UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1997

[_] Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-14116

CONSUMER PORTFOLIO SERVICES, INC.
(Exact name of registrant as specified in its charter)

California	33-0459135
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2 Ada, Irvine, California	92618
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (714) 753-6800

Securities registered pursuant to section 12(b) of the Act:
Title of each class: Rising Interest Subordinated Redeemable Securities due 2006
10.50% Participating Equity Notes due 2004
Name of each exchange on which registered: New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: Common stock, no par value

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [_]

Indicate by check mark if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-K contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [_]

The aggregate market value on March 4, 1998 (based on the $10.875 closing price on the Nasdaq Stock Market on that date) of the voting stock beneficially held by non-affiliates of the registrant was $93,083,236. The number of shares of the registrant's Common Stock outstanding on March 4, 1998 was 15,210,042.

Documents Incorporated by Reference

The registrant's proxy statement for its 1998 annual meeting of shareholders is incorporated by reference into Part III of this report.

PART I

Item 1. BUSINESS

General

Consumer Portfolio Services, Inc., ("CPS", and together with its subsidiaries, the "Company") is a consumer finance company specializing in the business of purchasing, selling and servicing retail automobile installment contracts ("Contracts") originated by dealers ("Dealers") in the sale of new and used automobiles, light trucks and passenger vans. Through its purchases, the Company provides indirect financing to borrowers with limited credit histories, low incomes or past credit problems ("Sub-Prime Borrowers"). The Company serves as an alternative source of financing for Dealers, allowing sales to customers who otherwise might not be able to obtain financing from more traditional sources of automobile financing such as banks, credit unions or finance companies affiliated with major automobile manufacturers.

History

The Company was incorporated in March 1991 as a wholly owned subsidiary of CPS Holdings, Inc. ("Holdings") (formerly known as FWB Acceptance Corp.). Holdings was formed in April 1990 by Charles E. Bradley, Sr., the Chairman of the Board of the Company, in order to enter into the automobile financing business. Mr. Bradley believed that the Sub-Prime Borrower segment of this business had the potential for growth and profit due in part to the withdrawal from such business by many savings and loan associations and other financial institutions. In December 1995, Holdings was merged with and into the Company.

The period from March 8, 1991 (the Company's inception) through May 1991 was devoted to the start-up of the Company's operations. On May 31, 1991, the Company first acquired certain third-party loan servicing contracts and in June 1991 began earning servicing fee income. The Company thereafter added to its third-party loan servicing portfolio and, in October 1991, began acquiring Contracts and selling them to General Electric Capital Corporation ("GECC"). To date, the Company has sold $42.6 million in Contracts to GECC and an additional $100.1 million to Sun Life Insurance Company of America ("Sun Life"). Since June 1994, the Company has issued an additional $1.1 billion of "AAA"-rated and $50.9 million of "BB"-rated certificates backed by Contracts to various institutional investors. Since June 1996, all sales of "AAA"-rated certificates have been made in public offerings pursuant to registration statements filed with the Securities and Exchange Commission. See "Servicing of Contracts," "Purchase and Sale of Contracts" and "Securitization and Sale of Contracts to Institutional Investors."

Automobile Financing Industry

Automobile financing is a major component of consumer installment debt in the United States. Most traditional sources of automobile financing, such as commercial banks, credit unions and captive finance companies affiliated with major automobile manufacturers, generally provide automobile financing for the most creditworthy, or so-called "prime" borrowers. The Company believes that the strong credit performance and large size of the market have led to intense price competition in the financing market for prime borrowers, and, in turn, low profit margins, effectively limiting this market to only the largest participants. In addition, special low-rate financing programs offered by automobile manufacturers' captive finance companies to promote the sale of specific automobiles have added to the competition within the prime borrower market.

Although prime borrowers represent the largest segment of the automobile financing market, there are many potential purchasers of automobiles who do not qualify as prime borrowers. Purchasers considered by the Company to be Sub-Prime Borrowers have limited credit histories, low incomes or past credit problems and, therefore, are unable to obtain credit from traditional sources of automobile financing, such as commercial banks, credit unions or captive finance companies affiliated with major automobile manufacturers. (The terms "prime" and "sub-prime" reflect the Company's categorization of borrowers and bear no relationship to the prime rate of interest or persons who are able to borrow at that rate.) The Company believes that, because these potential purchasers represent a substantial market, there is a demand by automobile dealers for Sub-Prime Borrower financing that has not been effectively served by traditional automobile financing sources.

Business Strategy

The Company's primary objective is to increase revenue and earnings through the expansion of its sales and servicing of Contracts purchased from Dealers. The Company's strategy is to:

- Maintain consistent underwriting standards and portfolio performance.
- Increase the number of Contracts it purchases from its existing Dealers.
- Expand its Dealer network, in part by entry into other geographic areas (see "Purchase and Sale of Contracts--Dealer Contract Purchase Program").
- Control and/or reduce its cost of funds by proper structuring of its securitization offerings and by obtaining the necessary ratings from nationally recognized credit rating agencies.
- Evaluate opportunities to provide additional products and services, such as automobile insurance, credit cards and extended maintenance contracts.

Expansion And Diversification

In March 1996, CPS formed Samco Acceptance Corp. ("Samco"), an 80 percent-owned subsidiary based in Dallas, Texas. Samco's business plan is to provide the Company's sub-prime auto finance products to rural areas through independently owned finance companies. The Company believes that many rural areas are not adequately served by other industry participants due to their distance from large metropolitan areas where a Dealer marketing representative is most likely to be based.

Samco employees call on independent finance companies ("IFCs"), primarily in the southeastern United States, and present them with financing programs that are essentially identical to those which CPS markets directly to Dealers through its marketing representatives. The Company believes that a typical rural IFC has relationships with many local automobile purchasers as well as Dealers who, because of their financial resources or capital structure, are generally unable to provide 36, 48 or 60 month financing for an automobile. IFCs may offer Samco's financing programs to borrowers directly or to local Dealers. Upon submission of applications to Samco, credit personnel who have been trained by CPS use CPS's proprietary systems to evaluate the borrower and the proposed Contract terms. Samco purchases Contracts from the IFCs after its credit personnel have performed all of the underwriting and verification procedures that CPS performs for Contracts it purchases from Dealers. Servicing and collection procedures on Samco Contracts are performed by CPS at its headquarters in Irvine, California. However, Samco may solicit aid from the IFC in collecting accounts that are seriously past due. For the year ended December 31, 1997, Samco purchased 2,306 Contracts with original balances aggregating $26.2 million.

In May 1996, CPS formed LINC Acceptance Corp. ("LINC"), an 80 percent-owned subsidiary based in Norwalk, Connecticut. LINC provides the Company's sub-prime auto finance products to credit unions, banks and savings and loans ("Deposit Institutions"). The Company believes that Deposit Institutions do not generally make loans to Sub-Prime Borrowers, even though they may have relationships with Dealers and have Sub-Prime Borrowers as deposit customers.

LINC calls on various Deposit Institutions and presents them with a financing program that is similar to those which CPS markets directly to Dealers through its marketing representatives. The LINC program is intended to result in a slightly more creditworthy borrower than the Company's regular programs by requiring slightly higher income and lower debt-to-income ratios. LINC's customers may offer its financing program to borrowers directly or to local Dealers. Unlike Samco, which has employees who evaluate applications and make decisions to purchase Contracts, LINC applications are submitted by the Deposit Institution directly to CPS, where the approval, underwriting and purchase procedures are performed by CPS staff who work with LINC as well as with CPS Dealers. Servicing and collection procedures on LINC Contracts are performed entirely by CPS using its personnel. For the year ended December 31, 1997, LINC purchased 678 Contracts with original balances aggregating $8.9 million.

Purchase And Sale Of Contracts

Dealer Contract Purchase Program. As of December 31, 1997, the Company was a party to its standard form dealer agreements ("Dealer Agreements") with 3,193 Dealers. Approximately 97.9% of these Dealers are franchised new car dealers that sell both new and used cars and the remainder are independent used car dealers. For the year

ended December 31, 1997, approximately 91.5% of the Contracts purchased by the Company consisted of financing for used cars and the remaining 8.5% for new cars. Most of these Dealers regularly submit Contracts to the Company for purchase, although such Dealers are under no obligation to submit any Contracts to the Company, nor is the Company obligated to purchase any Contracts. During the year ended December 31, 1997, no Dealer accounted for more than 1.0% of the total number of Contracts purchased by the Company. In addition, the Company continues to diversify geographically, and has reduced its concentration of Contract purchases in California from 25.8% for the year ended December 31, 1996, to 18.1% for the year ended December 31, 1997. The following table sets forth the geographical sources of the Contracts purchased by the Company (based on the addresses of the borrowers as stated on the Company's records) during the years ended December 31, 1997 and December 31, 1996:

	Contracts Purchased During Year Ended			
	December 31, 1997		December 31, 1996	
	Number	Percent	Number	Percent
California	9,035	18.1%	7,296	25.8%
Texas	3,649	7.3%	2,073	7.3%
Pennsylvania	3,622	7.2%	2,730	9.6%
Florida	3,404	6.8%	2,638	9.3%
Louisiana	3,142	6.3%	1,184	4.2%
New York	2,941	5.9%	1,201	4.2%
Illinois	2,413	4.8%	1,385	4.9%
Alabama	2,070	4.1%	906	3.2%
Tennessee	2,012	4.0%	1,225	4.3%
Michigan	1,954	3.9%	788	2.8%
North Carolina	1,613	3.2%	155	0.6%
Maryland	1,586	3.2%	920	3.3%
Georgia	1,503	3.0%	181	0.6%
Nevada	1,271	2.5%	1,060	3.7%
New Jersey	1,188	2.4%	625	2.2%
Other States	8,660	17.3%	3,938	13.9%
Total	50,063		28,305	

When a retail automobile buyer elects to obtain financing from a Dealer, an application is taken for submission by the Dealer to its financing sources. Typically, a Dealer will submit the buyer's application to more than one financing source for review. The Company believes the Dealer's decision to finance the automobile purchase with the Company, rather than other financing sources, is based primarily upon an analysis of the discounted purchase price offered for the Contract, the timeliness, consistency and predictability of response, the cash resources of the financing source, and any conditions to purchase.

Upon receipt of an application from a Dealer, the Company's administrative personnel order a report containing information from the three major national credit bureaus on the applicant to document the buyer's credit history. If, upon review by a Company loan officer, it is determined that the application meets the Company's underwriting criteria, or would meet such criteria with modification, the Company requests and reviews further information and supporting documentation and, ultimately, decides whether to purchase the Contract. When presented with an application, the Company attempts to notify the Dealer within four hours as to whether it intends to purchase such Contract. The Company buys Contracts directly from Dealers and does not make loans directly to purchasers of automobiles.

Through December 1996, the Company had purchased Contracts from Dealers at percentage discounts ranging from 0% to 10% of the total amount financed under the Contracts, depending on the perceived credit risk of the Contract, plus a flat acquisition fee, generally $200, for each Contract purchased. Percentage discounts averaged 4.1% and 2.8% for the years ended December 31, 1995 and 1996, respectively. The Company believes that the level of discounts and fees are a significant factor in the Dealer's decision to submit a Contract to the Company for purchase, and will continue to play such a role in the future. Effective January 10, 1997, the Company began purchasing Contracts in general without a percentage discount, charging Dealers only an acquisition fee ranging from zero to $1,195 for each Contract purchased. The fees vary based on the perceived credit risk and, in some cases, the interest rate on the Contract. The acquisition fees instituted in January 1997 are larger, on average, than the acquisition fees previously charged in conjunction with percentage discounts, so as to result in a similar net purchase price on a typical Contract. For the year ended December 31, 1997, the average amount charged per Contract purchased was $438 or 3.5% of the amount financed.

The Company attempts to control Dealer misrepresentation by carefully screening the Contracts it purchases, by establishing and maintaining professional business relationships with Dealers, and by including certain representations and warranties by the Dealer in the Dealer Agreement. Pursuant to the Dealer Agreement, the Company may require the Dealer to repurchase any Contract in the event that the Dealer breaches its representations or warranties or if a borrower fails, for any reason, to make timely payment of the first installment due under a Contract. There can be no assurance, however, that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company.

Contract Purchase Criteria. To be eligible for purchase by the Company, a Contract must have been originated by a Dealer that has entered into a Dealer Agreement to sell Contracts to the Company. The Contracts must be secured by a first priority lien on a new or used automobile, light truck or passenger van and must meet the Company's underwriting criteria. In addition, each Contract requires the borrower to maintain physical damage insurance covering the financed vehicle and naming the Company as a loss payee. The Company or any purchaser of the Contract from the Company may, nonetheless, suffer a loss upon theft or physical damage of any financed vehicle if the borrower fails to maintain insurance as required by the Contract and is unable to pay for repairs to or replacement of the vehicle or is otherwise unable to fulfill its obligations under the Contract.

The Company believes that its objective underwriting criteria enable it to evaluate effectively the creditworthiness of Sub-Prime Borrowers and the adequacy of the financed vehicle as security for a Contract. These criteria include standards for price; term; amount of down payment, installment payment and add-on interest rate; mileage, age and type of vehicle; principal amount of the Contract in relation to the value of the vehicle; borrower's income level, job and residence stability, credit history and debt serviceability; and other factors. Specifically, the Company's guidelines limit the maximum principal amount of a purchased Contract to 115% of wholesale book value in the case of used vehicles or to 110% of the manufacturer's invoice in the case of new vehicles, plus, in each case, sales tax, licensing and, when the customer purchases such additional items, a service contract or a credit life or disability policy. The Company does not finance vehicles that are more than eight model years old or have in excess of 85,000 miles. The maximum term of a purchased Contract is 60 months; a shorter maximum term may be applied based on the year and mileage of the vehicle. These criteria are subject to change from time to time as circumstances may warrant. Upon receiving this information with the borrower's application, the Company's underwriters verify the borrower's employment, residency, insurance and credit information provided by the borrower by contacting various parties noted on the borrower's application, credit information bureaus and other sources.

Credit Scoring. From inception through December 31, 1997, the Company has purchased $1.4 billion in Contracts and, as of December 31, 1997, had an outstanding servicing portfolio of $902.7 million. The Company's management information systems are structured to include a variety of credit and demographic data for each Contract as well as maintaining data which indicate each Contract's past or current performance characteristics. Furthermore, the Company's technical staff have the ability to interrogate the database to compare performing and non-performing Contracts and to ascertain which demographic and credit related data elements may be predictors of credit performance.

In November 1996, the Company implemented a scoring model that assigns each Contract a numeric value (a "credit score") at the time the application is received from the Dealer and the borrower's credit information is retrieved from the credit reporting agencies. The credit score is based on a variety of parameters such as the

borrower's job and residence stability, the amount of the down payment, and the age and mileage of the vehicle. The Company has developed the credit score as a means of identifying Contracts where a review by a supervisor or manager, prior to approval, is warranted. Regardless of the credit score a Contract originally receives, the Company's underwriters perform the same extensive review and verification procedures on all Contracts. The credit score is also used to identify Contracts for which review by a supervisor or manager prior to approval and purchase may be appropriate.

The actual agreement for purchase of the vehicle ("Contract") is prepared by the Dealer. The Dealer also arranges for recording the Company's lien on the vehicle. After the appropriate documents are signed by the Dealer and the borrower, the Dealer sells the Contract to the Company. The borrower then receives monthly billing statements.

All of the Contracts purchased by the Company are fully amortizing and provide for level payments over the term of the Contract. The average original principal amount financed under Contracts purchased in the year ended December 31, 1997 was approximately $12,625, with an average original term of approximately 55.0 months and an average down payment of 15.5%. Based on information contained in borrower applications, for this twelve-month period, the retail purchase price of the related automobiles averaged $13,020 (which excludes tax and license fees, and any additional costs such as a maintenance contract), the average age of the vehicle at the time the Contract was purchased was 3 years, and the Company's average borrower at the time of purchase was approximately 36.0 years old, with approximately $34,973 in average household income and an average of 4 years' history with his or her current employer.

All Contracts may be prepaid at any time without penalty. In the event a borrower elects to prepay a Contract in full, the payoff amount is calculated by deducting the unearned interest from the Contract balance, in the case of a pre-computed Contract, or by adding accrued interest to the Contract balance, in the case of a simple interest Contract.

Each Contract purchased by the Company prohibits the sale or transfer of the financed vehicle without the Company's consent and allows for the acceleration of the maturity of a Contract upon a sale or transfer without such consent. In most circumstances, the Company will not consent to a sale or transfer of a financed vehicle unless the related Contract is prepaid in full.

