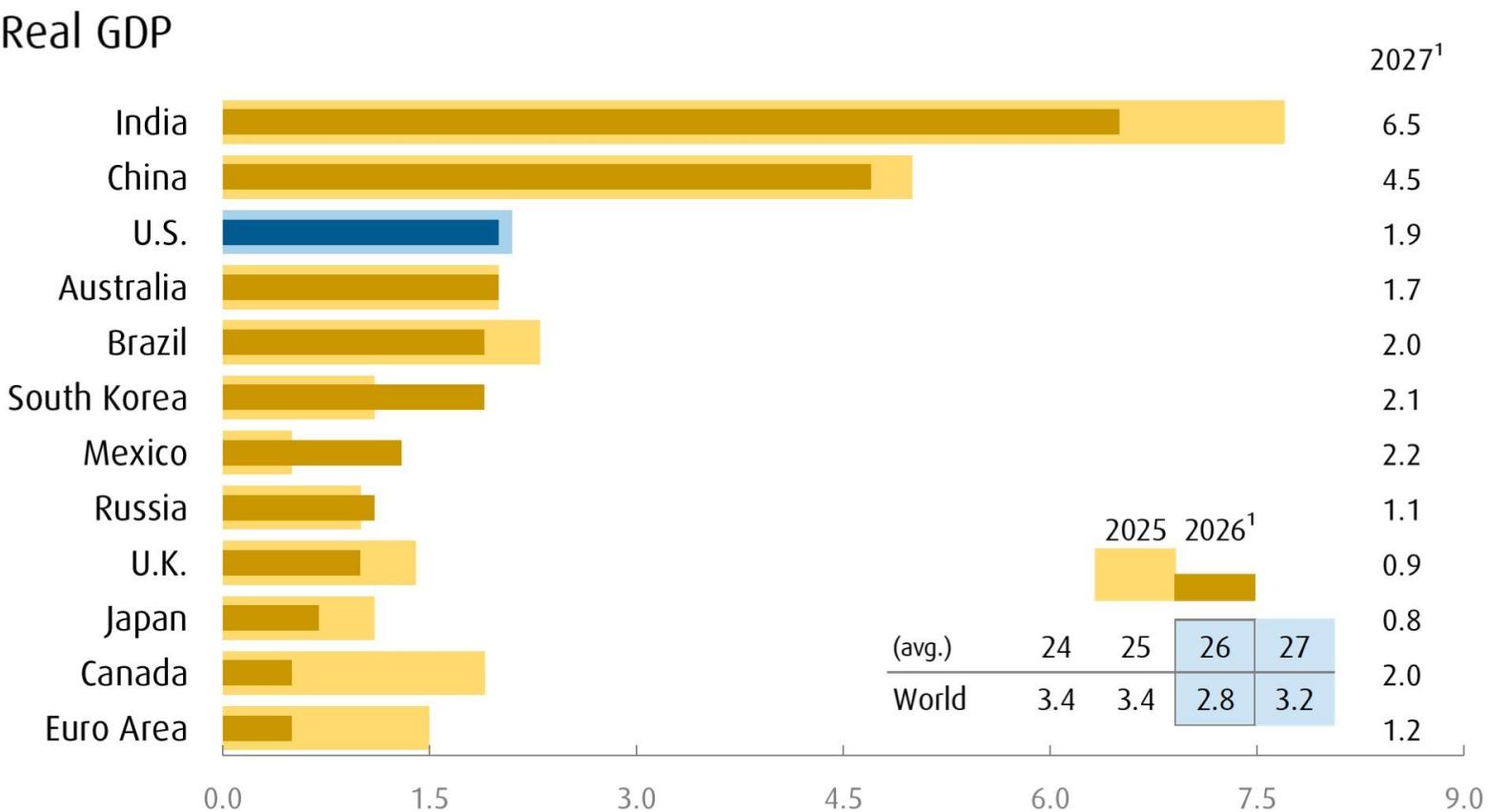
Fertilizers, helium, sulphur, aluminum

Stagflation fear:

Inflation ↑, Growth ↓

A weaker global economy

(% chng)



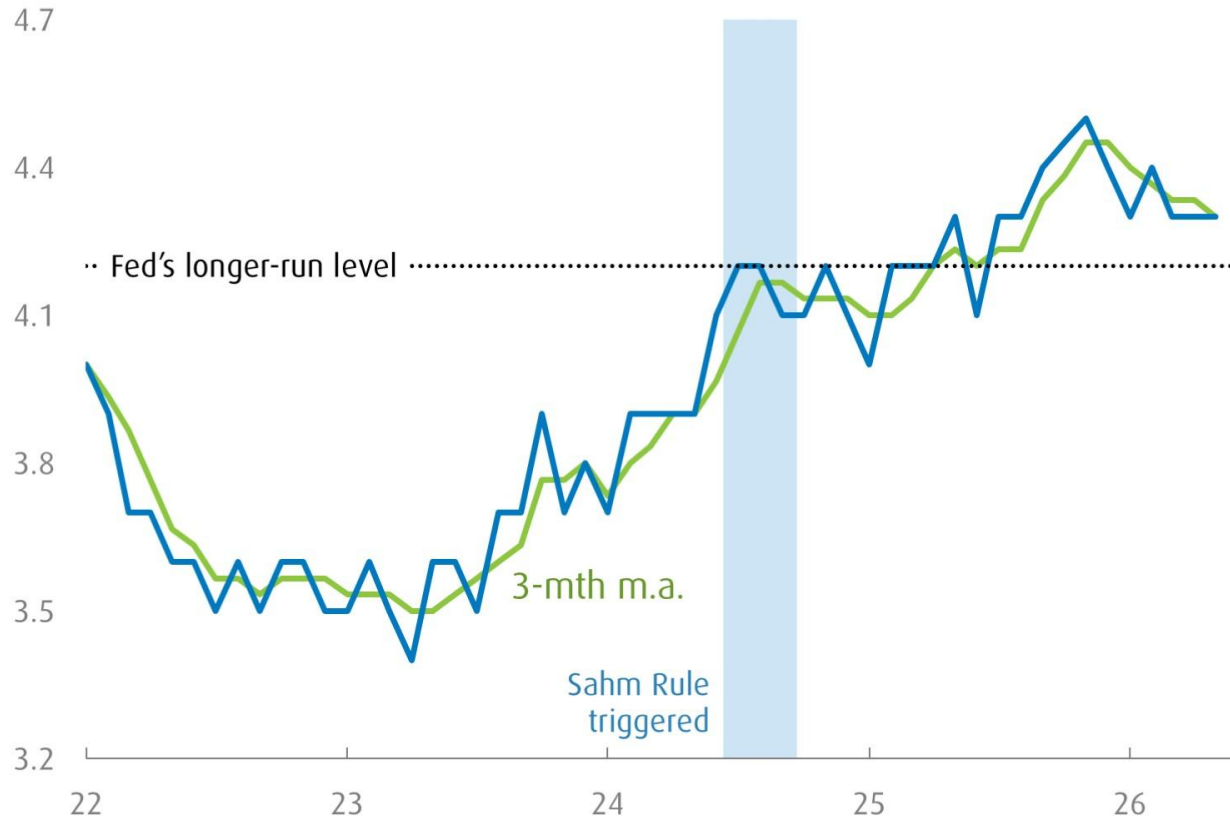
Tariffs and oil prices weighing

¹ Forecast

Weakened but balanced

United States (percent)

Unemployment rate



October 2025 data are interpolated

Demand dampened:

Cost cutting owing to tariffs

AI and automation

Uncertainty high, confidence low

Supply slowed:

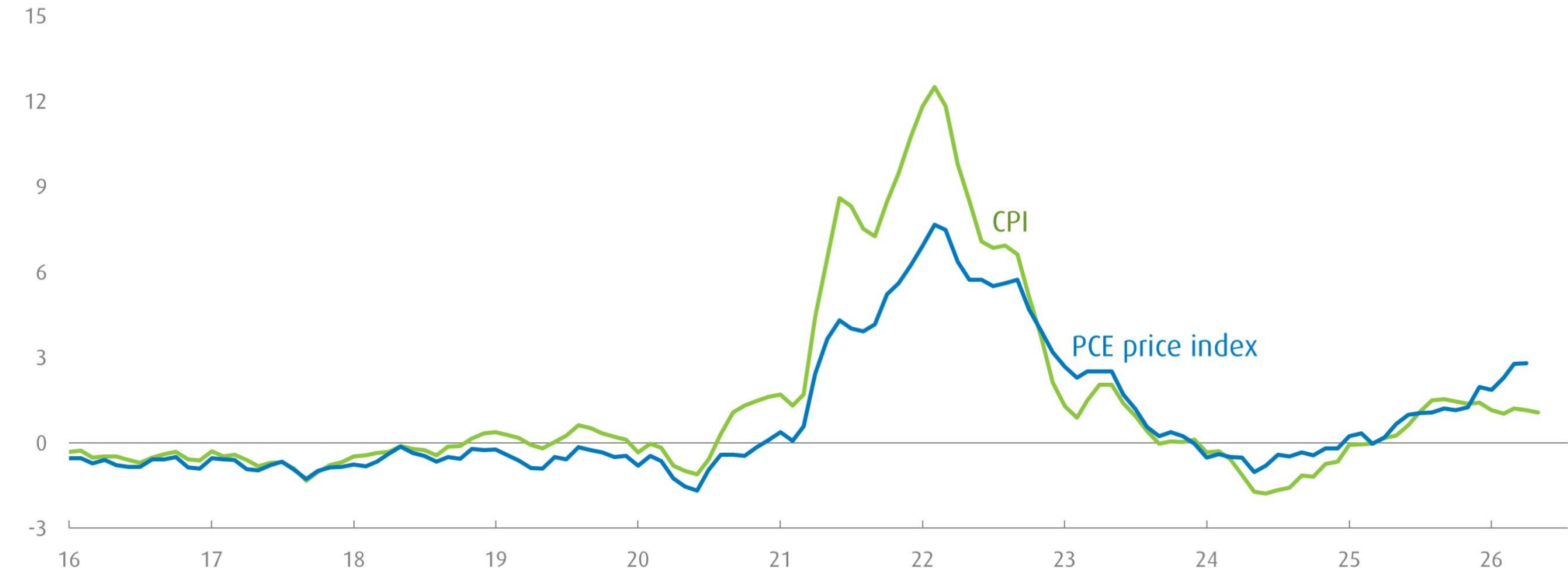
More restrictive immigration policy

Deportations

Tariffs' one-time impact on inflation... haven't yet *"checked that box"*

United States (y/y % chng)

