

#### **Product Education**

Providing the Customer with Information

#### **Indirect Financing Education**

- There are major contract differences that we should be aware of
- Not all finance agreements are created equally
  - Right of Offset
  - Escalation/Acceleration
  - Cross Collateralization
- If we have a better contract, is it worth more?

#### Financing – Right of Offset or Set-Off

Definition: \_The Bank may withdraw money from any funds on deposit in Order to make payments or satisfy the loan balance

**Example** - If a customer defaulted on his/her auto loan or is late on a payment, the bank or credit union can take money from savings, checking or other accounts to bring the loan current or pay off the balance.

#### Financing - Cross-Collateralization

Definition: The lender will attach any unsecured credit (Signature Loan, Credit Cards, etc.) to a secured loan (car loan) in order to leverage their position

**Example** - A customer finances a car at their credit union and puts down 25%. Assuming the car price was originally \$20,000, the customer financed \$15,000. The customer also has an unsecured note for \$7,500. Fast forward three years and the customer wants to trade the car. They call for a payoff and expect it to be approximately \$6,200 but find that it is approximately \$2,000 higher. This is due to the credit union adding the balance of the signature line to the payoff of the vehicle.

#### Financing - Acceleration Clause

Definition: Banks and Credit Unions may call the entire note due for a variety of contractual reasons. The most common is that the loan is in default and the lender is demanding that the account be paid off. Some sources will ask someone to pay off the loan if they move out of the area or leave a job where the loan payments are drawn from a paycheck.

#### **Navy Federal Credit Union Example**

The following text was taken from the back of a current Navy Federal Credit Union contract:

#### **BORROWER WARRANTY**

\*Item D - To secure payment of this Promissory Note, and any and all extensions or renewals thereof in whole or in part, and any and all other indebtedness - now or hereafter owing by Borrower to NFCU, Borrower grants and pledges to NFCU a lien upon, and a security Interest in, Borrower's shares on deposit in all joint and individual accounts and any other monies held by NFCU now or in the future, to the extent of any loan made and any charges payable; and a security interest in the collateral securing this loan, as described above, or securing other loans that the Borrower has with NFCU now or in the future.

\*2017 NFCU contract

#### Indirect Financing vs. Bank/Credit Union

Direct Bank Credit Union		TFS/LFS Financing
<b>✓</b>	Right of Set-Off	
<b>✓</b>	Escalation/Acceleration	
<b>✓</b>	Cross Collateralization	
Possible	Committee Lending	None
	Factory Specials	
	More Flexible Terms	
	Competitive Rates	

Mr./Mrs. Customer, I just wanted to give you a couple of things to consider. Many loans that are obtained directly from a bank or credit union, may contain some contract clauses that you may find unfavorable. They are as follows: (1) The Right of Set-Off, which allows financial institutions to seize your checking account or savings/investments to bring a loan current; (2) an escalation/acceleration clause that gives a lender the opportunity to call a loan due for a variety of reasons; and (3) Cross Collateralization, which allows a lender to add collateral to any unsecured notes you may have. Some credit unions also have lending committees that may be made up of your co-workers. With contracts arranged by us through TFS/LFS, they contain none of these clauses. Additionally, you may qualify for factory special rates/rebates, more flexible terms and as your lending source does, we offer competitive rates. Would you be interested in looking a little further into financing with TFS/LFS?

#### Control vs. No Control Leasing Education

- This education is helpful for people that express no interest in leasing or perhaps they are a cash customer and you are recommending a One Pay lease contract
- The premise is that customers have financial responsibility for several factors that are beyond their control, should they finance or pay cash for their vehicle

If they lease, then they only have financial responsibility for things they can control	

#### Control vs. No Control Leasing Education

Ask the customer - What are some occurrences that might affect the value of a car in the years ahead that you have no control over?

Fill in their answers in the appropriate column

Then, ask the next question - What are some occurrences that might affect the value of a car that you have control over?