The Company believes that the most important requirements to succeed in the sub-prime automobile financing market are the ability to control borrower and Dealer misrepresentation at the point of origination; the development and consistent implementation of objective underwriting criteria specifically designed to evaluate the creditworthiness of Sub-Prime Borrowers; and the maintenance of an active program to monitor performance and collect payments.

Securitization and Sale of Contracts to Institutional Investors

The Company purchases Contracts with the primary intention of reselling them to investors as asset-backed securities through securitizations. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS") which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a Grantor or Owner Trust (the "Trust"), and the Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. One or more investors purchase these Certificates; the proceeds from the sale of the certificates are then used to purchase the Contracts from the Company. In addition, the Company provides a credit enhancement for the benefit of the investors in the form of an initial cash deposit to a specific account ("Spread Account") held by the Trust. The Spread Account is required by the Servicing Agreement (as defined below) to be maintained at specified levels.

In connection with the sale of the Contracts, the Company is required to make certain normal representations and warranties, which generally duplicate the substance of the representations and warranties made by Dealers in connection with the Company's purchase of the Contracts. If the Company breaches any of its representations or warranties to a purchaser of the Contracts, the Company will be obligated to repurchase the Contract from such purchaser at a price equal to such purchaser's purchase price less the related cash securitization reserve and any payments received by such purchaser on the Contract. In most cases, the Company would then be entitled under the terms of its Dealer Agreement to require the selling Dealer to repurchase the Contract at a price equal to the Company's purchase price, less any payments made by the borrower. Subject to any recourse against Dealers, the Company will bear the risk of loss on repossession and resale of vehicles under Contracts repurchased by it.

Terms of Servicing Agreements. The Company currently services all Contracts sold and expects to service all Contracts that it purchases and sells in the future. Pursuant to the Company's usual form of servicing agreement (the Company's servicing agreements are collectively referred to as the "Servicing Agreements"), the Company is obligated to service all Contracts sold to the investors or Trusts in accordance with the Company's standard procedures. The Servicing Agreements generally provide that the Company will bear all costs and expenses incurred in connection with the management, administration and collection of the Contracts serviced. The Servicing Agreements also provide that the Company will take all actions necessary or reasonably requested by the investor to maintain perfection and priority of the investor's or the Trust's security interest in the financed vehicles.

Upon the sale of a portfolio of Contracts to an investor or a trust, the Company mails to borrowers monthly billing statements directing them to mail payments on the Contracts to a lock-box account. The Company engages an independent lock-box processing agent to retrieve and process payments received in the lock-box account. This results in a daily deposit to the investor's or the Trust's bank account of the entire amount of each day's lock-box receipts and the simultaneous electronic data transfer to the Company of borrower payment data records. Pursuant to the Servicing Agreements, the Company is required to deliver monthly reports to the investor or the Trust reflecting all transaction activity with respect to the Contracts. The reports contain, among other information, a reconciliation of the change in the aggregate principal balance of the Contracts in the portfolio to the amounts deposited into the investor's or the Trust's bank account as reflected in the daily reports of the lock-box processing agent.

The Company is entitled under most of the Servicing Agreements to receive a base monthly servicing fee of 2.0% per annum computed as a percentage of the declining outstanding principal balance of the non-defaulted Contracts in the portfolio. Each month, after payment of the Company's base monthly servicing fee and certain other fees, the investor receives the paid principal reduction of the Contracts in its portfolios and interest thereon at the pass-through rate. If, in any month, collections on the Contracts are insufficient to pay such amounts and any principal reduction due to charge-offs, the shortfall is satisfied from the Spread Account established in connection with the sale of the portfolio. (If the Spread Account is not sufficient to satisfy a shortfall, then the investor or Trust may suffer a loss to the extent that the shortfall exceeds the Spread Account.) If collections on the Contracts exceed such amounts, the excess is utilized, first, to build up or replenish the Spread Account to the extent required, next, to cover deficiencies in Spread Accounts for other portfolios, and the balance, if any, constitutes excess cash flows, which are distributed to the Company. The Servicing Agreements also provide that the Company is entitled to receive certain late fees collected from borrowers.

Pursuant to the Servicing Agreements, the Company is generally required to charge off the balance of any Contract by the earlier of the end of the month in which the Contract becomes five scheduled installments past due or, in the case of repossessions, the month that the proceeds from the liquidation of the financed vehicle are received by the Company. In the case of a repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted Contract and the repossession sale proceeds. In the event collections on the Contracts are not sufficient to pay to the investor the entire principal balance of any Contracts charged off during the month, the Spread Account established in connection with the sale of the Contracts is reduced by the unpaid principal amount of such Contracts. Such amount would then have to be restored to the Spread Account from future collections on the Contracts remaining in the portfolio before the Company would again be entitled to receive excess cash. In addition, the Company would not be entitled to receive any further monthly servicing fees with respect to the defaulted Contracts. Subject to any recourse against the Company in the event of a breach of the Company's representations and warranties with respect to any Contracts and after any recourse to any insurer guarantees backing the Certificates, the investor bears the risk of all charge-offs on the Contracts in excess of the Spread

Account. However, the Company would experience a reduction in cash distributions in the event of greater than anticipated charge-offs or prepayments on Contracts sold and serviced by the Company.

The Servicing Agreements are terminable by the investor in the event of certain defaults by the Company and under certain other circumstances. None of the Servicing Agreements are in default or otherwise terminable as of December 31, 1997.

Servicing of Contracts

General. The Company's servicing activities consist of collecting, accounting for and posting of all payments received; responding to borrower inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the borrower to obtain timely payments; repossessing and reselling the collateral when necessary; and generally monitoring each Contract and any related collateral.

Collection Procedures. The Company believes that its ability to monitor performance and collect payments owed from Sub-Prime Borrowers is primarily a function of its collection approach and support systems. The Company believes that if payment problems are identified early and the Company's collection staff works closely with borrowers to address these problems, it is possible to correct many of them before they deteriorate further. To this end, the Company utilizes pro-active collection procedures, which include making early and frequent contact with delinquent borrowers; educating borrowers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the borrower in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of its collection activities, the Company maintains a computerized collection system specifically designed to service automobile installment sale contracts with Sub-Prime Borrowers and similar consumer loan contracts. See "Management Information Systems."

With the aid of its high penetration auto dialer, the Company typically attempts to make telephonic contact with delinquent borrowers on the sixth day after their monthly payment due date. Using coded instructions from a collection supervisor, the automatic dialer will attempt to contact borrowers based on their physical location, state of delinquency, size of balance or other parameters. If the automatic dialer obtains a "no-answer" or a busy signal, it records the attempt on the borrower's record and moves on to the next call. If a live voice answers the automatic dialer's call, the call is transferred to a waiting collector at the same time that the borrower's pertinent information is simultaneously displayed on the collector's workstation. The collector then inquires of the borrower the reason for the delinquency and when the Company can expect to receive the payment. The collector will attempt to get the borrower to make a promise for the delinquent payment for a time generally not to exceed one week from the date of the call. If the borrower makes such a promise, the account is routed to a pending queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to the automatic dialing queue for subsequent contacts.

If a borrower fails to make or keep promises for payments, or if the borrower is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision will occur between the 45th and 90th day past the borrower's payment due date, but could occur sooner or later, depending on the specific circumstances.

If a decision to repossess is made by a supervisor, such assignment is given to one of many licensed, bonded repossession agents used by the Company. When the vehicle is recovered, the repossession agent delivers it to a wholesale auto auction where it is kept until it is liquidated, usually within 30 days of the repossession. Liquidation proceeds are applied to the borrower's outstanding obligation under the Contract and the borrower is advised of his obligation to pay any deficiency balance that remains. The Company uses all practical means available to collect deficiency balances, including filing for judgments against borrowers where applicable.

The Company's financial results are affected by the performance of the of Contracts it has purchased. The tables below document the delinquency, repossession and net credit loss experience of all Contracts purchased by the Company since its inception:

	Delinquency Experience (1)					
	December 31, 1997		December 31, 1996		December 31, 1995	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
			(Dollars in thousands)			
Gross servicing portfolio.....	83,414	$1,031,573	47,187	$604,092	27,129	$356,114
Period of delinquency (2)						
31-60 days.....	3,092	36,609	1,801	22,099	910	11,525
61-90 days.....	1,243	15,303	724	9,068	203	2,654
91+ days.....	1,393	17,869	768	9,906	273	3,912
Total delinquencies(2).....	5,728	69,781	3,293	41,073	1,386	18,091
Amount in repossession (3).....	1,977	24,463	1,168	14,563	836	10,179
Total delinquencies and amount in repossession (2).....	7,705	$ 94,244	4,461	$ 55,636	2,222	$ 28,270
Delinquencies as a percent of gross servicing portfolio.....	6.9%	6.8%	7.0%	6.8%	5.1%	5.1%
Total delinquencies and amount in repossession as a percent of gross servicing portfolio.....	9.2%	9.1%	9.5%	9.2%	8.2%	7.9%

(1) All amounts and percentages are based on the full amount remaining to be repaid on each Contract, including, for Rule of 78s Contracts, any unearned finance charges. The information in the table represents the principal amount of all Contracts purchased by the Company, including Contracts subsequently sold by the Company which it continues to service.

(2) The Company considers a Contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the Servicing Agreements. The period of delinquency is based on the number of days payments are contractually past due. Contracts less than 31 days delinquent are not included.

(3) Amount in repossession represents financed vehicles which have been repossessed but not yet liquidated.

Net Charge-Off Experience(1)

	Year Ended December 31,		Nine Months Ended December 31,
	(Dollars in thousands)		
	1997	1996	1995 (2)
Average servicing portfolio outstanding.....	$703,100	$397,430	$240,864
Net charge-offs as a percent of average servicing portfolio (3).....	5.9%	5.1%	4.9%

(1) All amounts and percentages are based on the principal amount scheduled to be paid on each Contract. The information in the table represents all Contracts purchased by the Company including Contracts subsequently sold by the Company that it continues to service.

(2) The percentages set forth for the nine-month period ended December 31, 1995, are computed using annualized operating data which do not necessarily represent comparable data for a full twelve-month period.

(3) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest). For periods prior to the year ended December 31, 1996, post liquidation amounts received on previously charged off Contracts were applied to the period in which the related Contract was originally charged off. These prior period allocations were made only for the purpose of calculating this ratio. For financial statement purposes, post liquidation amounts are recognized in the period received. Effective January 1, 1996, post liquidation amounts received on previously charged off Contracts are applied in the period in which they are received, both for this ratio and financial statement purposes.

Management Information Systems

The Company maintains sophisticated data processing support and management information systems. To support its collection efforts, the Company utilizes Digital Systems International's Intelligent Dialing System, a high-penetration automatic dialer, in conjunction with the American Management Systems' Computer Assisted Collection System software, which has been customized by the Company, and other accounting software programs. All systems are operated at the Company's offices on an Advance System IBM AS/400 computer.

The Company's high-penetration automatic dialer controls multiple telephone lines and automatically dials numbers from file records in accordance with programmed instructions established by management. If the dialer receives a busy signal or no answer, it will generally route the number for a subsequent re-call. The dialer has the ability to distinguish a pre-recorded voice and will leave the appropriate digitized human voice message on the borrower's answering machine. Generally, the dialer transfers the call to a collector only after it has determined that there is a live voice on the line. In most instances, this is accomplished so rapidly that the individual receiving the call is unaware that an automatic dialer has been used. The efficiency of the auto dialer allows the Company to place as many as 5,000 telephone calls per day.

The high-penetration automatic dialer also monitors telephone activity and activates more telephone lines when connect rates are low or shuts down lines when connect rates are high. Once a live call is passed to a collector, all relevant account information, including one of 99 account status codes, automatically appears on the collector's video screen. The Company believes the capabilities of the automatic dialer reduce the likelihood that an account will remain delinquent for a prolonged period without appropriate follow-up.

The Company's automation allows it to electronically sort and prioritize each collector's workload as well as to implement specific collection strategies. Moreover, the Company has adopted certain procedural controls designed to ensure that certain important decisions, such as ordering a repossession, initiating legal action or materially modifying an account, are automatically routed to a supervisor for review and approval.

Competition

The automobile financing business is highly competitive. The Company competes with a number of national, local and regional finance companies with operations similar to those of the Company. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles, and captive finance companies affiliated with major automobile manufacturers such as General Motors Acceptance Corporation, Ford Motor Credit Corporation, Chrysler Credit Corporation and Nissan Motors Acceptance Corporation. Many of the Company's competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than the Company. Moreover, the Company's future profitability will be directly related to the availability and cost of its capital in relation to the availability and cost of capital to its competitors. The Company's competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade-rated debt instruments and to other funding sources which may be unavailable to the Company. Many of these companies also have long-standing relationships with Dealers and may provide other financing to Dealers, including floor plan financing for the Dealers' purchase of automobiles from manufacturers, which is not offered by the Company.

The Company believes that the principal competitive factors affecting a Dealer's decision to offer Contracts for sale to a particular financing source are the purchase price offered for the Contracts, the reasonableness of the financing source's underwriting guidelines and documentation requests, the predictability and timeliness of purchases and the financial stability of the funding source. The Company believes that it can obtain from Dealers sufficient Contracts for purchase at attractive prices by consistently applying reasonable underwriting criteria and making timely purchases of qualifying Contracts.

The Company believes that it can compete effectively for the interest of institutional investors in purchasing Contracts acquired by the Company, based upon (i) the historical performance of portfolios of Contracts sold and serviced by it, (ii) its willingness to establish substantial credit enhancements for the benefit of investors, and (iii) its willingness to derive a portion of its revenues from excess cash flow distributed on a monthly basis, rather than up-front fees paid at the time of sale of the Contracts.

Marketing

The Company establishes relationships with Dealers through Company representatives who contact a prospective Dealer to explain the Company's Contract purchases and thereafter provide Dealer training and support services. As of December 31, 1997, the Company had 80 representatives, 43 of whom are employees and 37 of whom are independent. The independent representatives are contractually obligated to represent the Company's financing program exclusively. The Company's representatives present the Dealer with a marketing package, which includes the Company's promotional material containing the terms offered by the Company for the purchase of Contracts, a

copy of the Company's standard-form Dealer Agreement, examples of monthly reports and required documentation relating to Contracts, but they have no authority relating to the decision to purchase Contracts from Dealers. The Company's acceptance of a Dealer is subject to its analysis of, among other things, the Dealer's operating history.

The Company has not actively advertised its automobile financing or third-party loan servicing businesses, although it may do so selectively in the future.

Government Regulation

The Company intends to obtain and maintain all licenses necessary to the lawful conduct of its business and operations. The Company is not licensed to make loans directly to borrowers.

Several federal and state consumer protection laws, including the Federal Truth-In-Lending Act, the Federal Equal Credit Opportunity Act, the Federal Fair Debt Collection Practices Act and the Federal Trade Commission Act, regulate the extension of credit in consumer credit transactions. These laws mandate certain disclosures with respect to finance charges on Contracts and impose certain other restrictions on Dealers. In addition, laws in a number of states impose limitations on the amount of finance charges that may be charged by Dealers on credit sales. The so-called Lemon Laws enacted by the Federal government and various states provide certain rights to purchasers with respect to motor vehicles that fail to satisfy express warranties. The application of Lemon Laws or violation of such other Federal and state laws may give rise to a claim or defense of a borrower against a Dealer and its assignees, including the Company and purchasers of Contracts from the Company. The Dealer Agreement contains representations by the Dealer that, as of the date of assignment of Contracts, no such claims or defenses have been asserted or threatened with respect to the Contracts and that all requirements of such Federal and state laws have been complied with in all material respects. Although a Dealer would be obligated to repurchase Contracts that involve a breach of such warranty, there can be no assurance that the Dealer will have the financial resources to satisfy its repurchase obligations to the Company. Certain of these laws also regulate the Company's servicing activities, including its methods of collection.

Although the Company believes that it is currently in compliance with applicable statutes and regulations, there can be no assurance that the Company will be able to maintain such compliance. The failure to comply with such statutes and regulations could have a material adverse effect upon the Company. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of the Company's business into jurisdictions that have adopted more stringent regulatory requirements than those in which the Company currently conducts business could have a material adverse effect upon the Company. In addition, due to the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of Federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against the Company or within the industry in connection with any such litigation could have a material adverse effect on the Company's financial condition, results of operations or liquidity. See "Legal Proceedings."

Upon the purchase of Contracts by the Company, the original Contracts and related title documents for the financed vehicles are delivered by the selling Dealers to the Company. Upon the sale of each portfolio of Contracts by the Company, a financing statement is filed under the Uniform Commercial Code as adopted in the applicable state (the "UCC") to perfect and give notice of the purchaser's security interest in the Contracts.

