Carvana 101 – Carvana Pre-Securitization Financing Platform

From December 2016 through May 2019, Carvana sold loans it originated on its website through two primary channels: whole loan sales to Ally under a Master Purchase and Sale Agreement (MPSA) and whole loan sales to a trust under a Master Transfer Agreement (MTA). Both of these agreements were forward flow commitments to purchase loans from Carvana on an ongoing basis. In Q3 and Q4 2018, Carvana also sold loans in two fixed pool loan sales before launching its securitization program in Q1 2019.

The MPSA, which was still active as of December 31, 2020, was an agreement that allowed Carvana to sell a portion of its loans directly to Ally. The MPSA was initially signed in December 2016 and has been amended from time to time since then.

The MTA was an agreement that allowed Carvana to sell a portion of its loans to a trust funded by Ally and non-Ally loan investors. The MTA was initially signed in December 2016 and was amended or replaced from time to time before concluding in May 2019 following the launch of our securitization program.

The primary difference between the MPSA and the MTA was the purchaser of the loans and how the loans were funded by the purchaser. In the MPSA, the loans were sold to a bank who used its balance sheet (i.e., deposits, other debt, and equity) to fund the loans. In the MTA, the loans were sold to a trust who in turn had funding commitments from a senior debt provider and an additional investor.

The two separate agreements were designed to meet the risk, return, and regulatory preferences of our partners, with loans sold under the MPSA tending to have higher credit scores and lower losses than loans sold under the MTA.

From the standpoint of Carvana's income statement, the two agreements were identical. Under both agreements, Carvana sold loans on an ongoing basis and earned a premium based on the price and principal amount of the loans sold. This premium was included as a gain on loan sales in Other Sales and Revenues.

In Q3 and Q4 2018, Carvana completed two fixed pool loan sales to capture the lower cost of funds available when loans are funded as a fixed pool rather than under an ongoing purchase or forward flow commitment.

Sales of fixed pools of loans afford several benefits over sales of loans under a forward flow commitment. The primary benefit is that fixed pools of loans have fixed collateral attributes (i.e., loan characteristics such as credit score, loan-to-value (LTV), geography, vehicle age, etc.) rather than attributes that may change over time as additional loans are added to the pool. The fixed collateral attributes increase cash flow predictability, and therefore rating agencies and funders of the pool expect less variance. All else being equal, reduced risk and variance lower the cost of funds and increase the value of the pool.

Two Types of Loan Sales: Comparison of Typical Features*

	Sale of Fixed Pool of Loans	Forward Flow Commitment
Collateral attributes	Fixed	May change as new loans are sold
Funding commitment	One-time	Ongoing commitment
Rating agency treatment	More favorable	Less favorable
Debt advance rate	Typically higher	Typically lower
Spread between debt interest rate and common benchmarks	Typically lower	Typically higher

Notes: Rating agency treatment, debt advance rate, and spread between debt interest rate and common benchmarks comparisons assume all other factors are held constant and are based on our understanding of typical patterns in the industry. Any individual transaction may be different based on specific market conditions, deal characteristics, and other factors. One-time funding commitments may include a short prefunding period.

In general, there are multiple models utilized by consumer loan originators to capture the benefits of fixed pool financing. Three such models are summarized in the table below.

Three Models for Capturing Fixed Pool Financing Efficiencies*

	Model 1	Model 2	Model 3
	Warehouse and securitize	Whole loan sales with assumption of future fixed pool financing built into initial price	Whole loan sales with additional revenue if originator arranges fixed pool financing
Initial sale price	N/A	Higher	Lower
Revenue opportunity after initial sale	N/A	No	Yes
More efficient financing available on fixed pool	Yes	Yes	Yes
Originator holds loans before fixed pool financing	Yes	No	No
Fixed pool financing is a securitization	Yes	Optional	Optional
Example usage	Traditional finance companies	Traditional finance & FinTech companies	FinTech companies

Notes: Initial sale price, revenue opportunity after initial sale, and more efficient financing available on fixed pool assume all other factors are held constant and are based on our understanding of typical patterns in the industry. Any individual transaction may be different based on specific market conditions, deal characteristics, and other factors.

The most common approach to fixed pool loans sales is the warehouse and securitize model. In the warehouse and securitize model, finance companies aggregate loans on their balance sheet using a warehouse line of credit for a period of time before executing a securitization transaction with a fixed pool of loans to pay down the warehouse line and replace it with lower cost debt.

A second approach is to sell loans on an ongoing basis to an investor who expects to execute a fixed pool loan sale or securitization at some point in the future. In these cases, the originator may partially monetize the benefits of the future more efficient fixed pool financing by earning a higher initial purchase price that embeds the assumption of future cost of funds improvements.

A third approach is to sell loans on an ongoing basis, and then, provided market conditions allow it, leverage their unique position as the originator to arrange more efficient fixed pool financing on behalf of investors and earn revenue from arranging the financing.

Carvana's fixed pool loan sales in Q3 and Q4 2018 followed the third approach. To execute the sales, Carvana identified a senior debt provider with an interest in funding fixed pools of loans and assisted the senior debt provider and an independent rating agency with due diligence. The significantly lower cost of the new senior debt allowed the forward flow trust's investor to earn a higher rate of return and for Carvana to earn a fee for arranging the more efficient senior debt financing. Once all terms were agreed to, Carvana facilitated the transfer of loans from the forward flow trust to a new fixed pool trust. The fee revenue was included in Other Sales and Revenues.

In Q1 2019, Carvana launched its auto loan securitization program by completing its first securitization transaction. As of December 31, 2020, Carvana continues to sell loans through its MPSA forward flow agreement and through fixed pool loan sales, including securitizations.

Forward Looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect Carvana's current expectations and projections with respect to, among other things, our financial condition, results of operations, plans, objectives, future performance, and business. These statements may be preceded by, followed by or include the words "aim," "anticipate," "believe," "estimate," "expect," "forecast," "intend," "likely," "outlook," "plan," "potential," "project," "projection," "seek," "can," "could," "may," "should," "would," "will," the negatives thereof and other words and terms of similar meaning. Forward-looking statements include all statements that are not historical facts. Such forward-looking statements are subject to various risks and uncertainties. Accordingly, there are or will be important factors that could cause actual outcomes or results to differ materially from those indicated in these statements. Among these factors are risks related to the "Risk Factors" identified in Carvana's Annual Report on Form 10-K for 2020. There is no assurance that any forward-looking statements will materialize. You are cautioned not to place undue reliance on forward-looking statements, which reflect expectations only as of this date. Carvana does not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise.

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