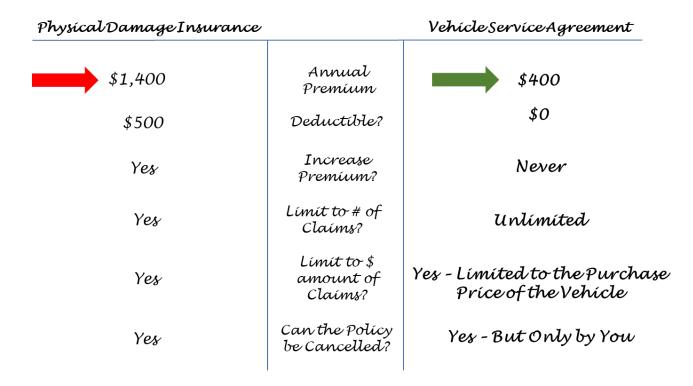
No Control	Cont rol
Accidents	Míleage
Fuel Prices	Condition
Recalls	
Publicity	
Incentives on New Cars	
Styling Changes	
Technology Changes	

Closing - If you decide to pay cash or finance the vehicle, you have financial responsibility for how these items that you have no control over may impact the value of your vehicle. By considering a TFS/LFS Lease, you only have financial responsibility for the things that are within your control. Based upon this information, would you rather finance the vehicle or take advantage of the lease contract?

#### **Vehicle Service Agreement Education**

Customer Concern – I'll take my chances.

Many customers feel as though they might take their chances on repairs. Comparing how a VSA functions relative to Physical Damage Auto Coverage may give them a different perspective. In this example, we are highlighting the potential differences between the different types of policies.



Physical Damage Education Statement – What I've illustrated to you is that you're paying an insurance premium that is designed to protect you, your vehicle and other drivers and passengers in the unfortunate event of an accident. If you elect to enroll in our VSA product, you will have coverage for the mechanical operation of your vehicle. Additionally, it is worth noting that use of your Vehicle Service Agreement will not cause changes to your coverages as you make use of the coverage. Based upon this information, would you like me to add this to your monthly payment or would you rather pay for the coverage up front?

#### Customer Concern – I'm on a budget.

Possible approach to begin education – Budgeting is incredibly important. AAA publishes information each year to help people budget for the cost of ownership. This chart shows the average annual cost of driving various classes of vehicles. Let's take a look.

Miles per Year	10,000	15,000	20,000
Small Sedan	57.8 cents	45.2 cents	39.0 cents
Medium Sedan	77.2 cents	59.1 cents	50.2 cents
Large Sedan	84.2 cents	65.3 cents	56.1 cents
Composite	75.3 cents	58.9 cents	51.1 cents

Info from 2018: Your Driving Costs - AAA Exchange

What's included in the calculation?

- Fuel @ \$2.52 per gallon
- Maintenance
  - Includes the price of a comprehensive Vehicle Service Agreement
- Tires
- Insurance
- License, Registration and Taxes
- Depreciation
- Finance Costs

#### Customer Concern – I'm on a budget. (continued)

#### **AAA Education Statement**

Based upon the figures I just shared	d with you fror	m AAA, of the	)
cents per mile to operate	e your new	, only	cents
per mile is added by the Vehicle Se	ervice Agreer	ment. Based (	upon this
information, do you think that	cent	s per mile is c	1
reasonable investment to protect	you from the	expense and	ł
inconvenience from repairs that m	nay happen c	outside of the	
Manufacturer's Limited Warranty?			

#### Customer Concern - I'm on a budget / I can't afford it

- Possible approach to education I truly understand your position!
   Living by a budget is very wise. Today's economic climate is ever changing. Here you can see some statistics that illustrate what's going on in the U.S. today.
- According to StatisticBrain.com:
  - 52% of U.S. Families find it difficult to pay bills
  - Only 39% are certain they could come up with \$2,000 in the event of an emergency
  - Only 38% have an emergency fund to fall back on
- A Bankrate.com study shows similar trends:
  - 28% of families have no savings
  - 20% don't have enough to cover 3 months' worth of bills
  - Only 43% have enough to cover 3 months of bills

#### Customer Concern – I'm on a budget. (continued)

#### Illustration of Budget Discussion

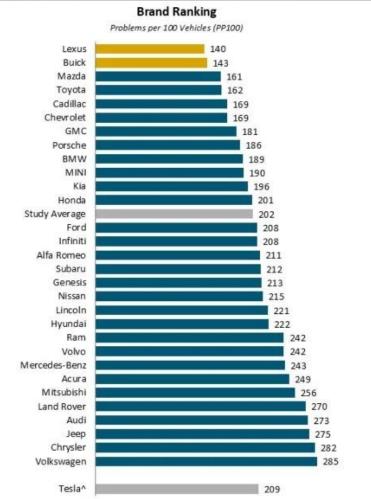
- According to an Associated Press article a few years back, over 2/3
  of the US would have a hard time coming up with \$1000 in the event
  of a crisis
- How would most people pay for a repair if they had to?