The Dealer Agreement and related assignment contain representations and warranties by the Dealer that an application for state registration of each financed vehicle, naming the Company as secured party with respect to the vehicle, was effected at the time of sale of the related Contract to the Company, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of the Company under the laws of the state in which the financed vehicle is registered. If a Dealer or the Company, because of clerical error or otherwise, has failed to take such action in a timely manner, or to maintain such interest with respect to a financed vehicle, neither the Company nor any purchaser of the related Contract from the Company would have a perfected security interest in the financed vehicle and its security interest may be subordinate to the interest of, among others, subsequent purchasers of the financed vehicle, holders of perfected security interests and a trustee in bankruptcy of

the borrower. The security interest of the Company or the purchaser of a Contract may also be subordinate to the interests of third parties if the interest is not perfected due to administrative error by state recording officials. Moreover, fraud or forgery by the borrower could render a Contract unenforceable against third parties. In such events, the Company could be required by the purchaser to repurchase the Contract. In the event the Company is required to repurchase a Contract, it will generally have recourse against the Dealer from which it purchased the Contract. This recourse will be unsecured except for a lien on the vehicle covered by the Contract, and there can be no assurance that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company. Subject to any recourse against Dealers, the Company will bear any loss on repossession and resale of vehicles financed under Contracts repurchased by it from investors.

Under the laws of many states, liens for storage and repairs performed on a vehicle and for unpaid taxes take priority over a perfected security interest in the vehicle. Pursuant to its securitization purchase commitments, the Company generally warrants that, to the best of the Company's knowledge, no such liens or claims are pending or threatened with respect to a financed vehicle, which may be or become prior to or equal with the lien of the related Contracts. In the event that any of the Company's representations or warranties proves to be incorrect, the Trust or the investor would be entitled to require the Company to repurchase the Contract relating to such financed vehicle.

The Company, on behalf of purchasers of Contracts, may take action to enforce the security interest in financed vehicles with respect to any related Contracts in default by repossession and resale of the financed vehicles. The UCC and other state laws regulate repossession sales by requiring that the secured party provide the borrower with reasonable notice of the date, time and place of any public sale of the collateral, the date after which any private sale of the collateral may be held and of the borrower's right to redeem the financed vehicle prior to any such sale and by providing that any such sale be conducted in a commercially reasonable manner. Financed vehicles repossessed generally are resold by the Company through unaffiliated wholesale automobile networks or auctions, which are attended principally by used car dealers.

In the event of a repossession and resale of a financed vehicle, after payment of outstanding liens for storage, repairs and unpaid taxes, to the extent those liens take priority over the Company's security interest, and after payment of the reasonable costs of retaking, holding and selling the vehicle, the secured party would be entitled to be paid the full outstanding balance of the Contract out of the sale proceeds before payments are made to the holders of junior security interests in the financed vehicles, to unsecured creditors of the borrower, or, thereafter, to the borrower. Under the UCC and other laws applicable in most states (including California), a creditor is entitled to obtain a deficiency judgment from a borrower for any deficiency on repossession and resale of the motor vehicle securing the unpaid balance of such borrower's Contract. However, some states impose prohibitions or limitations on deficiency judgments. If a deficiency judgment were granted, the judgment would be a personal judgment against the borrower for the shortfall, and a defaulting borrower may often have very little capital or few sources of income available following repossession. Therefore, in many cases, it may not be useful to seek a deficiency judgment against a borrower or, if one is obtained, it may be settled at a significant discount.

Employees

As of December 31, 1997, the Company had 570 full-time and 4 part-time employees, of whom 10 are management personnel, 229 are collections personnel, 194 are Contract origination personnel, 57 are marketing personnel (43 of whom are marketing representatives), 71 are operations personnel, and 13 are accounting personnel. The Company believes that its relations with its employees are good. The Company is not a party to any collective bargaining agreement.

Item 2. PROPERTY

The Company's headquarters are located in Irvine, California, where it leases approximately 51,400 square feet of general office space from an unaffiliated lessor. The annual rent is $524,596 through the year 2000, the final year of the lease. The Company has an option to extend the lease for an additional five years upon terms substantially similar to those of the existing lease.

The Company in March 1997 and September 1997 established branch collection facilities in Chesapeake, Virginia and Irvine, California, respectively. The Company leases approximately 22,719 square feet of general office

space in Chesapeake at a base rent that is currently $318,066 per year, increasing to $501,545 over a ten-year term. The Company leases approximately 26,251 square feet of general office space for its Irvine collections branch, at a base rent of $588,000 per year. The Company's lease on the Irvine branch will expire in August 1998. In addition to base rent, the Company pays its share of property taxes, maintenance and other common area expenses of all three premises, currently at the approximate aggregate rate of $164,000 per year.

In addition, the Company has agreed to lease a new headquarters building, currently under construction, in Irvine, California. The new building is scheduled for completion in September 1998, and will have approximately 115,000 square feet of rentable space, all of which the Company intends to occupy itself. The Company has agreed to pay base rent at the rate of $1,904,400 per year for the first five years of the lease term, and at the rate of $2,097,600 per year for years six through ten. The Company's lease is to run for a ten-year term commencing with completion of construction. The Company will have the option to cancel the lease after five years without penalty. In addition to the foregoing base rent, the Company has agreed to pay the property taxes, maintenance and other expenses of the premises.

Item 3. LEGAL PROCEEDINGS

The Company is party to litigation in the ordinary course of business, generally involving actions against automobile purchasers to collect amounts due on purchased Contracts or to recover vehicles. In one such case, relating to the Chapter 13 bankruptcy of obligors Madeline and Darryl Brownlee, of Chicago, Illinois, the obligors counterclaimed against the Company on June 30, 1997 in the bankruptcy court for the Northern District of Illinois. The obligors seek class-action treatment of their allegation that the cost of an extended service contract on the automobile they purchased was inadequately disclosed by the automobile dealer, Joe Cotton Ford of Carol Stream, Illinois. The disclosure is alleged to violate the Federal Truth In Lending Act and Illinois consumer protection statutes. The obligors' claim is directed against both the dealer for making the allegedly improper disclosures and against the Company as holder of the purchase contract. The relief sought is damages in an unspecified amount, plus costs of suit and attorney's fees. The court has not ruled on the obligors' request for class-action treatment, nor on the merits of the claims.

In another proceeding, arising out of efforts to collect a deficiency balance from Joseph Barrios of Chicago, Illinois, the debtor has brought suit against the Company alleging defects in the notice given upon repossession of the vehicle. This lawsuit was filed on February 18, 1998 in the circuit court of Cook County, Illinois. Barrios, represented by the same law firm as the Brownlee obligors, seeks class-action treatment of his allegation that notice of a fifteen day period to reinstate his Contract was misleading, in that it did not refer to an alleged right to redeem collateral up to the date of sale. The relief sought is damages in an unspecified amount, plus costs of suit and attorney's fees. As of the date of this filing, the Company has not been required to respond to this litigation and has not yet done so.

The Company intends to dispute both of these matters vigorously, and believes that it has meritorious defenses to each claim made. Nevertheless, the outcome of any litigation is uncertain, and there is the possibility that damages could be assessed against the Company in amounts that could be material. It is management's opinion that all litigation of which it is aware, including the matters discussed above, will no have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the Company's executive officers follows:

Charles E. Bradley, Jr., 38, has been the President and a director of the Company since its formation in March 1991. In January 1992, Mr. Bradley was appointed Chief Executive Officer of the Company. From March 1991 until December 1995 he served as Vice President and a director of CPS Holdings, Inc. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Mr. Bradley, Jr. is currently serving as a director of NAB Asset Corporation, Chatwins Group, Inc., Texon Energy Corporation, and Thomas Nix Distributor, Inc. Charles E. Bradley, Sr., Chairman of the board of directors of the Company, is his father.

Jeffrey P. Fritz, 38, has been Senior Vice President - Chief Financial Officer and Secretary of the Company since March 1991. From December 1988 to March 1991, Mr. Fritz was Vice President and Chief Financial Officer of Far Western Bank. From 1985 to December 1988, Mr. Fritz was a management consultant for Price Waterhouse in St. Louis, Missouri.

William L. Brummund, Jr., 45, has been Senior Vice President - Systems Administration since March 1991. From 1986 to March 1991, Mr. Brummund was Vice President and Systems Administrator for Far Western Bank.

Nicholas P. Brockman, 53, has been Senior Vice President - Asset Recovery & Liquidation since January 1996. He was Senior Vice President of Contract Originations from April 1991 to January 1996. From 1986 to March 1991, Mr. Brockman served as a Vice President and Branch Manager of Far Western Bank.

Richard P. Trotter, 54, has been Senior Vice President-Contract Origination since January 1996. He was Senior Vice President of Administration from April 1995 to December 1995. From January 1994 to April 1995 he was Senior Vice President-Marketing of the Company. From December 1992 to January 1994, Mr. Trotter was Executive Vice President of Lange Financial Corporation, Newport Beach, California. From May 1992 to December 1992, he was Executive Director of Fabozzi, Prenovost & Normandin, Santa Ana, California. From December 1990 to May 1992 he was Executive Vice President/Chief Operating Officer of R. Thomas Ashley, Newport Beach, California. From April 1984 to December 1990, he was President/Chief Executive Officer of Far Western Bank, Tustin, California.

Curtis K. Powell, 41, has been Senior Vice President - Marketing of the Company since April 1995. He joined the Company in January 1993 as an independent marketing representative until being appointed Regional Vice President of Marketing for Southern California in November 1994. From June 1985 through January 1993, Mr. Powell was in the retail automobile sales and leasing business.

Mark A. Creatura, 38, has been Senior Vice President - General Counsel since October 1996. From October 1993 through October 1996, he was Vice President and General Counsel at Urethane Technologies, Inc., a polyurethane chemicals formulator. Mr. Creatura was previously engaged in the private practice of law with the Los Angeles law firm of Troy & Gould Professional Corporation, from October 1985 through October 1993.

Thurman Blizzard, 55, has been Senior Vice President - Collections since January 1998. The Company had previously engaged Mr. Blizzard as a consultant from October 1997 to December 1997 to provide recommendations to the Company concerning its collections operation. Prior thereto, Mr. Blizzard served as Chief Operations Officer of Monaco Finance from May 1994 to March 1997. Mr. Blizzard was previously an Asset Liquidation Manager with the Resolution Trust Corporation, from November 1991 to May 1994.

Michael J. Campbell, 38, has been Senior Vice President - Corporate Development since January 1998. The Company had engaged Mr. Campbell as a consultant from April 1997 to December 1997 to pursue corporate development objectives on the Company's behalf. Prior thereto, Mr. Campbell was chief financial officer of National IPF Company from February 1996 to March 1997, and had served as an investment officer with SunAmerica Corporate Finance from February 1990 to January 1995.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq National Market System, under the symbol "CPSS." The following table sets forth the high and low closing prices reported for the Common Stock for the periods indicated (retroactively adjusted for the two-for-one stock split that occured on March 14, 1996). Such quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission.

	High	Low
January 1 - March 31, 1996	$10.438	$ 7.375
April 1 - June 30, 1996	10.250	8.250
July 1 - September 30, 1996	12.750	7.500
October 1 - December 31, 1996	14.375	10.625
January 1 - March 31, 1997	13.875	7.375
April 1 - June 30, 1997	12.375	7.000
July 1 - September 30, 1997	18.250	10.500
October 1 - December 31, 1997	17.750	7.500

As of March 4, 1998, there were 74 holders of record of the Company's Common Stock.

To date, the Company has not declared or paid any dividends on its Common Stock. The payment of future dividends, if any, on the Company's Common Stock is within the discretion of the Board of Directors and will depend upon the Company's earnings, its capital requirements and financial condition, and other relevant factors. The instruments governing the Company's outstanding debt place certain restrictions on the payment of dividends. The Company does not intend to declare any dividends on its Common Stock in the foreseeable future, but instead intends to retain any earnings for use in the Company's operations.

Item 6. SELECTED FINANCIAL DATA

	Year ended December 31,		Nine-Month Period Ended December 31,	Fiscal Year Ended March 31,	
	1997	1996	1995	1995	1994(1)
	(In Thousands, except per share data)				
Statement of Earnings Data:					
Gain on sale of Contracts, net	$ 39,133	$ 23,321	$ 11,549	$ 9,455	$ 5,425
Interest income	23,526	19,980	9,220	10,561	3,955
Servicing fees	14,487	7,893	3,485	2,489	1,044
Total revenue	79,340	51,194	24,254	22,505	10,424
Operating expenses (1)	47,381	27,502	11,597	11,358	11,712
Net earnings (loss)	18,532	14,097	7,575	6,666	(1,778)
Basic earnings (loss) per share (2)	$ 1.29	$ 1.05	$ 0.65	$ 0.75	$ (0.21)
Diluted earnings (loss) per share (2)	$ 1.17	$ 0.93	$ 0.52	$ 0.61	$ (0.21)

	December 31,			March 31,		
	1997	1996	1995	1995	1994	1993
	(In Thousands)					
Balance Sheet Data:						
Contracts held for sale	68,271	21,657	19,549	21,896	647	5,054
Residual interests in securitization	124,616	67,252	41,586	28,355	12,791	503
Total assets	225,895	101,946	77,878	57,975	16,538	6,922
Warehouse lines of credit	61,666	13,265	7,500	19,730	-	-
Subordinated debt	55,000	23,000	23,000	5,000	5,000	2,000
Total liabilities	143,288	44,989	36,397	30,981	6,337	2,833
Total shareholders' equity	82,607	56,957	41,481	26,994	10,201	4,089

(1) In October 1992, as a condition to the initial public offering of Common Stock of the Company, the then majority shareholder of the Company deposited 1,200,000 shares of Common Stock (the "Escrow Shares") in escrow. The escrow agreement provided that part or all of the Escrow Shares would be released if the Company's net earnings after taxes (as defined in the escrow agreement) or the average market price of the Common Stock for specified periods exceeded specified levels. The Company's net earnings (as defined in the escrow agreement) for fiscal 1994 (prior to the accounting effect of the release of the Escrow Shares) exceeded the specified level and, accordingly, all 1,200,000 Escrow Shares were released. The release of the Escrow Shares was deemed compensatory for accounting purposes, resulting in a one-time, non-cash charge of $6,450,000 against earnings for fiscal 1994. Without that charge, net earnings, basic earnings per share and diluted net earnings per share for fiscal 1994 would have been $4,672,000, $.54 and $.48, respectively.

(2) All prior periods have been restated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share."

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following analysis of the financial condition of the Company should be read in conjunction with "Selected Financial Data" and the Company's Consolidated Financial Statements and the Notes thereto and the other financial data included elsewhere in this report.

Overview

The Company specializes in the business of purchasing, selling and servicing retail automobile installment sales Contracts originated by Dealers in the sale of new and used automobiles, light trucks and passenger vans and has done so since its inception on March 8, 1991. Through its purchases, the Company provides indirect financing to borrowers with limited credit histories, low incomes or past credit problems.

The Company generates earnings primarily from the gains recognized on the sale or securitization of its Contracts, servicing fees earned on Contracts sold, and interest earned on Contracts held for sale. Earnings from gains on sale, interest and servicing fees for the year ended December 31, 1997, were $39.1 million, $23.5 million, and $14.5 million, respectively. Such earnings for the year ended December 31, 1996, were $23.3 million, $20.0 million, and $7.9 million, respectively. For the nine-month period ended December 31, 1995, such earnings were $11.5 million, $9.2 million and $3.5 million, respectively. The Company's income is affected by losses incurred on Contracts, whether such Contracts are held for sale or have been sold in securitizations. The Company's cash requirements have been and will continue to be significant. Net cash used in operating activities for the year, ended December 31, 1997 and 1996, and the nine-month period ended December 31, 1995 were $26.1 million, $8.4 million and $18.5 million, respectively.

The Company purchases Contracts with the primary intention of reselling them to Investors as asset-backed securities through securitizations. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS") which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a Grantor Trust or an Owner Trust (the "Trust"), and the Trust in turn issues interest-bearing asset-backed securities (the "Certificates") generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts at face value and without recourse except that the normal representations and warranties provided by the Dealer to the Company are similarly provided by the Company to the Trust. One or more investors purchase these Certificates; the proceeds from the sale of the certificates are then used to purchase the Contracts from the Company. In addition, the Company provides a credit enhancement for the benefit of the investors in the form of an initial cash deposit to a specific account ("Spread Account") held by the Trust. The Spread Account is required by the Servicing Agreement to be maintained at specified levels.

