



# UNDERSTANDING PREFERRED OPTION (BALLOON) FINANCE PLAN

A Preferred Option ("Balloon") Finance Plan is similar to traditional retail financing, but includes some benefits associated with leasing. It provides lower monthly payments than traditional financing since you do not pay the entire principal balance over the term of the loan. Once all payments have been made and the loan reaches maturity, a final lump sum or balloon payment remains and you have three options to satisfy the remaining obligations under your finance contract:

1. Pay the final balloon payment in full
2. Refinance the final balloon payment through LFS<sup>1</sup>
3. Sell the vehicle back to LFS<sup>2</sup>

## KEY FACTS ABOUT PREFERRED OPTION FINANCING

### PAYMENTS



- Lower monthly payments than traditional financing
- **One large lump sum (balloon)** payment of remaining balance due at end of contract term

### OWNERSHIP



- You are the **titled owner** of the vehicle
- Can sell back vehicle (upon notice to LFS), once loan balance is paid off and contract obligations are met

### BENEFITS



- No down payment required (based on applicant's credit worthiness)
- Option to sell vehicle back to LFS at end of initial financing period (similar to lease), but excess wear, mileage and other charges may apply<sup>2</sup>
- Contact your tax advisor to determine tax consequences of preferred option financing

# EXAMPLE<sup>3</sup>

## PREFERRED OPTION VS TRADITIONAL RETAIL FINANCING CONTRACT COMPARISON<sup>4</sup>

|  | PREFERRED OPTION<br>36 MONTH | TRADITIONAL RETAIL<br>60 MONTH |
|--|------------------------------|--------------------------------|
| Vehicle Sale Price                     | \$42,950                     | \$42,950                       |
| Down Payment                           | \$4,295                      | \$4,295                        |
| Amount Financed                        | \$38,655                     | \$38,655                       |
| Annual Percentage Rate (APR)           | 6.00%                        | 5.00%                          |
| Finance Charge                         | \$5,744                      | \$5,113                        |
| Number of Payments                     | 35 Plus Balloon Payment      | 60 Payments                    |
| <b>Monthly Payment</b>                 | <b>\$556.81</b>              | <b>\$729.47</b>                |
| <b>Estimated Final Balloon Payment</b> | <b>\$24,911</b>              | <b>N/A</b>                     |

### ELIGIBILITY<sup>3</sup>

POFP (balloon) financing is available on New Lexus and other eligible vehicles. POFP is eligible only at Lexus dealers in the following states: Arkansas, Georgia, and Illinois. Contract terms are available from 24 to 48 months.

## UNDERSTANDING YOUR ESTIMATED FINAL PAYMENT

|  |                 |
|--|-----------------|
| MSRP                                     | \$41,895        |
| + Dealer-installed value added option(s) | \$1,055         |
| <hr/>                                    |                 |
| Vehicle Sale Price                       | \$42,950        |
| x Balloon Factor (%)                     | 58%             |
| <hr/>                                    |                 |
| <b>Final Balloon Payment<sup>2</sup></b> | <b>\$24,911</b> |

Estimated future value of qualifying dealer-installed value added option(s) at end of initial financing period.

Estimated percentage of vehicle's future value at end of initial financing period (as % of vehicle sale price). Actual balloon factor % will vary.

Payment determined based on the estimated vehicle value calculated from balloon factor %.

**NOTE:** This example is for illustration purposes only. APR and down payment may vary depending on finance plan selected and applicant's credit worthiness. Estimated balloon payment may differ from final payoff amount due at termination.

<sup>1</sup> In certain states, LFS must expressly provide the right to refinance, subject to notice and other conditions. If the contract provides the right to refinance and the customer has fulfilled all contractual obligations, LFS may be required to refinance the balloon payment. In other states and for contracts where this does not apply, ability to refinance is based on applicant's credit worthiness and on approved credit.

<sup>2</sup> If you choose to sell the vehicle back to LFS, you are responsible for any deficiency between the contract payoff amount plus excessive wear, mileage, disposition fee, and any other amounts due, less the final balloon payment as reflected on the contract.

<sup>3</sup> Please see your Lexus dealer for actual program parameters, terms, conditions and restrictions. Preferred Option Financing available on approved credit for qualified applicants.

<sup>4</sup> Most common POFP contract term purchased by LFS is 48 months. If the POFP example above were 48 months, the terms of the example would vary as follows: with APR at 6.5%, finance charge would be \$7,841; number of payments would be 47 plus balloon payment; monthly payment would be \$541.51; estimated final balloon payment would be \$21,046. Most common traditional retail contract term purchased by LFS is 60 months. Commonly purchased contract term data is based on CY2014 LFS contract purchases.