#### **Education Statement**

 The point I would urge you to consider is whether it would be more comfortable in your budget to add \$\_ to your monthly payment, or if it would be better for you to cover any repairs as needed out of pocket or with a large increase to your monthly budget caused by additional credit card debt? I'm happy to honor any decision you make here.

#### Customer Concern – I'm buying a quality vehicle.

J.D. Power 2025 U.S. Vehicle Dependability Study<sup>SM</sup>



**Step 1** - Agreed! Lexus/Toyota is a quality vehicle. In fact, J.D. Power's latest study on Vehicle Dependability agrees with you. Are you familiar with this research?

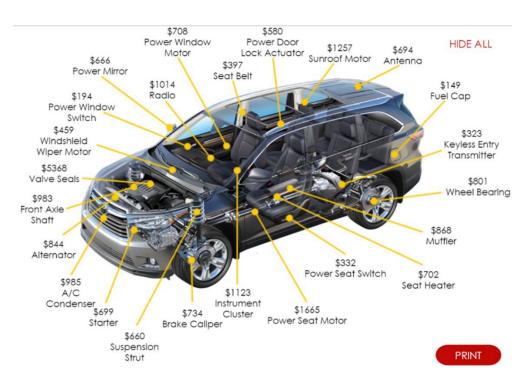
What the study found is that Lexus/Toyota has repairs per 100 vehicles in year 3 of ownership. That equates to one repair per vehicle in the 3rd year of ownership. As you can see, you've selected one of the most dependable vehicles in the market today!

#### Customer Concern – I'm buying a quality vehicle. (continued)

#### Step 2

- Let's take this discussion a step further. Allow me to share with you some of the costs of typical repairs that we see today.
- Take a look at the cutaway graphic.
- You will notice that these calculations are done on our current labor rate of \$100 per hour.

Step 3



#### Step 4

- Do you notice the most expensive repair? That's correct the transaxle at \$5,642.
- What about the least expensive? It is the Fuel Cap at \$149.
- The average of these repairs is \$925
- Let's take the average number and do some calculations.

#### Customer Concern – I'm buying a quality vehicle. (continued)

#### Step 5

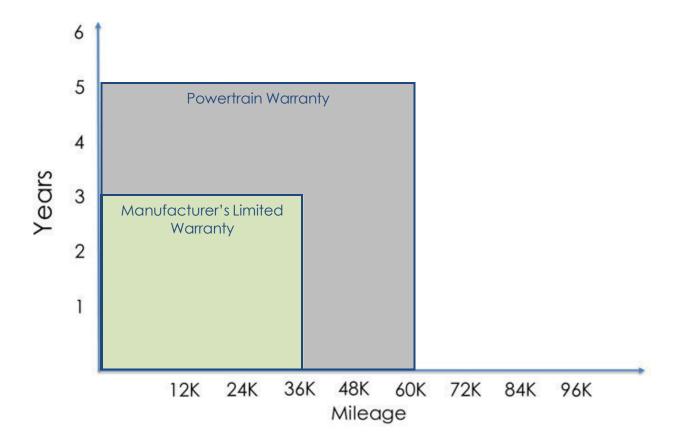
- According to J.D. Power, we can expect a repair in year 3.
- We're suggesting that an average repair may be \$1,002.83.
- Do you think you may incur a repair in year 4?
- In year 5?
- Beyond year 5?