At the closing of each securitization, the Company removes from its consolidated balance sheet the Contracts held for sale and adds to its consolidated balance sheet (i) the cash received and (ii) the estimated fair value of the portion of the Contracts retained from the securitizations ("Residuals"), which consist of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the discounted cash flows to be received by the Trust in the future. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

The Company is not aware of an active market for the purchase or sale of residuals, and accordingly, the Company determines the estimated fair value of the Residuals by discounting the expected excess cash flows released from the Spread Account (the cash out method) using a discount rate which the Company believes is commensurate with the risks involved. The Company has utilized an effective discount rate of approximately 14% on the estimated cash flows released from the Spread Account to value the Residuals.

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Trusts that represent collections on the Contracts in excess of the amounts required to pay the Certificate principal and interest, the base servicing fees and certain other

fees such as trustee and custodial fees. At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the certificateholders for interest at the pass-through rate on the certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company. If the Spread Account balance is not at the required credit enhancement level the excess cash collected is retained in the Spread Account until the specified level is achieved. Cash held in the various Spread Accounts is invested in either high quality liquid investment securities, as specified in the securitization agreements or, pursuant to certain securitization agreements, is used to make accelerated principal paydowns on the Certificates to create excess collateral (over-collateralization or OC account), which is held by the Trusts on behalf of the Company as the Residual holder. The specified credit enhancement levels are defined in the Servicing Agreements as the Spread Account balance, expressed generally as a percentage of the current collateral principal balance. The Spread Account includes both the cash and OC accounts.

The annual percentage rate ("APR") on the Contracts is relatively high in comparison to the pass through rate on the Certificates; accordingly, the Residuals described above can be a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they impact the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the impact of trends in the industry. The Company has used a constant prepayment estimate of 15%. The Company estimates defaults and default losses using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. In addition, the Company has used default losses of 11.5% to 13.5% as a percentage of the original principal balance over the life of the Contracts.

In future periods, the Company will recognize additional revenue from the Residuals if the actual performance of the Contracts is higher than the original estimate or the Company may increase the estimated fair value of the Residuals. If the actual performance of the Contracts is lower than the original estimate, then an adjustment to the carrying value of the Residuals may be required if the estimated fair value of the Residuals is less than its carrying value.

For the year ended December 31, 1997 the Trusts received $31.7 million in cash flows which was $255,000 in excess of the cash flows estimated to be received by the Trusts during this period. As of December 31, 1997 the Trusts had received cumulatively $4.2 million of cash flows in excess of the amounts estimated for all the Company's securitizations.

For the year ended December 31, 1997, initial deposits to Spread Accounts, cash deposited to Spread Accounts and cash released from Spread Accounts was $20.1 million, $31.7 million, and $15.8 million, respectively. For the year ended December 31, 1996, initial deposits to Spread Accounts, cash deposited to Spread Accounts and cash released from Spread Accounts was $12.3 million, $18.8 million, and $17.9 million, respectively. For the nine-month period ended December 31, 1995, initial deposits to Spread Accounts, cash deposited to Spread Accounts and cash released from Spread Accounts was $4.9 million, $7.6 million, and $7.7 million, respectively.

During 1997 eight of the 21 Trusts incurred cumulative net losses as a percentage of the original contract balance in excess of the predetermined levels specified in the respective Securitization Agreements. Accordingly, pursuant to the Securitization Agreements, the specified credit enhancement levels were increased. As a result of this and certain cross collateralization arrangements excess cash flows that would otherwise have been released to the

Company were retained by the Spread Accounts to bring the balance of those Spread Accounts up to the higher level. Approximately $7.0 million of cash flows were delayed and retained in the Spread Accounts as of December 31, 1997.

The Year Ended December 31, 1997 Compared to the Year Ended December 31, 1996

Results Of Operations

Revenue. During the year ended December 31, 1997, revenue increased $28.1 million, or 55.0%, compared to the year ended December 31, 1996. Gain on sale of Contracts, net, increased by $15.8 million, or 67.8%, and represented 49.3% of total revenue for the year ended December 31, 1997. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the year ended December 31, 1997, the Company sold $573.3 million in Contracts, compared to $341.0 million in the year ended December 31, 1996.

Interest income increased by $3.5 million, or 17.7%, representing 29.7% of total revenues for the year ended December 31, 1997. The increase is due to the increase in the volume of contracts purchased and held for sale. During the year ended December 31, 1997, the Company purchased $632.1 million in Contracts from Dealers, compared to $351.4 million in the year ended December 31, 1996.

Servicing fees increased by $6.6 million, or 83.5%, and represented 18.3% of total revenue. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of December 31, 1997, the Company was earning servicing fees on 77,731 Contracts approximating $830.9 million compared to 45,363 Contracts approximating $483.1 million as of December 31, 1996. In addition to the $830.9 million in sold Contracts on which servicing fees were earned, the Company was holding for sale and servicing an additional $71.8 million in Contracts for an aggregate servicing portfolio of $902.7 million. Amortization of NIRs increased by $7.2 million and represented 59.0% of residual interest income for the year ended December 31, 1997 versus 38.0% for year ended December 31, 1996. The increase is primarily due to the increase in the average age of the Contracts making up the Company's servicing portfolio and consequently the increase in charge-offs and corresponding reduction of residual interest income. The Company expects these increases in the ratio of amortization of NIRs to Residual interest income to continue until the size and average age of the servicing portfolio stabilizes.

Expenses. During the year ended December 31, 1997, operating expenses increased $19.9 million, or 72.3%, compared to the year ended December 31, 1996. Employee costs increased by $7.0 million, or 78.0%, and represented 33.5% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by $6.9 million, or 95.2% and represented 29.9% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased $3.4 million, or 58.9%, and represented 19.4% of total operating expenses. The increase is due in part to the interest paid on an additional $35 million in subordinated debt securities issued by the Company during 1997. Interest expense was also impacted by the volume of Contracts held for sale as well as by the Company's cost of borrowed funds.

During the year ended December 31, 1997, the provision for losses on Contracts held for sale increased by $1.3 million, or 48.4%, and represented 8.6% of total operating expenses. The increase in the provision reflects somewhat higher charge-off rates and a larger volume of Contracts held prior to sale when compared to the year ended December 31, 1996.

Marketing expenses increased by $170,789 or 10.2%, and represented 3.9% of total expenses. The increase is primarily due to the increase in printing, travel, promotion and convention expenses. Fees paid to marketing representatives for their role in the submission of Contracts ultimately purchased by the Company are included as a component in gain on sale of Contracts, net.

Occupancy expenses increased by $635,506 or 82.7%, and represented 3.0% of total expenses. Depreciation and amortization expenses increased by $481,548 or 174.9%, and represented 1.6% of total expenses. During 1997, the Company established a satellite collection branch in Chesapeake, Virginia and leased additional office space near

its headquarters in Irvine, California. This resulted in an increase in base rent expense of $906,066 for the year ended December 31, 1997. The increase in occupancy, depreciation and amortization is due primarily to the establishment of this additional office space and the related furniture, fixtures and equipment. The Company has agreed to lease a new headquarters facility, which is currently under construction. The lease will be for a ten-year term, with base rent of $1,904,400 for the first five years, and $2,097,600 for years six through ten. In addition to base rent, the Company has agreed to pay property taxes, maintenance, and other expenses of the property. Occupancy of the new building can be expected to increase the Company's overall occupancy expenses in the future beginning with commencement of the lease, which will commence upon completion of the building, currently scheduled for September 1998.

The results for the year ended December 31, 1997 include net earnings of $1.2 million from the Company's subsidiary Samco. For the year ended December 31, 1996, Samco incurred a net operating loss of $491,000.

The results for the year ended December 31, 1997 also include net operating losses of $11,000 from the Company's subsidiary LINC. For the year ended December 31, 1996, LINC incurred a net operating loss of $324,000.

In addition, the Company's results for the year ended December 31, 1997, include $88,000 in net operating losses from the Company's subsidiary, CPS Leasing, Inc., which was acquired in January 1997, and $849,000 in net earnings from the Company's investment in 38% of NAB Asset Corp.

The Company's effective tax rate was 42.0% for the year ended December 31, 1997 and 40.5% for the year ended December 31, 1996. See note 11 to the Notes to Consolidated Financial Statements.

The Year Ended December 31, 1996 Compared to the Nine-Month Transition Period Ended December 31, 1995

The Company changed its fiscal year-end from March 31 to December 31, effective with the nine-month period ended December 31, 1995. Accordingly, readers should take into account that the following discussion compares figures for a full twelve month year to a nine-month period. The discussion below does not attempt to explain, for each item discussed, the extent to which the differing length of these periods has affected the figures.

Revenue. During the year ended December 31, 1996, revenue increased $26.9 million, or 111.1%, compared to the nine-month transition period ended December 31, 1995. Gain on sale of Contracts, net, increased by $11.8 million, or 101.9%, and represented 45.6% of total revenue for the year ended December 31, 1996. The increase in gain on sale is largely due to the volume of Contracts which were sold in the period. During the year ended December 31, 1996, the Company sold $341.0 million in Contracts, compared to $155.7 million in the nine-month transition period ended December 31, 1995.

Servicing fees increased by $4.4 million, or 126.5%, and represented 15.4% of total revenue. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of December 31, 1996, the Company was earning servicing fees on 45,363 Contracts approximating $483.1 million compared to 25,398 Contracts approximating $268.2 million as of December 31, 1995. In addition to the $483.1 million in sold Contracts on which servicing fees were earned, the Company was holding for sale and servicing an additional $22.8 million in Contracts for an aggregate servicing portfolio of $505.9 million.

Interest income increased by $10.8 million, or 116.7%, representing 39.0% of total revenues for the year ended December 31, 1996. The increase is due to the increase in the volume of contracts held for sale, and the increase in the amount of sold contracts. During the year ended December 31, 1996, the Company purchased $351.4 million in Contracts from Dealers, compared to $160.1 million in the nine-month transition period ended December 31, 1995.

Expenses. During the year ended December 31, 1996, operating expenses increased $15.9 million, or 137.1%, compared to the nine-month transition period ended December 31, 1995. Employee costs increased by $5.6 million, or 169.6%, and represented 32.4% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by $4.4 million, or 158.9% and represented 26.4% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts. Additionally, general and administrative expenses increased by $595,000 as a result of including the company's share of losses incurred by NAB Asset Corporation, in which the Company made a 38% equity investment on June 6, 1996.

Marketing expenses increased by $447,564, or 36.4%, and represented 6.1% of total expenses. The increase is primarily due to the increase in the volume of contracts purchased as marketing representatives are compensated directly in proportion to the number of Contracts the Company purchases from Dealers serviced by the marketing representative. Additional increases in marketing expense relate to other marketing expenses such as travel, promotion and convention expenses.

Interest expense increased $3.1 million, or 112.2%, and represented 21.0% of total operating expenses. The increase is primarily due to the interest paid on the $20.0 million in subordinated debt securities issued on December 20, 1995. Interest expense was also impacted by the volume of Contracts held for sale as well as by the Company's cost of borrowed funds.

During the year ended December 31, 1996, the provision for losses on Contracts held for sale increased by $1.9 million, or 232.6%, and represented 10.0% of total operating expenses. The increase in the provision reflects somewhat higher charge-off rates and a larger volume of Contracts held prior to sale when compared to the nine-month transition period ended December 31, 1995.

The results for the year ended December 31, 1996 include net operating losses of $491,000 from the Company's subsidiary Samco. The results for the year ended December 31, 1996 also include net operating losses of $324,000 from the Company's subsidiary LINC.

The Company's effective tax rate was 40.5% for the year ended December 31, 1996 and 40.2% for the nine months ended December 31, 1995. See Note 11 to Notes to Consolidated Financial Statements.

Change Of Fiscal Year

In 1995, the Company changed its fiscal year-end from March 31 to December 31. For that reason, the information contained herein compares the fiscal year ended December 31, 1996 to the nine-month transition period ended December 31, 1995. The table below presents summary financial information for fiscal 1997 and 1996 and the twelve months ended December 31, 1995.

	12 Months Ended December 31,		
	1997	1996	1995
	(In thousands, except per share data)		
Revenues:			
Gain on sale of contracts, net	$ 39,133	$ 23,321	$ 13,719
Interest income	23,526	19,980	12,537
Servicing fees	14,487	7,893	4,351
Other	2,194	--	--
	79,340	51,194	30,607
Expenses:			
Marketing, general and administrative and other expenses	17,476	9,769	5,626
Employee costs	15,875	8,921	3,888
Interest	9,184	5,781	3,842
Provision for losses	4,089	2,756	1,008
Depreciation and amortization	757	275	209
	47,381	27,502	14,573
Earnings before income taxes	31,959	23,692	16,034
Income taxes	13,427	9,595	6,440
Net earnings	$ 18,532	$ 14,097	$ 9,594
Basic earnings per share	$ 1.29	$ 1.05	$ 0.86
Diluted earnings per share	$ 1.17	$ 0.93	$ 0.68

Liquidity And Capital Resources

The Company's primary sources of cash from operating activities include servicing fees on portfolios of Contracts it has previously sold, cash flows released from Spread Accounts, proceeds on the sales of Contracts in excess of its recorded investment of the Contracts, borrower payments on Contracts held for sale, and interest earned on Contracts held for sale. The Company's primary uses of cash include its normal operating expenses, the establishment and build-up of Spread Accounts used for credit enhancement to their specified levels, and income taxes.

Net cash used in operating activities was $26.1 million during the year ended December 31, 1997 compared to net cash used of $8.4 million during the year ended December 31, 1996. Cash used for purchasing Contracts was $632.1 million, an increase of $280.7 million, or 79.9%, over cash used for purchasing Contracts in the year ended December 31, 1996. Cash provided from the liquidation of Contracts was $581.4 million, an increase of $234.9 million, or 67.8%, over cash provided from liquidation of Contracts in the year ended December 31, 1996.

The Company's cash requirements have been and will continue to be significant. The Securitization Agreements require the Company to make a significant initial cash deposit, for purposes of credit enhancement, to the Spread Accounts. Excess cash flows from the securitized Contracts are also deposited into the Spread Accounts until such time as the Spread Account balance reaches its requisite level, which is computed as a specified percent of the outstanding balance of the related asset-backed securities or collateral.

During the year ended December 31, 1997, cash used for initial deposits to Spread Accounts was $20.1 million, an increase of $7.8 million, or 63.5%, from the amount of cash used for initial deposits to Spread Accounts in the year ended December 31, 1996. Cash deposited to Spread Accounts for the year ended December 31, 1997, was $31.7 million, an increase of $12.9 million, or 68.6%, over cash deposited to Spread Accounts in the year ended December 31, 1996. The cash deposited in Spread Accounts in 1997 includes $9.6 million of cash used to pay down the senior certificates to create excess collateral in an over-collateralization account. Cash released from Spread Accounts for the year ended December 31, 1997, was $15.8 million, a decrease of $2.1 million, or 11.7%, of cash released from Spread Accounts in the year ended December 31, 1996. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

The Securitization Agreements call for the requisite levels of the various Spread Accounts to increase if the related receivables experience delinquencies, repossessions or net losses in excess of certain predetermined levels. During the Company's history, the predetermined levels have frequently been reached, causing the requisite levels of certain Spread Accounts to be raised. The requisite levels of the Spread Accounts may be returned to the original lower levels if the related receivables delinquency, repossession and net loss performance of the related receivables is reduced below the pre-determined levels. In addition, on two occasions, the parties to the pertinent agreements have made modifications that effectively raised the permissible delinquency, repossession and net loss levels, thus resulting in Spread Accounts reverting to their original requisite levels. As of December 31, 1997, the Spread Accounts for eight of the Company's 21 securitized pools were at higher than original requisite levels due to delinquency, repossession or net loss performance. Such Spread Account balances therefore included approximately $7.0 million more than would have been required at the original requisite levels.

The table below documents the Company's history of Contract securitizations, comprising sales to 21 securitization trusts.

