

FORD MOTOR COMPANY AND SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS

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

Ford Credit regularly reviews the model to confirm the continued business significance and statistical predictability of the model and may make updates to improve the performance of the model. In addition, Ford Credit regularly audits dealer inventory and dealer sales records to verify that the dealer is in possession of the financed vehicles and is promptly paying each receivable following the sale of the financed vehicle. The frequency of on-site vehicle inventory audits depends primarily on the dealer's risk rating. Under Ford Credit's policies, on-site vehicle inventory audits of low-risk dealers are conducted only as circumstances warrant. On-site vehicle inventory audits of higher-risk dealers are conducted with increased frequency based primarily on the dealer's risk rating, but also considering the results of electronic monitoring of the dealer's performance, including daily payment verifications and monthly analyses of the dealer's financial statements, payoffs, aged inventory, over credit line, and delinquency reports. Ford Credit typically performs a credit review of each dealer annually and more frequently reviews certain dealers based on the dealer's risk rating and total exposure. Ford Credit adjusts the dealer's risk rating, if necessary. The credit quality of dealer financing receivables is evaluated based on Ford Credit's internal dealer risk rating analysis. A dealer has the same risk rating for its entire dealer financing regardless of the type of financing.

The credit quality analysis of dealer financing receivables at December 31, 2021 was as follows (in millions):

Amortized Cost Basis by Origination Year									
Dealer Loans								Wholesale Loans	
	Prior to 2017	2017	2018	2019	2020	2021	Total		Percent
							1,109		
Group I	\$ 391	\$ 68	\$ 151	\$ 45	\$ 109	\$ 345	\$	\$ 6,751	69.7 %
Group II	11	7	26	2	4	54	104	2,689	24.8
Group III	8	—	1	—	1	20	30	529	4.9
Group IV	—	—	4	—	—	6	10	56	0.6
							1,253	10,025	
Total (a)	\$ 410	\$ 75	\$ 182	\$ 47	\$ 114	\$ 425	\$	\$	100.0 %

(a) Total past due dealer financing receivables at December 31, 2021 were \$ 62 million.

The credit quality analysis of dealer financing receivables at December 31, 2022 was as follows (in millions):

Amortized Cost Basis by Origination Year									
Dealer Loans								Wholesale Loans	
	Prior to 2018	2018	2019	2020	2021	2022	Total		Percent
							1,061	13,888	14,949
Group I	\$ 402	\$ 148	\$ 35	\$ 67	\$ 185	\$ 224	\$	\$	82.8 %
Group II	2	21	—	5	2	42	72	2,751	15.6
Group III	—	—	—	—	—	10	10	233	1.4
Group IV	—	—	1	—	—	3	4	35	0.2
							1,147	16,907	18,054
Total (a)	\$ 404	\$ 169	\$ 36	\$ 72	\$ 187	\$ 279	\$	\$	100.0 %

(a) Total past due dealer financing receivables at December 31, 2022 were \$ 9 million.

Non-Accrual of Revenue. The accrual of financing revenue is discontinued at the time a receivable is determined to be uncollectible or when it is 90 days past due. Accounts may be restored to accrual status only when a customer settles all past-due deficiency balances and future payments are reasonably assured. For receivables in non-accrual status, subsequent financing revenue is recognized only to the extent a payment is received. Payments are generally applied first to outstanding interest and fees and then to the unpaid principal balance.

Troubled Debt Restructuring ("TDR"). A restructuring of debt constitutes a TDR if a concession is granted to a debtor for economic or legal reasons related to the debtor's financial difficulties that Ford Credit otherwise would not consider. Consumer and non-consumer receivables that have a modified interest rate below market rate or that were modified in reorganization proceedings pursuant to the U.S. Bankruptcy Code, except non-consumer receivables that are current with minimal risk of loss, are considered to be TDRs. Ford Credit does not grant concessions on the principal balance of the receivables. If a receivable is modified in a reorganization proceeding, all payment requirements of the reorganization plan need to be met before remaining balances are forgiven.