Ownership Period	# of Repairs	Repair Cost	Estimated Exposure
3rd Year	1.08	\$925	1000
4th Year	NA		
5th Year	1.08	\$925	1000
5+ Years	1.08	\$925	1000

#### **Education Statement:**

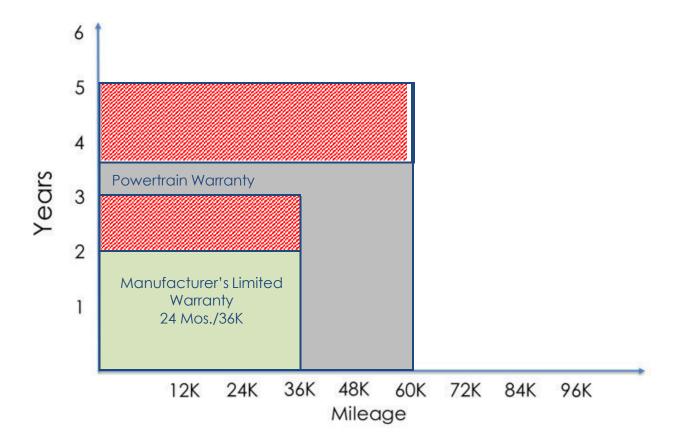
Considering that J.D. Power suggests that there will be one repair in year 3 of ownership, and that there may be additional repairs in the latter years of your ownership cycle, would it make sense to reduce your exposure to repairs outside of the Manufacturer's Limited Warranty by enrolling in our VSA coverage? Would you like for me to add the coverage to your monthly payment or would you prefer to pay cash for the coverage?

#### Customer Concern – Factory coverage is all I need Step 1



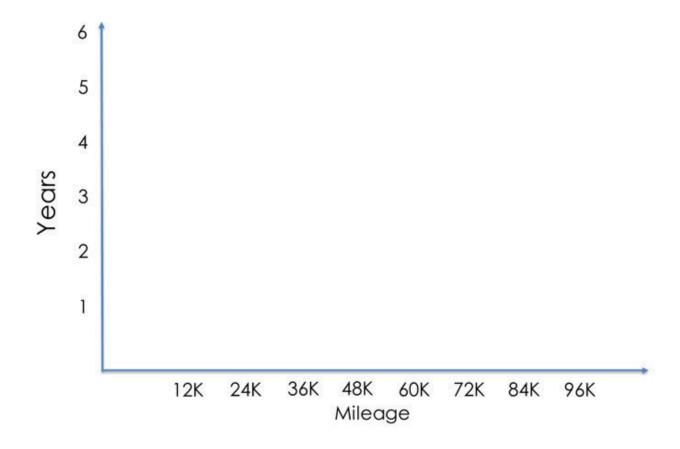
Explanation to client is as follows - Toyota provides you several different levels of coverage with your new vehicle: 3 yrs./36,000 miles of comprehensive coverage and 5 yrs./60,000 miles of powertrain coverage.

#### Step 2

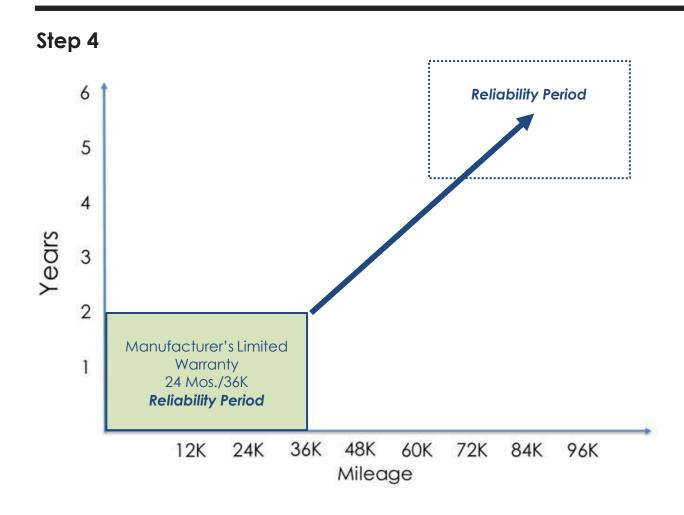


Based upon your average mileage of 18,000 per year, it appears your coverage would last for 24 months/36,000 miles. Therefore, you've lost a little time. Additionally, your effective powertrain coverage would be 40 Mos./60,000 miles.