Structured Contract Securitizations

Period Funded	Securitized Dollar Amount	Ratings(1)	Rating Agency	Pool Name
	(In Thousands)			
April 1993	$ 4,990	A	Duff & Phelps	Alton Grantor Trust 1993-1
May 1993	3,933	A	Duff & Phelps	Alton Grantor Trust 1993-1
June 1993	3,467	A	Duff & Phelps	Alton Grantor Trust 1993-1
July 1993	5,575	A	Duff & Phelps	Alton Grantor Trust 1993-2
August 1993	3,336	A	Duff & Phelps	Alton Grantor Trust 1993-2
September 1993	3,578	A	Duff & Phelps	Alton Grantor Trust 1993-2
October 1993	1,921	A	Duff & Phelps	Alton Grantor Trust 1993-2
November 1993	1,816	A	Duff & Phelps	Alton Grantor Trust 1993-3
December 1993	6,694	A	Duff & Phelps	Alton Grantor Trust 1993-3
January 1994	1,998	A	Duff & Phelps	Alton Grantor Trust 1993-3
March 1994	20,787	A	Duff & Phelps	Alton Grantor Trust 1993-4
June 1994	24,592	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-1
September 1994	28,916	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-2
October 1994	13,136	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-3
December 1994	28,893	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1994-4
February 1995	20,084	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-1
June 1995	49,290	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-2
September 1995	45,009	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-3
September 1995	2,369	BB	S&P	CPS Auto Grantor Trust 1995-3
December 1995	53,634	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1995-4
December 1995	2,823	BB	S&P	CPS Auto Grantor Trust 1995-4
March 1996	63,747	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-1
March 1996	3,355	BB	S&P	CPS Auto Grantor Trust 1996-1
June 1996 (2)	84,456	Aaa/AAA	Moody's/S&P	Fasco Auto Grantor Trust 1996-1
June 1996	4,445	BB	S&P	Fasco Auto Grantor Trust 1996-1
September 1996	87,523	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-2
September 1996	4,606	BB	S&P	CPS Auto Grantor Trust 1996-2
December 1996	88,215	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1996-3
December 1996	4,643	BB	S&P	CPS Auto Grantor Trust 1996-3
March 1997	97,211	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1997-1
March 1997	5,116	BB	S&P	CPS Auto Grantor Trust 1997-1
May 1997	113,394	Aaa/AAA	Moody's/S&P	CPS Auto Grantor Trust 1997-2
May 1997	5,968	BB	S&P	CPS Auto Grantor Trust 1997-2
August 1997(3)	142,500	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1997-3
August 1997	7,499	BB	S&P	CPS Auto Receivables Trust 1997-3
October 1997	100,568	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1997-4
October 1997	5,293	BB	S&P	CPS Auto Receivables Trust 1997-4
December 1997	90,925	Aaa/AAA	Moody's/S&P	CPS Auto Receivables Trust 1997-5
December 1997	4,781	BB	S&P	CPS Auto Receivables Trust 1997-5
	$ 1,241,086			

(1) Commencing with the securitization completed on June 28, 1994, the principal and interest due on the asset-backed securities issued by the various grantor trusts have been guaranteed by Financial Security Assurance Inc. ("FSA"), enabling the issuer to obtain Aaa/AAA ratings for the asset-backed securities issued in such transactions. See "Business -- Purchase and Sale of Contracts -- Securitization and Sale of Contracts to Institutional Investors."
(2) Commencing with the securitization completed on June 27, 1996, asset-backed securities with Aaa/AAA ratings have been sold through public offerings pursuant to registration statements filed with the Securities and Exchange Commission.
(3) Commencing with the securitization completed on August 15, 1997, the Company began using an "owner trust" structure rather than the "grantor trust" structure that had been used on all previous securitizations.

The Company funds its daily purchases of Contracts by use of two warehouse lines of credit. Borrowings under those lines of credit rise as the Company purchases Contracts and then are substantially repaid when the Company completes a Contract securitization. Such securitizations and substantial repayments have occurred at least once each quarter during the past three fiscal years.

Under one of the two warehouse lines of credit, the Company borrows from Redwood Receivables Corporation ("Redwood"), with the loans funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. A standby line of credit with General Electric Capital Corporation ("GECC") is available if, but only if, Redwood does not provide funding as described above. It has never been necessary to draw on the standby line, which is secured by Contracts and substantially all the other assets of the Company. The Redwood/GECC line has an aggregate maximum lending amount of $100.0 million. The maximum amount outstanding under the Redwood/GECC line in 1997 was $100.0 million and the average was $51.3 million. The Company's other warehouse line of credit was opened in December 1997. Under this second line of credit, an affiliate of First Union Capital Markets lends to the Company, with the loans funded by commercial paper issued by that affiliate, and secured by Contracts pledged periodically by the Company. The First Union line has a maximum lending amount of $150.0 million. Interest under each line is at a variable rate, indexed to prevailing rates for commercial paper. The two lines together had an outstanding balance of $61.7 million at December 31, 1997, as compared to $13.3 million under the Redwood/GECC line alone at December 31, 1996. The Company uses the warehouse lines of credit in tandem, pledging specific Contracts to each lender alternatively.

In August 1997, to supplement its working capital resources the Company entered into a line of credit agreement (the "Stanwich Line"), with Stanwich Financial Services Corp. ("SFSC"). SFSC is a financial services company that was owned by Stanwich Holdings, Inc. ("Stanwich Holdings") at the time. Charles E. Bradley, Sr., Charles E. Bradley, Jr., and John G. Poole, who are officers and directors of the Company, collectively owned 92.5% of the common stock of Stanwich Holdings at the time of the transaction, and Mr. Bradley, Sr., was the president and a director of Stanwich Holdings. Under the Stanwich Line, SFSC agreed to lend up to $25 million to the Company from time to time upon request, through December 19, 1997. Any amount outstanding at December 31, 1997, would be due at that time. Borrowings under the Stanwich Line bore interest at the rate of 10% per annum, and the Company paid a $250,000 (one percent) commitment fee to SFSC in connection with opening the line of credit. The Company drew the full amount of the line at its inception, none of which remained outstanding at December 31, 1997. NAB Asset Corp. purchased all outstanding stock of Stanwich Holdings on March 2, 1998.

The Company funds the increase in its servicing portfolio through off balance sheet securitization transactions, as discussed above, and funds its other capital needs with cash from operations and with the proceeds from the issuance of long-term debt. During the year ended December 31, 1997, the Company completed five securitization transactions, issued $20 million of 10.50% Participating Equity Notes due 2004 ("PENs") and borrowed $15 million in an unsecured related party loan due 2004 ("RPL").

The PENs are long-term subordinated debt instruments issued in a registered public offering in April 1997. After deduction of underwriting commissions, the proceeds of that offering were $18.8 million. The PENs have a 10.5% fixed coupon rate of interest per annum, payable monthly beginning May 15, 1997. The fixed interest rate payable on the PENs may be considered comparable to the rising interest rate payable on the $20 million of debt securities (Rising Interest Subordinated Redeemable Securities or "RISRS") that the Company issued in December 1995: the RISRS interest rate was 10.25% per annum throughout 1997 and will rise by .25% per annum in each

calendar year through 2004, and then by an additional .50% per annum for the final year prior to maturity on December 31, 2005. The RISRS may be redeemed without premium at any time after January 1, 2000, and the PENs may be redeemed without premium at any time after April 15, 2000. The PENs are also partially convertible into equity. At maturity or earlier redemption of the PENs, the holders thereof will have the option to convert 25% of the principal amount into common stock of the Company, at a conversion rate of $10.15 per share.

The RPL is long-term subordinated debt representing $15 million borrowed in June 1997 from SFSC. The RPL has a fixed rate of interest of 9% per annum, payable monthly beginning July 1997. The Company may pre-pay the RPL without penalty at any time on or after June 12, 2000. At maturity or early repayment of the RPL, the holder thereof will have the option to convert 20% of the principal amount into common stock of the Company, at a conversion rate of $11.86 per share. In conjunction with the RPL, in May 1997, the Company entered into two additional transactions; (i) the Company purchased $14.5 million of preferred stock of Stanwich Holdings, with dividends cumulative at the rate of 9% per annum and redeemable at an aggregate price of $14.6 million, plus accrued dividends, and (ii) the Company borrowed $14.5 million with interest at 8% per annum under a 60-day related party loan from SFSC. In August 1997, the Company received $14.9 million in redemption of the preferred stock of Stanwich Holdings and repaid the 60-day related party loan in its entirety.

The Company anticipates that the proceeds from the PENs, the RPL, funds available under the two warehouse lines, proceeds from the sale of Contracts and cash from operations will be sufficient to satisfy the Company's estimated cash requirements for the next twelve months, assuming that the Company continues to have a means by which to sell its warehoused Contracts. If for any reason the Company is unable to sell its Contracts, or if the Company's available cash otherwise proves to be insufficient to fund operations (because of future changes in the industry, general economic conditions, unanticipated increases in expenses, or other factors), the Company may be required to seek additional funding.

In addition to capital required for the Company's existing business and its growth, the Company may require additional capital resources if it should choose to expand its operations by acquisition of other businesses. Although the Company has no commitments to make any acquisition, it does regularly review proposals to make acquisitions in the financial services field.

There can be no assurance that such additional financing, if required, will be available to the Company, nor can there be any assurance as to the cost of any such financing that may be available. The Company is exploring the possibility of issuing additional debt to provide additional capital, but has no commitment to do so.

In January 1997, the Company acquired a company engaged in the equipment leasing business. Any material growth in that subsidiary's business will require significant capital resources, to allow that subsidiary to purchase equipment for lease. In March 1997, the leasing company obtained a $5 million line of credit to purchase equipment for lease.

Forward-Looking Statements

The descriptions of the Company's business and activities set forth in this report and in other past and future reports and announcements by the Company may contain forward-looking statements and assumptions regarding the future activities and results of operations of the Company. Actual results may be adversely affected by various factors including the following: increases in unemployment or other changes in domestic economic conditions which adversely affect the sales of new and used automobiles and may result in increased delinquencies, foreclosures and losses on Contracts; adverse economic conditions in geographic areas in which the Company's business is concentrated; changes in interest rates, adverse changes in the market for securitized receivables pools, or a substantial lengthening of the Company's warehousing period, each of which could restrict the Company's ability to obtain cash for new Contract originations and purchases; increases in the amounts required to be set aside in Spread Accounts or to be expended for other forms of credit enhancement to support future securitizations; the reduction or unavailability of warehouse lines of credit which the Company uses to accumulate Contracts for securitization transactions; increased competition from other automobile finance sources; reduction in the number and amount of acceptable Contracts submitted to the Company by its automobile Dealer network; changes in government regulations affecting consumer credit; and other economic, financial and regulatory factors beyond the Company's control. A further discussion of factors that may cause actual results to differ, or may otherwise have an adverse effect on the Company's financial condition or results of operations, is contained in the exhibit to this report titled "risk factors," incorporated herein by this reference.

New Accounting Pronouncements

The Company has adopted in 1997 and will adopt in future periods new accounting pronouncements. For information on how adoption has and will affect the Financial Statements, see Note 1 of Notes to Consolidated Financial Statements.

Year 2000

The Company has performed an examination of its major software applications to ensure that each system is prepared to accommodate the year 2000. This examination included a review of program code which is maintained by the Company as well as obtaining confirmation from outside software vendors that their products are year 2000 compliant. In addition, the Company has communicated with firms with whom it does significant business to determine their readiness for the year 2000. The Company believes that based on their current examination that the year 2000 will not have a material adverse impact on the Company's operations. However, there can be no assurance that software incompatibility with the year 2000 on the part of the Company or any of its significant suppliers will not have a material adverse effect on the Company.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

This report includes Consolidated Financial Statements, Notes thereto and an Independent Auditors' Report, at the pages indicated below. Certain unaudited quarterly financial information is included in the Notes to Consolidated Financial Statements, as Note 15.

INDEX TO FINANCIAL STATEMENTS

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

Information regarding directors of the registrant is incorporated by reference to the registrant's definitive proxy statement for its annual meeting of shareholders to be held in 1998 (the "1998 Proxy Statement"). The 1998 Proxy Statement will be filed not later than April 30, 1997. Information regarding executive officers of the registrant appears in Part I of this report, and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Incorporated by reference to the 1998 Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference to the 1998 Proxy Statement.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference to the 1998 Proxy Statement.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The financial statements listed above under the caption "Index to Financial Statements" are filed as a part of this report. No financial statement schedules are filed as the required information is inapplicable or the information is presented in the consolidated financial statements or the related notes. Separate financial statements of the Company have been omitted as the Company is primarily an operating company and its subsidiaries are wholly owned and do not have minority equity interests and/or indebtedness to any person other than the Company in amounts which together exceed 5% of the total consolidated assets as shown by the most recent year-end consolidated balance sheet.

The following exhibits are filed as part of this report:

3.1 Restated Articles of Incorporation (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)

3.2 Amended and Restated Bylaws. (filed herewith)

4.1 Indenture re Rising Interest Subordinated Redeemable Securities ("RISRs") (incorporated by reference to exhibit filed with registrant's report on Form 8-K filed December 26, 1995)

4.2 First Supplemental Indenture re RISRs (incorporated by reference to exhibit filed with registrant's report on Form 8-K filed December 26, 1995)

4.3 Form of Indenture re 10.50% Participating Equity Notes ("PENs") (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3, no. 333-21289)

4.4 Form of First Supplemental Indenture re PENs (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3, no.333-21289)

10.1 1991 Stock Option Plan & forms of Option Agreements thereunder (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated March 31, 1994)

10.2 1997 Long-Term Incentive Stock Plan (filed herewith)

10.3 Purchase Agreement relating to PENs. (incorporated by reference to exhibit filed with registrant's registration statement on Form S-3 no. 333-21289)

10.4 Lease Agreement, First Amendment to Lease, Assignment and Assumption of Lease (incorporated by reference to exhibit filed with registrant's registration statement on Form S-1, no. 33-49770)

10.5 Amendment #2 to Lease Agreement, First Amendment to Lease and Assignment and Assumption of Lease. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB, dated March 31, 1995.

10.6 Lease Agreement re Chesapeake Collection Facility. (incorporated by reference to exhibit filed with registrant's report on Form 10-K dated December 31, 1996)

10.7 Consulting Agreement. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)

10.8 Agreement to Build and Lease Headquarters Building. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)

10.9 Lease of Headquarters Building. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)

10.10 Amended and Restated Motor Vehicle Installment Contract Loan and Security Agreement re Redwood Warehouse Line. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)

10.11 The Receivables Funding and Servicing Agreement re Redwood Warehouse Line. (incorporated by reference to exhibit filed with registrant's report on Form 10-KSB dated December 31, 1995)

10.12 Partially Convertible Subordinated Note. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)

10.13 Registration Rights Agreement. (incorporated by reference to exhibit filed with registrant's report on Form 10-Q dated September 30, 1997)

10.14 Receivables Funding and Servicing Agreement relating to First Union Warehouse Line (filed herewith)

10.15 Receivables Transfer Agreement relating to First Union Warehouse Line (filed herewith)

10.16 Line of Credit Note Issued to Stanwich Financial Services Corp. (filed herewith)

21.1 Subsidiaries of the Company. (filed herewith)

23.1 Consent of independent auditors. (filed herewith)

27 Financial Data Schedule. (filed herewith)

99.1 Cautionary Statement. (filed herewith)

(b) REPORTS ON FORM 8-K

During the last quarter of the fiscal year ended December 1997, three reports on Form 8-K were filed by the Company. Each such Form 8-K reports (i) related to one of the Company's securitization transactions, (ii) reported under Item 5 thereof that certain exhibits were filed, and (iii) included such exhibits pursuant to Item 7 thereof. No financial statements were filed with any of such reports on Form 8-K. The first of the three reports, dated October 14, 1997 and filed October 17, 1997 related to the Company's October 1997 securitization transaction. The second report, dated August 19, 1997 and filed November 12, 1997, related to the Company's August 1997 securitization transaction. The third report, filed December 4, 1997 and dated December 2, 1997, related to the Company's December 1997 securitization transaction.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

By: /s/ Charles E. Bradley, Jr. Date: March 9, 1998

Charles E. Bradley, Jr., President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Charles E. Bradley, Sr. Date: March 9, 1998

Charles E. Bradley, Sr.
Chairman of the Board

By: /s/ Charles E. Bradley, Jr. Date: March 9, 1998

Charles E. Bradley, Jr., Director, President and
Chief Executive Officer (Principal Executive Officer)

By: /s/ William B. Roberts Date: March 9, 1998

William B. Roberts, Director

By: /s/ John G. Poole Date: March 9, 1998

John G. Poole, Director

By: /s/ Thomas L. Chrystie Date: March 9, 1998

Thomas L. Chrystie, Director

By: /s/ Robert A. Simms Date: March 9, 1998

Robert A. Simms, Director

By: /s/ Jeffrey P. Fritz Date: March 9, 1998

Jeffrey P. Fritz, Chief Financial Officer
(Principal Financial Officer)

By: /s/ James L. Stock Date: March 9, 1998

James L. Stock, Controller
(Principal Accounting Officer)

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Consumer Portfolio Services, Inc.:

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended December 31, 1997 and 1996, and for the nine-month period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for the years ended December 31, 1997 and 1996, and for the nine-month period ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Orange County, California
February 18, 1998