Core goods inflation



CPI: October 2025 data are interpolated

Economic Update

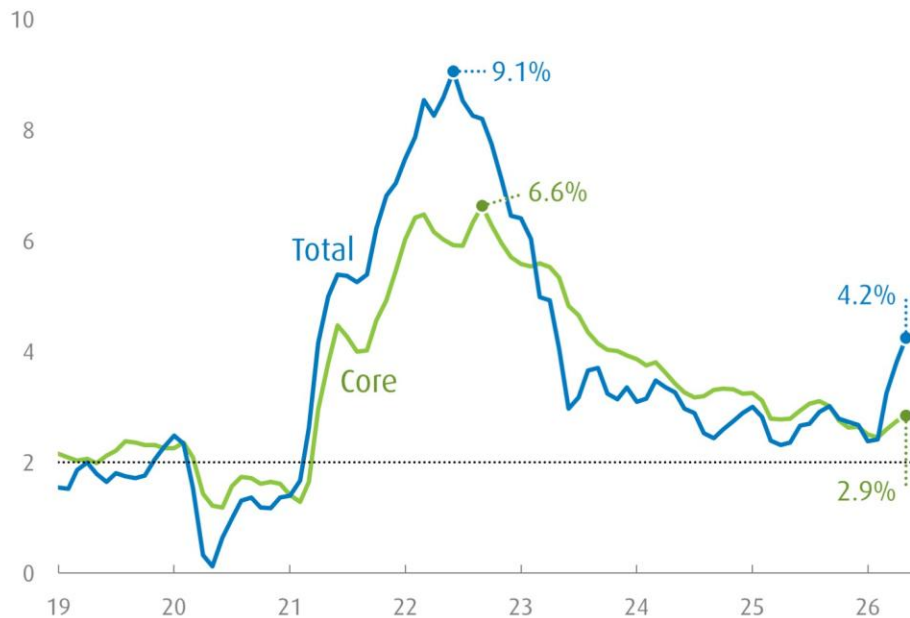


- ▶ Inflation
- ▶ Interest Rates

Inflation staying sticky but tariff influence less than first feared

United States (y/y % chng)

Consumer price index



October 2025 data are interpolated

Pre-buying and stockpiling delayed impact

Margin compression limiting rise

Some global firms lifting global prices to minimize U.S. price hikes

Firms are finding other ways to skirt tariffs

Further Fed rate cuts in question

United States (% : as of June 9, 2026)

Interest rates



[history] weekly averages • [forecast] monthly averages

Policy rate is still slightly restrictive (>3.125%)

Our call: 25 bp rate cuts in March and June/27, but the net risk is for fewer moves and rate hikes can't be ruled out

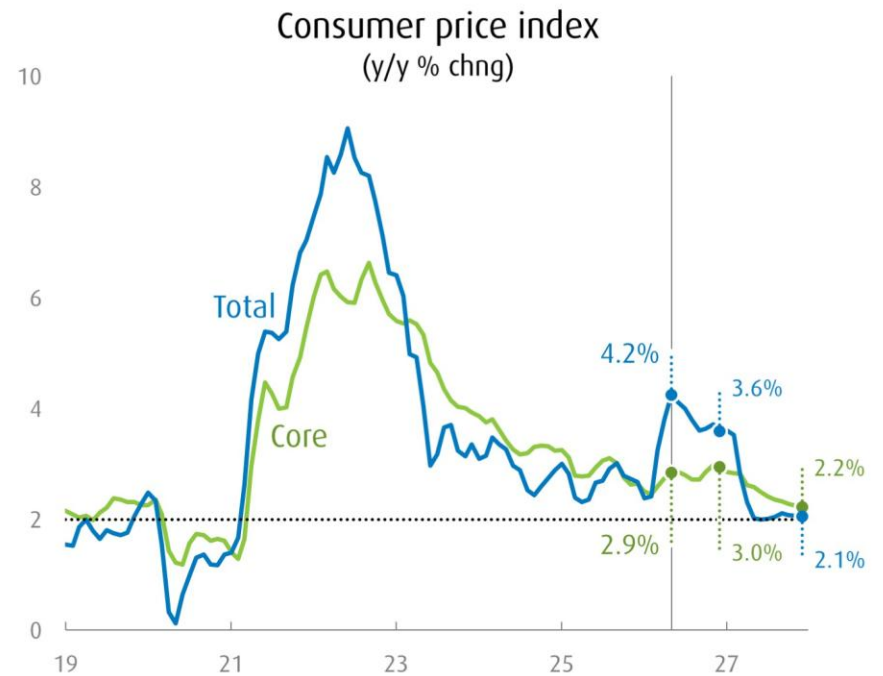
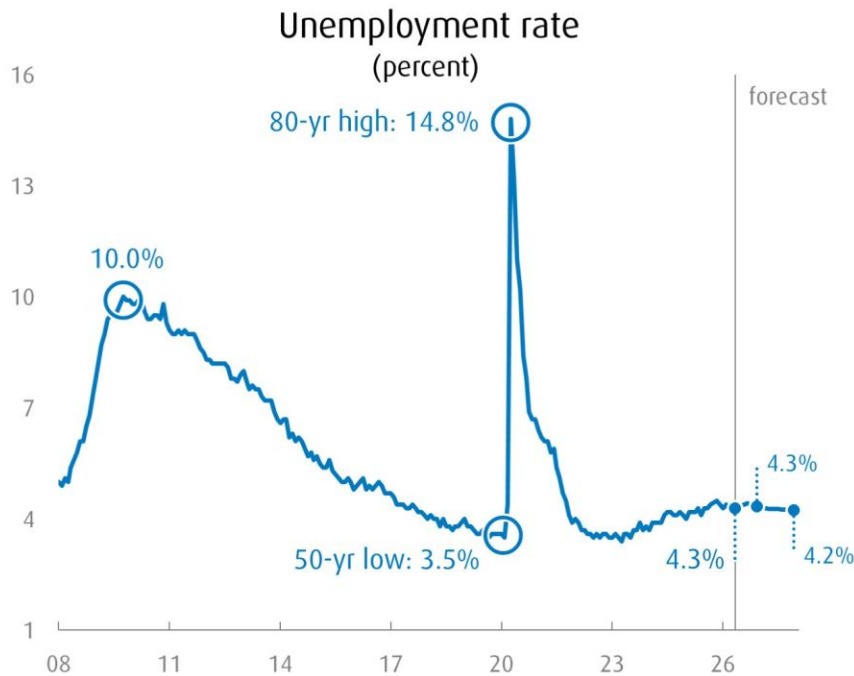
Pressure on Treasury yields:

Deficits, debt, and interest payments on unsustainable paths

Investor concerns about Fed independence and U.S. dollar dominance

Labor market unlikely to loosen much further as inflation stays a bit sticky

United States



October 2025 data are interpolated

Banking Market



- ▶ Banking Market
- ▶ M & A Activity
- ▶ Acquisition Financing

Banking Market Trends

1. Interest Rates

- The Fed held interest rates have been steady all year at 3.62% vs. 4.3% this time last year. Little change expected until 2027(potential 0 to 50bps drop). The average rate on a 5-year new car loan was 6.9% in May and 10.4% for used cars.

2. Active Lending Market

- Banks are eager to deploy their assets.
- Borrower sophistication improving as dealerships consolidate

3. BMO Dealer Finance

- BMO remains very active in the dealer finance market and has a strong pipeline of financing requests (especially acquisition financing).

Challenges Securing Acquisition Financing

Lender Capital Constraints

Credit availability among many lenders has grown while some lenders/OEM's have been tempered.

- Is your lender open for new acquisition financing requests? Especially certain brands(CDJR, Nissan, Audi, Acura)
- Some lenders have diminished appetite to participate in loan syndications they do not agent.
- Loan pricing, size, and credit profile are the key factors that determine capital availability.

Underwriting Challenges

- Using "normalized EBITDA": most dealerships performance fell from Covid-era peaks but seem to have been stable since 2024. How best to normalize cash flow for underwriting purposes?
- Interest rates: lower interest rates decrease debt service requirements and could increase debt accessibility.
- Falling goodwill values: goodwill values and multiples peaked in June 2022. In fact, they seem to have leveled off since 2024. Some lenders may want more cushion in loan / goodwill ratios.
- During times when vehicle supply is increasing, there is more discounting, and dealers' front-end margins start to normalize. As this trend accelerates, dealer profitability will continue to normalize.

Editorial Thoughts

- Dealerships are resilient and have diverse profit centers (vehicle sales, service, and F&I)
- The macro environment may present challenges to dealerships, which will set stronger dealer operators apart from their peers.
- Many dealerships are well capitalized and are looking to expand.
- The best auto lenders seek to understand industry risks and look for ways to help clients manage through them.
- Carvana's numerous CDJR acquisitions is creating a disruption in the industry with their advanced use of AI and heavy marketing. For example: the Dallas Love Field CDJR sold 248 new in May while the AZ location sold 706 (#1 in US).



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