

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. FORD CREDIT FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The reconciliation from finance lease receivables to finance leases, gross and finance leases, net at December 31 is as follows (in millions):

	2021	2022
Finance lease receivables	\$ 4,631	\$ 4,297
Unguaranteed residual assets	2,605	2,389
Initial direct costs	82	79
Finance leases, gross	7,318	6,765
Unearned interest supplements from Ford and affiliated companies	(274)	(307)
Allowance for credit losses	(41)	(35)
Finance leases, net	\$ 7,003	\$ 6,423

At December 31, 2021 and 2022, accrued interest was \$ 125 million and \$ 187 million, respectively, which we report in *Other assets* in the current assets section of our consolidated balance sheets.

Included in the recorded investment in finance receivables at December 31, 2021 and 2022 were consumer receivables of \$ 39 billion and \$ 43.9 billion, respectively, and non-consumer receivables of \$ 12 billion and \$ 18.2 billion, respectively, (including Automotive receivables sold to Ford Credit, which we report in *Trade and other receivables*) that have been sold for legal purposes in securitization transactions but continue to be reported in our consolidated financial statements. The receivables 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 or the claims of Ford Credit's other creditors. 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 (see Note 24).

Credit Quality

Consumer Portfolio

When originating consumer receivables, Ford Credit uses a proprietary scoring system that measures credit quality using information in the credit application, proposed contract terms, credit bureau data, and other information. After a proprietary risk score is generated, Ford Credit decides whether to originate a contract using a decision process based on a judgmental evaluation of the applicant, the credit application, the proposed contract terms, credit bureau information (e.g., FICO score), proprietary risk score, and other information. The evaluation emphasizes the applicant's ability to pay and creditworthiness focusing on payment, affordability, applicant credit history, and stability as key considerations.

After origination, Ford Credit reviews the credit quality of retail financing based on customer payment activity. As each customer develops a payment history, an internally developed behavioral scoring model is used to assist in determining the best collection strategies, which allows Ford Credit to focus collection activity on higher-risk accounts. These models are used to refine Ford Credit's risk-based staffing model to ensure collection resources are aligned with portfolio risk. Based on data from this scoring model, contracts are categorized by collection risk. Ford Credit's collection models evaluate several factors, including origination characteristics, updated credit bureau data, and payment patterns.

Credit quality ratings for consumer receivables are based on aging. Consumer receivables credit quality ratings are as follows:

- *Pass* – current to 60 days past due;
- *Special Mention* – 61 to 120 days past due and in intensified collection status; and
- *Substandard* – greater than 120 days past due and for which the uncollectible portion of the receivables has already been charged off, as measured using the fair value of collateral less costs to sell.