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31, 1997	December 31, 1996
ASSETS (note 12)		
Cash	$ 1,745,200	$ 153,958
Contracts held for sale (note 2)	68,271,200	21,656,773
Servicing fees receivable	5,424,645	3,086,194
Residual interest in securitizations (note 3)	124,615,504	67,251,933
Furniture and equipment, net (note 7)	3,128,085	629,774
Taxes receivable (note 11)	1,527,861	610,913
Deferred financing costs (note 12)	1,840,018	943,222
Investment in unconsolidated affiliates (note 8)	3,892,224	2,263,768
Related party receivables (note 8)	7,295,400	1,308,194
Other assets (note 8)	8,155,107	4,041,691
	$225,895,244	$101,946,420
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable & accrued expenses	$ 10,426,880	$ 1,697,051
Warehouse lines of credit (note 12)	61,665,583	13,264,585
Deferred tax liability (note 11)	13,142,843	7,027,251
Capital lease obligation (note 10)	1,492,122	--
Notes payable (note 12)	1,505,593	--
Subordinated debt (note 12)	40,000,000	23,000,000
Related party debt (note 8)	15,055,431	--
	143,288,452	44,988,887
Shareholders' Equity (notes 9 and 12)		
Preferred stock, $1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, $1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 15,210,042 and 13,779,242 shares issued and outstanding at December 31, 1997 and December 31, 1996, respectively	42,261,410	34,644,314
Note receivable from exercise of options	(500,000)	--
Retained earnings	40,845,382	22,313,219
	82,606,792	56,957,533
Commitments and contingencies (notes 2, 3, 5, 10, 11, 12 and 13)		
	$225,895,244	$101,946,420

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Earnings

	Year Ended December 31,		Nine Months Ended December 31,
	1997	1996	1995
Revenues:			
Gain on sale of contracts, net (notes 3 and 4)	$39,133,475	$23,321,015	$11,549,413
Interest income (note 5)	23,525,579	19,979,775	9,220,397
Servicing fees	14,487,429	7,893,013	3,484,903
Other (note 8)	2,193,106	--	--
	79,339,589	51,193,803	24,254,713
Expenses:			
Employee costs	15,875,404	8,920,521	3,309,139
General and administrative (note 8)	14,146,982	7,247,011	2,799,599
Interest	9,184,463	5,780,529	2,724,403
Provision for credit losses (note 2)	4,088,504	2,755,803	828,458
Marketing	1,849,463	1,678,674	1,231,110
Occupancy	1,404,027	768,521	267,641
Depreciation and amortization	756,896	275,348	174,555
Related party consulting fees (note 8)	75,000	75,000	262,500
	47,380,739	27,501,407	11,597,405
Earnings before income taxes	31,958,850	23,692,396	12,657,308
Income taxes (note 11)	13,426,687	9,595,020	5,082,186
Net earnings	$18,532,163	$14,097,376	$ 7,575,122
Earnings per share (note 1):			
Basic	$ 1.29	$ 1.05	$ 0.65
Diluted	$ 1.17	$ 0.93	$ 0.52
Number of shares used in computing earnings per share (note 1):			
Basic	14,332,008	13,489,241	11,582,625
Diluted	16,052,703	15,329,582	14,803,592

See accompanying notes to consolidated financial statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Note Receivable from Exercise of Options	Retained Earnings	Total
Balance at March 31, 1995	--	$ --	10,820,800	$26,353,637	$ --	$ 640,721	$26,994,358
Common stock issued upon exercise of warrants (note 9)	--	--	100,534	301,602	--	--	301,602
Common stock issued upon exercise of options (note 9)	--	--	1,843,974	4,610,000	--	--	4,610,000
Common stock issued upon conversion of debt (note 12)	--	--	533,334	2,000,000	--	--	2,000,000
Net earnings	--	--	--	--	--	7,575,122	7,575,122
Balance at December 31, 1995	--	--	13,298,642	33,265,239	--	8,215,843	41,481,082
Common stock issued upon exercise of warrants (note 9)	--	--	86,000	258,000	--	--	258,000
Common stock issued upon exercise of options (note 9)	--	--	394,600	1,121,075	--	--	1,121,075
Net earnings	--	--	--	--	--	14,097,376	14,097,376
Balance at December 31, 1996			13,779,242	34,644,314	--	22,313,219	56,957,533
Common stock issued upon exercise of warrants (note 9)	--	--	14,000	42,000	--	--	42,000
Common stock issued upon exercise of options (note 9)	--	--	936,800	2,464,300	(500,000)	--	1,964,300
Common stock issued upon conversion of debt (note 12)	--	--	480,000	3,000,000	--	--	3,000,000
Income tax benefit from exercise of options (note 11)	--	--	--	2,110,796	--	--	2,110,796
Net earnings	--	--	--	--	--	18,532,163	18,532,163
Balance at December 31, 1997	--	$ --	15,210,042	$42,261,410	$(500,000)	$40,845,382	$82,606,792

See accompanying notes to consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Year Ended December 31,		Nine-Month Period Ended December 31,
	1997	1996	1995
Cash flows from operating activities:			
Net earnings	$ 18,532,163	$ 14,097,376	$ 7,575,122
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	756,896	275,348	174,555
Amortization of net interest receivables	13,309,995	6,119,219	2,023,938
Amortization of deferred financing costs	268,155	157,208	5,265
Provision for credit losses	4,088,504	2,755,803	828,458
NIR gains recognized	(34,767,175)	(18,665,429)	(7,977,828)
Loss on sale of fixed asset	13,449	--	--
(Gain) loss on investment in unconsolidated affiliates	(912,000)	595,352	--
Gain on redemption of related party preferred stock	(145,000)	--	--
Changes in operating assets and liabilities:			
Purchases of contracts held for sale	(632,096,553)	(351,350,070)	(160,150,781)
Liquidation of contracts held for sale	581,393,622	346,486,336	156,890,700
Servicing fees receivable	(2,338,451)	(1,631,487)	(658,385)
Initial deposits to spread accounts	(20,064,059)	(12,270,168)	(4,931,325)
Deposits to spread accounts and overcollateralization accounts	(31,688,820)	(18,790,430)	(7,553,086)
Release of cash from spread accounts	15,846,488	17,940,919	7,693,839
Deferred taxes	6,115,592	5,383,997	2,199,068
Other assets	(2,146,431)	(2,053,460)	(425,695)
Accounts payable and accrued expenses	8,268,594	355,146	(131,382)
Warehouse line of credit	48,400,998	5,764,585	(12,230,389)
Taxes payable/receivable	1,032,196	(3,522,997)	(1,865,464)
Net cash used in operating activities	(26,131,837)	(8,352,752)	(18,533,390)
Cash flows from investing activities:			
Proceeds from sale of subordinated certificates	--	2,022,220	--
Related party receivables	(9,987,206)	(1,308,194)	--
Repayment of related party receivables	4,000,000	--	--
Purchase of related party preferred stock	(14,500,000)	--	--
Proceeds from sale of related party preferred stock	14,645,000	--	--
Investment in unconsolidated affiliate	(716,456)	(4,277,407)	--
Purchases of furniture and equipment	(1,031,561)	(356,587)	(263,496)
Payments received on subordinated certificates	--	152,446	118,764
Purchase of subsidiary, net of cash acquired	92,336	--	--
Net cash used in investing activities	(7,497,887)	(3,767,522)	(144,732)
Cash flows from financing activities:			
Issuance of promissory notes	--	--	2,000,000
Issuance of notes to related party	54,500,000	--	2,000,000
Issuance of subordinated debt	20,000,000	--	20,000,000
Repayment of capital lease obligations	(165,955)	--	--
Repayment of notes payable	(9,859)	--	(2,000,000)
Repayment of related party debt	(39,944,569)	--	(2,000,000)
Payment of financing costs	(1,164,951)	--	(1,105,695)
Exercise of options and warrants	2,006,300	1,379,075	4,911,602
Net cash provided by financing activities	35,220,966	1,379,075	23,805,907
Increase (decrease) in cash	1,591,242	(10,741,199)	5,127,785
Cash at beginning of period	153,958	10,895,157	5,767,372
Cash at end of period	$ 1,745,200	$ 153,958	$ 10,895,157
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 8,475,925	$ 5,213,912	$ 2,542,718
Income taxes	$ 6,203,740	$ 6,679,000	$ 4,759,050
Supplemental disclosure of non-cash investing and financing activities:			
Issuance of common stock upon conversion of debt	$ 3,000,000	$ --	$ 2,000,000
Investment in subordinated certificates	$ --	$ --	$ 4,779,166
Note receivable from exercise of options	$ 500,000	$ --	$ --
Income tax benefit from exercise of options	$ 2,110,796	$ --	$ --
Furniture and equipment acquired through capital leases	$ 1,658,077	$ --	$ --
Purchase of CPS Leasing, Inc.			
Assets acquired	$ 2,718,338	$ --	$ --
Liabilities assumed	(2,638,338)	--	--
Cash paid to acquire business	80,000	--	--
Less: cash acquired	(172,336)		
Net cash received upon acquisition	$ (92,336)	$ --	$ --

See accompanying notes to consolidated financial statements

(1) Summary of Significant Accounting Policies

Description of Business

Consumer Portfolio Services, Inc. ("CPS") was incorporated in California on March 8, 1991. CPS and its subsidiaries (collectively, the "Company") engage primarily in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by dealers located throughout the United States. The Company specializes in Contracts with borrowers who generally would not be expected to qualify for traditional financing such as that provided by commercial banks or automobile manufacturers' captive finance companies. The Company's headquarters and principal collection facilities are located in Irvine, California and a satellite collection facility is located in Chesapeake, Virginia. The Company has purchased Contracts from dealers in California since its inception. During the year ended December 31, 1997, Contract purchases relating to borrowers who resided in California totaled 18.1% of all Contract purchases. Moreover, at December 31, 1997, borrowers who resided in California made up 23.9% of the servicing portfolio of Contracts serviced by the Company. A significant adverse change in the economic climate in California or other states could result in fewer Contracts available for sale and potentially less revenue.

Principles of Consolidation

The consolidated financial statements include the accounts of Consumer Portfolio Services, Inc. and its wholly-owned subsidiaries, CPS Marketing Corp., Alton Receivables Corp. ("Alton"), CPS Receivables Corp. ("CPSRC"), CPS Funding Corp. ("CPSFC") and CPS Warehouse Corp. ("CPSWC"). Alton, CPSRC, CPSFC and CPSWC are limited purpose corporations formed to accommodate the structures under which the Company purchases and sells its Contracts. CPS Marketing Corp. employs marketing representatives who solicit business from dealers. The consolidated financial statements also include the accounts of SAMCO Acceptance Corp., LINC Acceptance Company, LLC, and CPS Leasing Inc., each of which are 80% owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in unconsolidated affiliates which are not majority owned are reported using the equity method. The excess of the cost of the stock over the Company's share of the net assets at the acquisition date ("goodwill") is being amortized over a period of up to fifteen years.

Prior to December 11, 1995, the Company was a majority-owned subsidiary of CPS Holdings, Inc., a Delaware corporation ("Holdings"). In September 1995, the shareholders of the Company approved the merger of Holdings into the Company. The merger was completed on December 11, 1995, and had no effect on the Company's consolidated financial statements. Prior to the merger, Charles E. Bradley, Sr., the Company's Chairman of the Board, was the principal shareholder of Holdings.

Contracts Held for Sale

Contracts held for sale include automobile installment sales contracts on which interest is precomputed and added to the face of the loan. The interest on precomputed contracts is included in unearned financed charges. Unearned financed charges are amortized using the interest method over the remaining period to contractual maturity. Contracts held for sale are stated at the lower of cost or market value. Market value is determined by purchase commitments from investors and prevailing market prices. Gains and losses are recorded as appropriate when Contracts are sold. The Company considers a transfer of Contracts where the Company surrenders control over the Contracts a sale to the extent that consideration other than beneficial interests in the transferred Contracts is received in exchange for the Contracts.

On January 1, 1997, the Company adopted Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 125 ("SFAS No. 125"), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. As a result of adopting SFAS No. 125 the Company reclassified "Investment in Credit Enhancement" (Spread Account) and "Excess Servicing Fee Receivable" (NIR Receivable) to Residual Interests in Securitizations. The adoption of SFAS No. 125 did not have a material effect on the operations of the Company.

Allowance for Credit Losses

The Company provides an allowance for credit losses which management believes provides adequately for known and inherent losses that may develop in the Contracts held for sale. Management evaluates the

adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of underlying collateral, and general economic conditions and trends.

Contract Acquisition Fees and Discounts

Upon purchase of a Contract from a Dealer, the Company generally charges the dealer an acquisition fee or purchases the Contract at a discount from its face value. The acquisition fees and discounts associated with Contract purchases are deferred until the Contracts are sold at which time the deferred acquisition fees or discounts are recognized as a component of the gain on sale.

Investments

The Company determines the appropriate classification of its investments in debt securities at the time of purchase or creation. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available for sale. Securities available for sale are carried at fair value, with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of premiums and accretion of discounts, over the estimated life of the security. Such amortization and interest earned on the debt securities are included in interest income.

Residual Interests in Securitizations and Gain on Sale of Contracts

The Company purchases Contracts with the primary intention of reselling them to Investors as asset-backed securities through securitizations. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS") which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a Grantor or Owners Trust (the "Trust"), and the Trust in turn issues interest-bearing asset-backed securities (the "Certificates") generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts at face value and without recourse except that the normal representations and warranties provided by the dealer to the Company are similarly provided by the Company to the Trust. One or more investors purchase these Certificates; the proceeds from the sale of the certificates are then used to purchase the Contracts from the Company. In addition, the Company provides a credit enhancement for the benefit of the investors in the form of an initial cash deposit to a specific account ("Spread Account") held by the Trust. The Spread Account is required by the servicing agreement (the Company's servicing agreements are collectively referred to as the "Servicing Agreements") to be maintained at specified levels.

At the closing of each securitization, the Company removes from its consolidated balance sheet the Contracts held for sale and adds to its consolidated balance sheet (i) the cash received and (ii) the estimated fair value of the portion of the Contracts retained from the securitizations ("Residuals"), which consist of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the discounted cash flows to be received by the Trust in the future. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

The Company allocates its basis in the Contracts between the portion of the Contracts sold through the certificates and the portion retained (the Residuals) based on the relative fair values of those portions on the date of the sale. The Company may recognize gains or losses attributable to the change in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as "held-for-trading" securities. The Company is not aware of an active market for the purchase or sale of residuals, and accordingly, the Company determines the estimated fair value of the Residuals by discounting the expected cash flows released from the Spread Account (the cash out method) using a discount rate which the Company believes is commensurate with the risks involved. The Company has utilized an effective discount rate of approximately 14% on the estimated cash flows released from the Spread Account to value the Residuals.

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay the Certificate principal and interest, the base servicing fees and certain other fees such as trustee and custodial fees. At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company. If the Spread Account balance is not at the required credit enhancement level the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts and OC accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in either high quality liquid investment securities, as specified in the Servicing Agreements or pursuant to certain Servicing Agreements used to make accelerated principal paydowns on the certificates to create excess collateral (over-collateralization or OC Account) which is held by the Trusts on behalf of the Company as the Residual holder. The specified credit enhancement levels are defined in the Servicing Agreements as the Spread Account balance expressed generally as a percentage of the current collateral principal balance. The Spread Account includes both qualified investment and OC accounts (see note 3).

The Annual Percentage Rate ("APR") on the Contracts is relatively high in comparison to the pass through rate on the certificates, accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they impact the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the impact of trends in the industry. The Company has used a constant prepayment estimate of 15%. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. The Company used default losses of 11.5% to 13.5% as a percentage of the original principal balance over the life of the Contracts.

In future periods, the Company will recognize additional revenue from the Residuals if the actual performance of the Contracts is higher than the original estimate or the Company may increase the estimated fair value of the Residuals. If the actual performance of the Contracts is lower than the original estimate, then an adjustment to the carrying value of the Residuals may be required if the estimated fair value of the Residuals is less than its carrying value.

Servicing

Servicing fees are reported as income when earned. Servicing costs are charged to expense as incurred. Servicing fee receivables represent fees earned but not yet remitted to the Company by the trustee.

Furniture and Equipment

Furniture and equipment are stated at cost net of accumulated depreciation which is calculated using the straight-line method over the estimated useful lives of the assets. Assets held under capital leases and leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms.

Earnings per Share

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128"). This statement replaces the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any diluted effects of options. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts have been restated to conform to the SFAS No. 128 requirements.