Step 3

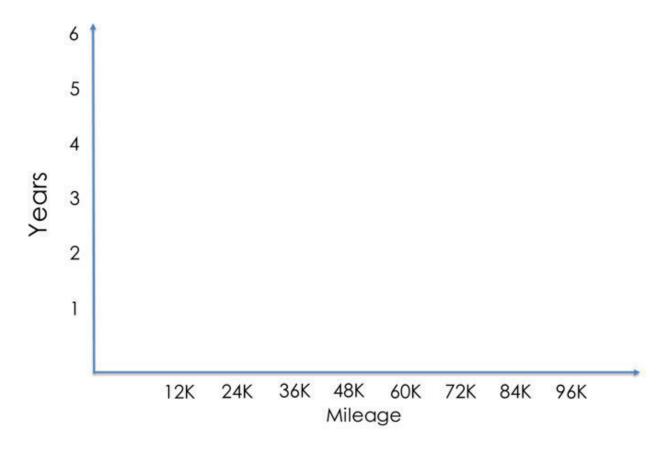


You would experience financial exposure for repairs that would normally be covered in the Manufacturer's Limited Warranty after 24 months and 36,000 miles.



During the 24 Months or 36,000 miles, that you're under the Manufacturer's Limited Warranty is what I like to term the Reliability Period. During this period, the Manufacturer is betting that you will have no problems. If you could move that reliability period anywhere on the graph, where would it go?





With that in mind, a TFS VSA can minimize your exposure and extend your reliability period up to 6 yrs./100,000 miles. Based on this information and your driving habits, would you like to add the VSA to your loan or would you rather pay cash for the coverage?

#### Customer Concern - No Problems with Previous Vehicle

Line of questioning with Customer needs to revolve around everchanging technology.

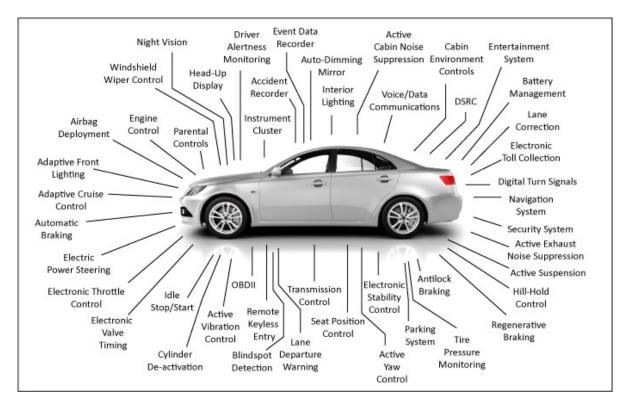
**Ask:** What are the biggest changes between your last vehicle and the vehicle you're purchasing today?

**Answer**; Technology

**FSM**; In fact, there are 50+ computers that run vehicles today. These computers live in an environment that is very harsh. The VSA would provide coverage in the event any one of those failed

#### Customer Concern - No Problems with Previous Vehicle

**FSM**; Clemson University did a study that outlines the number of computers in an average vehicle - 54



- These computers are operating in harsh conditions and current research shows that certain parts of the computer system are extremely vulnerable.
- Based upon the large number of computers in today's vehicles and the fact they are operating under harsh conditions, it seems the VSA would be an excellent choice in order to limit your financial exposure in the event of a failure.

#### Customer Concern – Price of Product – Value, Value, Reciprocity

TFS/LFS recommends that dealerships employ a fair and consistent pricing policy. Rather than dropping the price of a product, FSMs should deploy the Value, Value, Reciprocity approach. When FSMs discount products for no discernable reason, it causes the customer to question the credibility of the dealership.

Customer: I will take the VSA for \$2,000

■ FSM: (Value #1 – Value of the Product) - I selected this product because...

Based on the miles you drive and the trade cycle that you appear to be on, it seems like the 6Yr/100K policy suits you best. That's why I selected this product for you. Noe, I can add that to your monthly payment or you may pay cash for the coverage.

If still not purchasing and asking for a discount...

FSM: (Value #2 – Value of the Process)

Our department operates under a fair and consistent pricing policy. That means, the person before you paid the same price for the coverage as the person after you would. If we discount the product to you, then we are selling our credibility and integrity, and frankly, those two things are not for sale. Would you like to move forward with the VSA?

If still not purchasing and still asking for a discount...