The following table illustrates the computation of basic and diluted earnings per share:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Numerator:			
Numerator for basic earnings per share -- net earnings	$18,532,163	$14,097,376	$ 7,575,122
Interest on borrowings, net of tax effect on conversion of convertible subordinated debt	313,055	169,575	127,823
Numerator for diluted earnings per share	$18,845,218	$14,266,951	$ 7,702,945
Denominator:			
Denominator for basic earnings per share -- weighted average number of common shares outstanding during the period	14,332,008	13,489,241	11,582,625
Incremental common shares attributable to exercise of outstanding options and warrants	1,211,498	1,360,341	2,740,967
Incremental common shares attributable to conversion of subordinated debt	509,197	480,000	480,000
Denominator for diluted earnings per share	16,052,703	15,329,582	14,803,592
Basic earnings per share	$ 1.29	$ 1.05	$ .65
Diluted earnings per share	$ 1.17	$ .93	$ .52

Income Taxes

The Company and its subsidiaries file a consolidated Federal income and combined state franchise tax return. The Company utilizes the asset and liability method of accounting for income taxes under which deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has accounted for income taxes in this manner since its inception.

Stock Split

On February 16, 1996, the Board of Directors authorized a two-for-one stock split to be distributed on or about March 14, 1996, to shareholders of record on March 7, 1996. All references in the consolidated financial statements to number of shares, per share amounts and market prices of the Company's common stock have been retroactively restated to reflect the increased number of common shares outstanding.

Stock Option Plan

As permitted by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), the Company accounts for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"

and related interpretations. The Company provides the pro forma net earnings, pro forma earnings per share, and stock based compensation plan disclosure requirements set forth in SFAS No. 123.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company reviews identifiable intangibles, goodwill and other long-lived assets for impairment whenever events or circumstances indicate the carrying amounts may not be recoverable. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of an asset, an impairment loss is recognized.

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Nos. 130 and 131, "Reporting Comprehensive Income" ("SFAS No. 130") and "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"), respectively (collectively, the "Statements"). The Statements are effective for fiscal years beginning after December 15, 1997. SFAS No. 130 established standards for reporting of comprehensive income and its components in annual financial statements. SFAS No. 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption of SFAS No. 130 and SFAS No. 131, respectively. Application of the Statements' requirements is not expected to have a material impact on the Company's consolidated financial position, results of operations or liquidity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. Specifically, a number of estimates were made in connection with the recording of the allowance for credit losses and Residuals and the related gain. Actual results could differ from those estimates.

Reclassification

Certain amounts for the prior periods have been reclassified to conform to the current presentation.

(2) Contracts Held for Sale

The following table presents the components of Contracts held for sale:

	December 31, 1997	December 31, 1996
Gross receivable balance	$ 81,905,819	$ 28,095,461
Unearned finance charges	(10,077,417)	(5,268,107)
Deferred acquisition fees and discounts	(1,091,761)	(447,492)
Allowance for credit losses	(2,465,441)	(723,089)
Net contracts held for sale	$ 68,271,200	$ 21,656,773

The following table presents the activity in the allowance for credit losses:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Balance, beginning of period	$ 723,089	$ 330,156	$ 323,631
Provisions	4,088,504	2,755,803	828,458
Charge-offs	(2,935,010)	(2,755,303)	(1,076,982)
Recoveries	588,858	392,433	255,049
Balance, end of period	$ 2,465,441	$ 723,089	$ 330,156

The Company is required to represent and warrant certain matters with respect to the Contracts sold to investors, which generally duplicate the substance of the representations and warranties made by the dealers in connection with the Company's purchase of the Contracts. In the event of a breach by the Company of any representation or warranty, the Company is obligated to repurchase the Contracts from the investors at a price equal to the investors' purchase price less the related credit enhancement and any principal payments received from the borrower. In most cases, the Company would then be entitled under the terms of its agreements with dealers to require the selling dealer to repurchase the Contracts at the Company's purchase price less any principal payments received from the borrower.

As of December 31, 1997, the Company had commitments to purchase $3,773,738 of Contracts from Dealers in the ordinary course of business.

(3) Residual Interests in Securitizations

The following table presents the components of the residual interest in securitizations:

	December 31, 1997	December 31, 1996
Funds held by investor	$ 578,710	$ 1,263,660
Investment in subordinated certificates	790,516	1,530,950
Cash, commercial paper, US government securities and other qualifying investments (Spread Account)	68,513,454	40,802,862
OC accounts	9,621,183	--
NIRs	45,111,641	23,654,461
	$ 124,615,504	$ 67,251,933

The following table presents the activity of the NIRs :

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Balance, beginning of period	$ 23,654,461	$ 11,108,251	$ 5,154,361
NIR gains recognized (note 4)	34,767,175	18,665,429	7,977,828
Amortization of NIRs (note 5)	(13,309,995)	(6,119,219)	(2,023,938)
Balance, end of period	$ 45,111,641	$ 23,654,461	$ 11,108,251

The following table presents the estimated credit losses as a percentage of the Company's servicing portfolio subject to recourse provisions:

	December 31,		
	1997	1996	1995
Estimated credit losses.....	$ 90,814,217	$ 45,880,979	$ 25,363,061
Servicing subject to recourse provisions.....	$830,918,120	$483,106,256	$268,163,150
Estimated credit losses as percentage of servicing subject to recourse provisions...	10.93%	9.50%	9.46%

(4) Gain on Sale of Contracts

The following table presents the components of the net gain on sale of Contracts:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
NIR gains recognized.....	$34,767,175	$18,665,429	$ 7,977,828
Deferred acquisition fees and discounts.....	8,924,719	6,890,341	5,044,501
Expenses related to sales.....	(4,558,419)	(2,234,755)	(1,472,916)
	$39,133,475	$23,321,015	$11,549,413

(5) Interest Income

The following table presents the components of interest income:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Interest on Contracts held for sale...	$ 14,279,120	$ 9,980,518	$ 4,856,591
Residual interest income.....	22,556,454	16,118,476	6,387,744
Amortization of NIRs	(13,309,995)	(6,119,219)	(2,023,938)
Net interest income.....	$ 23,525,579	$19,979,775	$ 9,220,397

(6) Servicing

The following table presents the components of the Company's servicing portfolio:

	December 31,		
	1997	1996	1995
Contracts held for sale.....	$ 71,828,402	$ 22,827,354	$ 20,764,205
Servicing subject to recourse provisions:			
Whole loan portfolios.....	4,838,858	11,212,010	21,213,050
Alton Receivables Corp.....	3,073,254	10,240,973	22,732,021
CPS Receivables Corp.....	823,006,008	461,653,273	224,218,079
	$902,746,522	$505,933,610	$288,927,355

(7) Furniture and Equipment

The following table presents the component of furniture and equipment:

	December 31, 1997	December 31, 1996
Furniture and fixtures	$ 1,869,308	$ 759,783
Computer equipment	1,894,807	875,870
Leasing assets	916,188	--
Leasehold improvements	126,781	91,700
Other Fixed assets	54,530	--
	4,861,614	1,727,353
Less accumulated depreciation and amortization	(1,733,529)	(1,097,579)
	$ 3,128,085	$ 629,774

(8) Related Party Transactions

Investment in Unconsolidated Affiliates

Investment in unconsolidated affiliates primarily consists of a 38% interest in NAB Asset Corporation ("NAB") that was acquired by the Company on June 6, 1996, for approximately $4.3 million. At the time of the acquisition, NAB had approximately $3.5 million in cash and no significant operations. The Company's investment in NAB exceeded the Company's share of the net assets of NAB at the acquisition date by approximately $1.4 million. This amount, which is included in other assets in the accompanying balance sheet, has been recorded by the Company as goodwill. Based on the closing price on the Nasdaq, the market value of the investment in NAB was approximately $4.0 million and $7.5 million at December 31, 1997 and 1996, respectively. Charles E. Bradley, Sr., Chairman of the Company's Board of Directors and principal shareholder and Charles E. Bradley, Jr., President, Chief Executive Officer and a member of the Company's Board of Directors are both on the Board of Directors of NAB.

Subsequent to the Company's investment in NAB, NAB purchased Mortgage Portfolio Services, Inc. ("MPS") from the Company for $300,000. MPS, formed by the Company in April, 1996, is a mortgage broker-dealer based in Texas. In July 1996, NAB formed CARSUSA, Inc. ("CARSUSA"), which purchased, and now owns and operates, a Mitsubishi automobile dealership in Southern California. On June 27, 1997, NAB sold CARSUSA to Charles E. Bradley, Sr. and Charles E. Bradley, Jr., for $1.5 million. Included in other income for the year ended December 31, 1997, is $848,920, which represents the Company's share of NAB's income for the year then ended. Included in general and administrative expenses for the year ended December 31, 1996, is $595,352, which represents the Company's share of NAB's loss from June 6, through December 31, 1996.

Related Party Receivables

The following table presents the components of related party receivables:

Related Party	December 31, 1997	December 31, 1996
NAB Asset Corporation	$ 5,601,750	$ 101,750
CARSUSA, Inc.	1,350,954	991,231
Service and Management Cooperative, Inc.	128,421	115,213
Global Equipment Leasing, LLC	114,275	--
Stanwich Partners, Inc.	100,000	100,000
	$ 7,295,400	$ 1,308,194

Included in the receivable from CARSUSA at December 31, 1997 and 1996, is $790,000 and $800,000, respectively, related to a flooring line of credit provided to CARSUSA and the remainder relates to amounts owed by CARSUSA for other borrowings.

During fiscal 1997 and 1996, respectively, the Company sold 107 and 69 automobiles to CARSUSA and received proceeds of $749,800 and $458,650, respectively. Additionally, the Company purchased 183 and 39 Contracts from CARSUSA, with an aggregate principal balance of $2,405,100 and $517,264, respectively.

Included in the receivable from NAB is $5.5 million arising from the issuance of two promissory notes totaling $9.5 million, bearing interest at 13% annually. On December 31, 1997, one of the promissory notes for $4.0 million was sold to Stanwich Financial Services Corp. ("SFSC") for $4.0 million, the proceeds of which were received on December 31, 1997. Charles E. Bradley, Sr., Charles E. Bradley, Jr., and John G. Poole, who are officers and directors of the Company, collectively own 92.5% of the common stock of Stanwich Holdings, Inc. ("Stanwich Holdings"), and Mr. Bradley, Sr., is the president and a director of Stanwich Holdings. SFSC is a wholly-owned subsidiary of Stanwich Holdings.

On March 2, 1998, NAB acquired Stanwich Holdings. At that time the Company received a note from NAB for $530,835 in exchange for an option it had held to acquire 100% of the outstanding common stock of Stanwich Holdings. The March 2, 1998 transaction and related note are unaudited.

At December 31, 1997 and 1996, respectively, $128,421 and $115,213 is due from Service and Management Cooperative, Inc. These amounts represent liabilities incurred by Service and Management Cooperative, Inc., which were paid for by the Company. Certain officers of the Company's subsidiary Samco are officers of Service and Management Cooperative, Inc.

At December 31, 1997, $114,275 is due from Global Equipment Leasing, LLC. These amounts represent payments by the Company's subsidiary CPS Leasing, Inc., of certain debt obligations of Global Equipment Leasing, LLC., which is 50% owned by CPS Leasing, Inc.

The amount due from Stanwich Partners, Inc. ("SPI") at December 31, 1997 and 1996, is related to investment banking services performed by the Company in connection with the Company's January 2, 1997 acquisition of CPS Leasing, Inc. The Chairman of the Board of Directors of the Company is a principal shareholder of SPI.

The Company is a party to a consulting agreement with SPI that calls for monthly payments of $6,250 through December 31, 1998. Included in the accompanying consolidated statements of earnings for the year ended December 31, 1997 and 1996, and for the nine-month period ended December 31, 1995, is $75,000, $75,000 and $262,500, respectively, of consulting expense related to this consulting agreement.

Related Party Debt

In May 1997, the Company entered into two transactions with a related party: (i) the Company purchased $14.5 million of preferred stock of Stanwich Holdings with dividends cumulative at the rate of 9% per annum and redeemable at an aggregate price of $14.6 million, plus accrued dividends, and (ii) the Company borrowed $14.5 million with an interest rate of 8% per annum under a 60-day related party loan from SFSC. In August 1997, the Company received $14.9 million in redemption of its preferred stock of Stanwich Holdings and repaid the 60-day related party loan in its entirety. In August 1997, the Company entered into a line of credit agreement with SFSC ("Stanwich Line"), to supplement its working capital resources. Under the Stanwich Line, SFSC agreed to lend up to $25 million to the Company from time to time upon request, through December 19, 1997. Any amount outstanding at December 31, 1997 would be due at that time. Borrowings under the Stanwich Line bear interest at the rate of 10% per annum, and the Company paid a $250,000 (one percent) commitment fee to SFSC in connection with opening the line of credit. The Company drew the full amount of the line at its inception, none of which remained outstanding at December 31, 1997.

The Company has also received long-term financing from SFSC. In June 1997 the Company borrowed $15 million on an unsecured and subordinated basis from SFSC. This loan ("RPL") is due 2004, and has a fixed rate of interest of 9% per annum, payable monthly beginning July 1997. The Company may pre-pay the RPL without penalty at any time after three years. At maturity or repayment of the RPL, the holder thereof will have an option to convert 20% of the principal amount into common stock of the Company, at a conversion rate of $11.86 per share.

(9) Shareholders' Equity

Common Stock

Holders of the common stock are entitled to such dividends as the Company's Board of Directors, in its discretion, may declare out of funds available, subject to the terms of any outstanding shares of preferred stock and other restrictions. In the event of liquidation of the Company, holders of common stock are entitled to receive, pro rata, all of the assets of the Company available for distribution, after payment of any liquidation preference to the holders of outstanding shares of preferred stock. Holders of the shares of common stock have no conversion or preemptive or other subscription rights and there are no redemption or sinking fund provisions applicable to the common stock.

The Company is required to comply with various operating and financial covenants defined in the agreements governing the warehouse lines and the subordinated debt. The covenants restrict the payment of certain distributions, including dividends.

Options and Warrants

In 1991, the Company adopted and gained sole shareholder approval of the 1991 Stock Option Plan (the "1991 Plan") pursuant to which the Company's Board of Directors may grant stock options to officers and key employees. The Plan, as amended, authorizes grants of options to purchase up to 2,700,000 shares of authorized but unissued common stock. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options have terms that range from 7 to 10 years and vest over a range of 0 to 7 years. In addition to the 1991 Plan, in fiscal 1995, the Company granted 60,000 options to certain directors of the Company that vest over three years and expire nine years from the grant date.

In July, 1997 the Company adopted and gained shareholder approval of the 1997 Long-Term Incentive Plan (the "1997 Plan") pursuant to which the Company's Board of Directors may grant stock options, restricted stock and stock appreciation rights to employees, Directors or employees of entities in

which the Company has a controlling or significant equity interest. Options that have been granted under the 1997 Plan have in all cases been granted at an exercise price equal to the stock's fair market value at the date of the grant, with terms of 10 years and vesting over 4 years. The 1997 Plan provides that an aggregate maximum of 1,500,000 shares of the Company's common shares may be subject to awards under the 1997 Plan. As of December 31, 1997, the shares reserved under the 1997 Plan were not registered with the Securities and Exchange Commission.

At December 31, 1997, there were 1,443,400 additional shares available for grant under the 1991 Plan and 1997 Plan. Of the options outstanding at December 31, 1997, 1996 and 1995, 584,920, 1,319,420 and 1,296,786, respectively, were exercisable with weighted-average exercise prices of $6.77, $4.02 and $2.71, respectively. The per share weighted-average fair value of stock options granted during the years ended December 31, 1997 and 1996, and the nine-month period ended December 31, 1995, was $5.79, $4.99, and $4.17, respectively, at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Expected life (years)	6.50	5.86	6.33
Risk-free interest rate	6.48%	6.23%	6.80%
Volatility	52.04%	46.20%	46.20%
Expected dividend yield	--	--	--

The Company applies APB Opinion No. 25 in accounting for its plans and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation", the Company's net earnings and net earnings per share would have been reduced to the pro forma amounts indicated below.

	Year ended December 31,		
	1997	1996	1995
Net earnings			
As reported	$ 18,532,163	$ 14,097,376	$ 7,575,122
Pro forma	$ 18,182,000	$ 13,550,000	$ 7,505,000
Net earnings per share - basic			
As reported	$ 1.29	$ 1.05	$ 0.65
Pro forma	$ 1.27	$ 1.00	$ 0.65
Net earnings per share - diluted			
As reported	$ 1.17	$ 0.93	$ 0.52
Pro forma	$ 1.17	$ 0.90	$ 0.52

Pro forma net earnings and net earnings per share reflects only options granted in the year ended December 31, 1997, 1996, and the nine-month period ended December 31, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to Apri1 1, 1995 is not considered.