FSM: (Reciprocity)

I completely understand your goal to pay less for the product. I can accommodate your goal by switching from the 6Yr/100K to a 5 Yr./100K. Let's go ahead and get your paperwork started

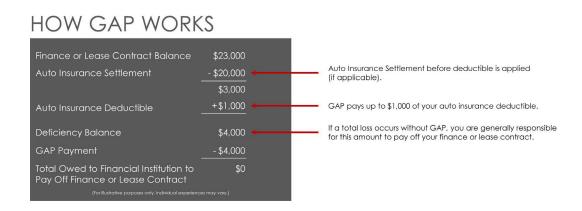
#### Customer Concern – VSA I had before didn't cover repairs.

VSAs are not meant to cover all repairs. I'm not sure about the coverages that were afforded on your previous product. It sounds as though it may have been a lower level of coverage than what we're offering. Our Platinum plans provide mechanical breakdown coverage on essentially the same items as the factory warranty, but for an extended period. The list of all items that are not covered appears in your customer agreement.



#### **GAP/DCA Education**

Customer Concern – I think my auto insurance would cover my retail installment contract/lease.



Unfortunately, insurance companies decide how much a car is worth by estimating the value of a similarly equipped used model with the same mileage. That may not be enough to satisfy the financial obligation to the finance source.

#### Common Customer Concern – GAP is too expensive.

I understand you want to save money wherever possible. That's why I believe GAP is a good choice. With GAP, if your vehicle is declared a total loss, you won't have to pay the deficiency balance or the auto insurance deductible (in most states), up to \$1,000.



#### Common Customer Concern – I've never had an accident.

Congratulations! A driving record like that is something to be proud of. Unfortunately, even good drivers can be involved in accidents where someone else is at fault, or your vehicle could get stolen. If anything happens to your vehicle while you still have a deficiency balance, GAP would cover the balance.



#### Common Customer Concern – I'd like to think about it.

I can understand why you'd like to think about it. Keep in mind that GAP can only be purchased at the start of the lease or retail contract. However, you can cancel GAP and receive a prorated refund, less a small administrative fee, if applicable.



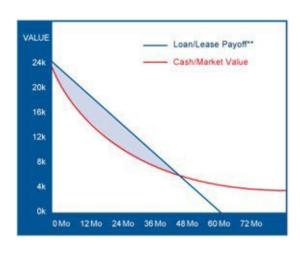
#### Common Customer Concern – My vehicle has an alarm system.

That's great! An alarm system will go a long way toward protecting your vehicle from theft.
Unfortunately, it is of little value if your vehicle were to be declared a total loss due to an unrecovered theft. With GAP, you have the security of knowing that you're protected if you have a deficiency balance and your vehicle is declared a total loss.



### Common Customer Concern – I'm putting a lot of money down on the lease.

The money you are putting down will certainly reduce your monthly payments. However, the smaller monthly payments will not reduce the balance any faster. As a result, you could still end up with a deficiency balance. Since you are leasing, you'd still be responsible for the deficiency balance.



## Prepaid Maintenance Education Common Customer Concern – I prefer to pay for service when I need it.

By purchasing a TFS/LFS Prepaid Maintenance plan today, you lock in the price you pay for oil changes and other covered maintenance, protecting yourself from rising oil, parts and labor costs. We send you a reminder when a scheduled service is due. In addition, you will receive valuable coupons that may save you money in our service department.

Service Reminders with Service Log & Coupons



#### Common Customer Concern – I can't afford it.

I understand your budget concern. The benefit of preventive maintenance is that it helps you avoid potentially costly breakdowns. This approach allows you to prepay at a rate that is locked in to today's labor and parts costs. Potentially saving you money in the future. If you include this coverage in your finance/lease agreement, then you can possibly better control your budget.



### Common Customer Concern – It seems like a lot of money for oil changes.

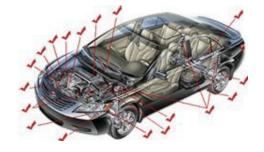
Keep in mind that the plans include tire rotations and 24-hour roadside assistance. You also get valuable coupons that may save you money in our service department. At the end of the coverage term, you can get a computerized service history, which could help with the sale of your vehicle. So you see, you get a lot for your money when you take advantage of TFS/LFS Prepaid Maintenance.

# 24-Hour Roadside Assistance ► Lockout Protection ► Battery Jump ► Tire Service ► Emergency Fuel Delivery ► Towing

BRAKE SERVICE OR REPAIR	Senior Citisen's Discount
10% OFF	10% OFF
CONTRACTOR OF THE PROPERTY OF	ACCURATION OF A SAME MARKET CONTRACT WHEN A STATE OF THE PARTY OF THE
Genuine Toyata Parts	RENTAL CAR WITH SERVICE OR REPAIR GREATER THAN SON
25% OFF	FREE
en akkannaka amin'ana manaka	AND THE RESIDENCE OF THE PARTY

### Common Customer Concern – I get my oil changes at BRAND X Lube.

Just like the franchised quick lubes, with our express lane, we get you in and out quickly. And, our Toyota/Lexus-trained technicians perform the work, including the multi-point inspection of critical components. This helps discover small problems before they become big ones. And, we only use Toyota/Lexus-approved parts.



### Classic coverage is not just an oil change!

- Oil & Filter Change
- Multi-Point Inspection

### Common Customer Concern – My auto club includes roadside assistance.

Roadside assistance is just one of the features of ToyotaCare Plus. It also includes oil changes at regularly scheduled intervals, a multi-point inspection and valuable coupons that may save you money in our service department.





### Tire & Wheel Education Common Customer Concern - I've never had a flat tire.

That's great! You've been lucky! Did you know that AAA released a statement in May of 2017 that they expect to rescue over 7 million people with flat tires, dead batteries or lockouts just over the summer months? With that number in mind, would it be reasonable to assume that you haven't had a flat tire yet?



#### Common Customer Concern - It's too expensive.

I can certainly appreciate your desire to save money. Your tires are the only parts of your vehicle that touch the ground, and they may be the most expensive repair that is not covered by the manufacturer's warranty. A single event could cost as much as \$750. So, you are budgeting for future repairs and the peace of mind that goes with it.



### Common Customer Concern – My insurance will cover dings/ dents.

The cost to repair most body panel dents and dings is less than your deductible and filling even minor windshield chips can influence your insurance premium. Toyota Platinum Plus Tire & Wheel Protection will cover the cost to repair frustrating dents, dings, windshield chips and cracks when they happen.



#### Common Customer Concern – I will take my chances

A study from AAA suggests that vehicles less than five years old in particular experienced a higher proportion of tire and key-related problems than older vehicles.

Also, an average of \$3 Billion per year in damage to vehicles is caused by potholes. The average cost per incident is \$306. Based upon that information, would you like to go ahead and enroll in this coverage?

# Excess Wear & Use Education Common Customer Concern – I can't afford Excess Wear & Use protection.

I understand your concern. Let's look at an example. Suppose you have a total of \$1,800 in excess wear and use charges at lease-end. Spreading this amount over a 36 month lease would add \$50 to your monthly lease payment. That's more than the amount the TFS Excess Wear & Use Protection Plan would increase your monthly payment.

ITEM	EWU DAMAGES Determined by Independent Inspection*	EWU CHARGES Walved by IFS EWU Protection Plan	EWU DAMAGES Charged to Customer
Bumper - dented	\$300 - \$500	\$300 - \$500	\$0
Door - dented	\$200 - \$900	\$200 - \$900	\$0
Tire - exposed radial cord; excessive wear	\$140 - \$230	\$140 - \$230	\$0
Wheel - gouged	\$470	\$470	\$0
Windshield - cracked	\$295 - \$500	\$295 - \$500	\$0
Missing Part or Equipment	\$350	\$0	\$350

Examples of damage waived under EWU.

Customer is responsible if value exceeds limit.

This example is for illustrative purposes only. Damage value may vary based on vehicle year, make, and model, as well as the extent of the excess wear and use. Independent inspection values are based on the industry standards for the average replacement cost.

#### Common Customer Concern – I don't really need it.

Even with the best of intentions, bad things sometimes happen to good vehicles. Those things can sometimes be beyond your control, such as a ding from a shopping cart or a chip in the windshield. Can you see how it could make sense to add this to your monthly payment rather than to risk having larger excess wear and use charges at lease-end?



### Common Customer Concern – I plan to buy the vehicle at lease-end.

One of the great things about our lease contracts is that you have the option to buy it at lease-end. Another option you have is to turn the vehicle in. By enrolling in our EWU product today, you can mitigate potential costs caused by excess wear & use should you decide to exercise the option to turn the vehicle in. Would it make sense then to protect the valuable