Stock options activity during the periods indicated is as follows:

	Number of Shares	Weighted-Average Exercise Price
Balance at March 31, 1995	2,045,040	$ 3.23
Granted	159,360	7.61
Exercised	44,000	2.50
Canceled	--	--
Balance at December 31, 1995	2,160,400	3.56
Granted	513,400	9.60
Exercised	394,600	2.82
Canceled	124,800	5.23
Balance at December 31, 1996	2,154,400	5.04
Granted	321,000	9.76
Exercised	936,800	2.64
Canceled	145,400	11.69
Balance at December 31, 1997	1,393,200	$ 7.05

On August 21, 1992, the Board of Directors approved the grant to Holdings of a non-qualified option to purchase 1,800,000 shares of common stock at an exercise price of $2.50 per share, the estimated fair market value at the date of grant. This option is in addition to and is not part of the 1991 Plan or 1997 Plan. This ten year option vested in full on the date of grant. On December 6, 1995, Holdings exercised its option in full.

At December 31, 1997, the range of exercise prices, the number, weighted-average exercise price and weighted-average remaining term of options outstanding and the number and weighted-average price of options currently exercisable are as follows:

Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Term	Weighted Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 2.50 - $2.69	192,040	4.04	$ 2.62	123,500	$ 2.58
$ 4.38 - $4.38	70,000	6.01	$ 4.38	52,000	$ 4.38
$ 5.38 - $5.38	281,200	6.29	$ 5.38	45,800	$ 5.38
$ 5.56 - $7.25	164,360	6.65	$ 6.97	69,350	$ 7.25
$ 7.38 - $8.50	217,200	9.21	$ 8.29	43,650	$ 8.37
$ 8.63 - $8.63	15,000	8.53	$ 8.63	6,500	$ 8.63
$ 8.88 - $8.88	326,400	8.25	$ 8.88	221,520	$ 8.88
$ 9.63 - $13.50	116,000	9.29	$11.56	20,400	$11.66
$16.75 - $16.75	10,000	9.73	$16.75	2,000	$16.75
$17.63 - $17.63	1,000	9.67	$17.63	200	$17.63

In connection with the Company's initial public offering, the Company sold to the underwriter of the offering, for an aggregate price of $120, warrants to purchase up to 240,000 shares of the Company's common stock at an exercise price of $3.00 per share. The warrants were exercisable during the four year period commencing one year from the date of the offering. The shares represented by the warrants have been registered for public sale. During the year ended December 31, 1997, 1996, and the nine month period ended December 31, 1995, the underwriter exercised 14,000, 86,000, and 100,534 warrants, respectively. At December 31, 1997 all warrants had been exercised.

(10) Commitments and Contingencies

Leases

The Company leases its facilities and certain computer equipment under non-cancelable operating and capital leases which expire through 2007. Future minimum lease payments at December 31, 1997, under these leases are as follows:

	Capital	Operating
1998	$ 512,775	$1,699,346
1999	502,285	1,158,278
2000	350,762	1,037,613
2001	270,550	481,449
2002	176,413	331,084
Thereafter	--	1,351,780
Total minimum lease payments	1,812,785	$6,059,550
Less: amount representing interest	320,663	
Present value of net minimum lease payments	$1,492,122	

On October 27, 1997, the Company entered into agreements to have built and to lease a new headquarters building in Irvine, California. The lease is for a ten-year term and calls for total minimum lease payments of $20.0 million over that term.

Included in furniture and equipment in the accompanying consolidated balance sheets are the following assets held under capital leases at December 31, 1997:

Data processing equipment	$ 663,101
Furniture and fixtures	994,976
	1,658,077
Less: accumulated depreciation	(129,205)
	$1,528,872

Rent expense for the years ended December 31, 1997 and 1996, and the nine-month period ended December 31, 1995, was $1,036,677, $463,592 and $186,483, respectively. The Company's facility lease contains certain rental concessions and escalating rental payments which are recognized as adjustments to rental expense and are amortized on a straight-line basis over the term of the lease.

Litigation

The Company is party to litigation in the ordinary course of business, generally involving actions against automobile purchasers to collect amounts due on purchased Contracts or to recover vehicles. In one such case, relating to the Chapter 13 bankruptcy of obligors Madeline and Darryl Brownlee, of Chicago, Illinois, the obligors counterclaimed against the Company on June 30, 1997 in the bankruptcy court for the Northern District of Illinois. The obligors seek class-action treatment of their allegation that the cost of an extended service contract on the automobile they purchased was inadequately disclosed by the automobile dealer, Joe Cotton Ford of Carol Stream, Illinois. The disclosure is alleged to violate the Federal Truth In Lending Act and Illinois consumer protection statutes. The obligors' claim is directed against both the dealer for making the allegedly improper disclosures and against the Company as holder of the purchase contract. The relief sought is damages in an unspecified amount, plus costs of suit and attorney's fees. The court has not ruled on the obligors' request for class-action treatment, nor on the merits of the claims.

In another proceeding, arising out of efforts to collect a deficiency balance from Joseph Barrios of Chicago, Illinois, the debtor has brought suit against the Company alleging defects in the notice given upon repossession of the vehicle. This lawsuit was filed on February 18, 1998 in the circuit court of Cook County, Illinois. Barrios, represented by the same law firm as the Brownlee obligors, seeks class-action treatment of his allegation that notice of a fifteen day period to reinstate his installment purchase contract was misleading, in that it did not refer to an alleged right to redeem collateral up to the date of sale. The relief sought is damages in an unspecified amount, plus costs of suit and attorney's fees. As of the date of this filing, the Company has not been required to respond to this litigation and has not yet done so.

The Company intends to dispute both of these matters vigorously, and believes that it has meritorious defenses to each claim made. Nevertheless, the outcome of any litigation is uncertain, and there is the possibility that damages could be assessed against the Company in amounts that could be material. It is management's opinion that all litigation of which it is aware, including the matters discussed above, will no have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

(11) Income Taxes

Income taxes are comprised of the following:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Current			
Federal	$ 4,277,787	$3,060,164	$2,156,799
State	922,512	1,150,859	726,319
	5,200,299	4,211,023	2,883,118
Deferred			
Federal	4,504,636	4,565,383	1,683,960
State	1,610,956	818,614	515,108
	6,115,592	5,383,997	2,199,068
Income tax benefit from exercise of options credited to shareholders' equity	2,110,796	--	--
Income taxes	$13,426,687	$9,595,020	$5,082,186

The Company's effective tax expense differs from the amount determined by applying the statutory Federal rate of 35% for the years ended December 31, 1997 and 1996, and for the nine-month period ended December 31, 1995, to earnings before income taxes as follows:

	Year ended December 31,		Nine months ended December 31,
	1997	1996	1995
Expense at Federal tax rate	$11,185,598	$8,292,338	$4,430,058
California franchise tax, net of federal income tax benefit	1,672,089	1,280,157	737,192
State tax benefit from exercise of options, net of federal income tax benefit, credited to shareholders' equity	585,608	--	--
Other	(16,608)	22,525	(85,064)
	$13,426,687	$9,595,020	$5,082,186

The tax effected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 1997 and 1996, are as follows:

	December 31,	
	1997	1996
Deferred Tax Assets:		
Accrued liabilities	$ 558,881	$ 13,670
Furniture and equipment	27,295	23,095
Provision for credit losses	1,105,849	301,357
State taxes	1,850,507	508,219
Other	289,419	--
	3,831,951	846,341
Deferred Tax Liabilities:		
Excess servicing receivables	16,408,622	7,873,592
Equity investments	566,172	--
	16,974,794	7,873,592
Net deferred tax liability	$ 13,142,843	$ 7,027,251

In determining the possible future realization of deferred tax assets, future taxable income from the following sources are taken into account: (a) the reversal of taxable temporary differences, and (b) future operations exclusive of reversing temporary differences.

The Company believes that the deferred tax asset will more likely than not be realized due to the reversal of the deferred tax liability and expected future taxable income.

The Company is in the process of an audit by the Internal Revenue Service of the Company's Federal income tax return for the tax year ended March 31, 1995. Management does not believe this examination will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

(12) Debt

In June 1995, the Company entered into two warehouse line of credit agreements (collectively the "Line"). The Line provides the Company with an interim financing facility to hold Contracts for sale in greater numbers and for longer periods of time prior to their sale to other institutional investors. The primary agreement provides for loans by Redwood Receivables Corporation ("Redwood") to the Company, to be funded by commercial paper issued by Redwood and secured by Contracts pledged periodically by the Company. The Redwood facility provides for a maximum of $100.0 million of advances to the Company, with interest at a variable rate (7.35% at December 31, 1997) indexed to prevailing commercial paper rates.

The second agreement is a standby line of credit with General Electric Capital Corporation ("GECC"), also with a $100.0 million maximum, which the Company may use only if and to the extent that Redwood does not provide funding as described above. The GECC line is secured by Contracts and substantially all the other assets of the Company. Both agreements expire November 30, 1998.

The two agreements are viewed as a single short-term warehouse line of credit, with advances varying according to the amount of pledged Contracts. The Company is charged a non-utilization fee of .25% per annum on the unused portion of the Line. The balance outstanding at December 31, 1997 and 1996 under the Line was $30.8 million and $13.3 million, respectively.

In November 1997, the Company entered into a third warehouse line of credit agreement with First Union Capital Markets ("First Union Line"). The First Union Line provides for a maximum of $150 million of advances to the Company, with interest at a variable rate (7.14% at December 31, 1997) indexed to prevailing commercial paper rates. The agreement expires November 30, 1998 and is renewable for one year with the mutual consent of the Company and First Union Capital Markets. The balance outstanding under the First Union Line at December 31, 1997 was $30,892,013.

When the Company wishes to securitize Contracts, a substantial part of the proceeds received from investors is paid to the providers of the warehouse lines, simultaneously with their release of the pledged Contracts for transfer to a pass-through securitization trust.

In December 1996, the Company entered into an overdraft financing facility, with a bank, that provides for maximum borrowings of $2.0 million. Interest is charged on the outstanding balance at the bank's reference rate (8.50% at December 31, 1997) plus 1.75%. During 1997, the overdraft facility was increased to $4.0 million. There were no borrowings outstanding under this facility at December 31, 1997. The facility expires on June 1, 1998. The Line, First Union Line and the overdraft financing facility contain various restrictive and financial covenants with which the Company was in compliance at December 31, 1997.

On April 15, 1997, the Company issued $20.0 million in subordinated participating equity notes ("PENs") due April 15, 2004. The PENs are unsecured general obligations of the Company. Interest on the PENs is payable on the fifteenth of each month, commencing May 15, 1997, at an interest rate of 10.5% per annum. In connection with the issuance of the PENs, the Company incurred and capitalized issuance costs of $1.2 million. The Company recognizes interest and amortization expense related to the PENs using the effective interest method over the expected redemption period. The PENs are subordinated to certain existing and future indebtedness of the Company as defined in the indenture agreement. The Company may at its option elect to redeem the PENs from the registered holders, in whole but not in part, at any time on or after April 15, 2000, at 100% of their principal amount, subject to limited conversion rights, plus accrued interest to and including the date of redemption. At maturity, upon the exercise by the Company of an optional redemption, or upon the occurrence of a "Special Redemption Event," each holder will have the right to convert into common stock of the Company ("Common Stock"), 25% of the aggregate principal amount of the PENs held by such holder at the conversion price of $10.15 per share of Common Stock. "Special Redemption Events" are certain events related to a change in control of the Company.

On December 20, 1995, the Company issued $20.0 million in rising interest subordinated redeemable securities due January 1, 2006 (the "Notes"). The Notes are unsecured general obligations of the Company. Interest on the Notes is payable on the first day of each month, commencing February 1, 1996, at an interest rate of 10.0% per annum. The interest rate increases 0.25% on each January 1 for the first nine years and 0.50% in the last year. In connection with the issuance of the Notes, the Company incurred and capitalized issuance costs of $1.1 million. The Company recognizes interest and amortization expense related to the Notes using the effective interest method over the expected redemption period. The Notes are subordinated to certain existing and future indebtedness of the Company as defined in the indenture agreement. The Company is required to redeem, subject to certain adjustments, $1.0 million of the aggregate principal amount of the Notes through the operation of a sinking fund on each of January 1, 2000, 2001, 2002, 2003, 2004 and 2005. The Notes are not redeemable at the option of the Company prior to January 1, 1998. The Company may at its option elect to redeem the Notes from the registered holders of the Notes, in whole or in part, at any time, on or after January 1, 1998, and prior to January 1, 1999, at 102% of their principal amount, on or after January 1, 1999, and prior to January 1, 2000, at 101% of their principal amount, and on or after January 1, 2000, at 100% of their principal amount, in each case plus accrued interest to and including the date of redemption.

During the year ended December 31, 1997 the Company acquired CPS Leasing, Inc. At December 31, 1997, CPS Leasing, Inc. had borrowings to banks of $1.5 million.

On March 12, 1993, the Company issued a $2 million five year convertible subordinated note ("Note 1") to an institutional investor in conjunction with an agreement by that investor to commit to purchase up to $50 million of the Company's Contracts. Interest accrued at 11% and was payable semi-annually. On July 5, 1995, the holder converted Note 1 to 533,334 shares of the Company's common stock. On November 16, 1993, the Company issued a $3 million five year convertible subordinated note ("Note 2") to the same institutional investor in conjunction with an agreement by that investor to commit to purchase an additional $50 million of the Company's Contracts. Interest accrued at 9.5% and was payable semi-annually. On January 17, 1997, the holder converted Note 2 into 480,000 shares of the Company's common stock.

On July 6, 1995, the Company issued a promissory note in the amount of $2.0 million to the same institutional investor who held Notes 1 and 2. The note bore interest at 200 basis points over the Citibank Base Rate and matured on December 31, 1995. On December 6, 1995, this note was repaid in full.

(13) Employee Benefits

The Company sponsors a pretax savings and profit sharing plan (the "401(K) Plan") under section 401(K) of the Internal Revenue Code. Under the 401(K) Plan, eligible employees are able to contribute up to 15% of their compensation (subject to stricter limitation in the case of highly compensated employees). The Company matches 40% of employees' contributions up to $500 per employee per calendar year. The Company's contribution to the 401(K) Plan was $115,684, $63,801, and $13,811 for the years ended December 31, 1997 and 1996, and for the nine month period ended December 31, 1995, respectively.

(14) Fair Value of Financial Instruments

The following summary presents a description of the methodologies and assumptions used to estimate the fair value of the Company's financial instruments. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of the Company's financial instruments, active market values do not exist. Therefore, considerable judgments were required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 1997 and 1996, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. The estimated fair values of financial assets and liabilities at December 31, 1997 and 1996, were as follows:

	December 31,			
	1997		1996	
Financial Instrument	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	$ 1,745,200	$ 1,745,200	$ 153,958	$ 153,958
Contracts held for sale	68,271,200	70,900,000	21,656,773	22,800,000
Residual interest in securitizations	124,615,504	124,615,504	67,251,933	67,251,933
Warehouse lines of credit	61,665,583	61,665,583	13,264,585	13,264,585
Notes payable	1,505,593	1,505,593	--	--
Subordinated debt	40,000,000	40,000,000	23,000,000	23,000,000
Related party debt	$ 15,055,431	$ 15,055,431	$ --	$ --

Cash

The carrying value equals fair value.

The fair value of the Company's contracts held for sale is determined by purchase commitments from investors and prevailing market rates.

Residual Interest in Securitizations

The fair value is estimated by discounting future cash flows using credit and discount rates that the Company believes reflect the estimated credit, interest rate and prepayment risks associated with similar types of instruments.

Warehouse Line of Credit

The carrying value approximates fair value because the warehouse line of credit is short-term in nature and the related interest rates are estimated to reflect current market conditions for similar types of instruments.

Notes Payable, Subordinated and Related Party Debt

The carrying value approximates fair value because the related interest rates are estimated to reflect current market conditions for similar types of instruments.

(15) Selected Quarterly Data (unaudited)

	Quarter Ended March 31,	Quarter Ended June 30,	Quarter Ended September 30,	Quarter Ended December 31,
1997				
Revenues	$ 16,257,664	$ 18,110,679	$ 21,283,927	$ 23,687,319
Earnings before income taxes	7,143,361	7,548,532	8,309,076	8,957,881
Net earnings	4,144,754	4,385,632	4,816,135	5,185,642
Earnings per share:				
Basic	$ 0.29	$ 0.31	$ 0.34	$ 0.36
Diluted	$ 0.27	$ 0.28	$ 0.30	$ 0.32
1996				
Revenues	$ 9,907,581	$ 12,485,185	$ 13,758,526	$ 15,042,511
Earnings before income taxes	5,101,297	5,517,249	6,451,297	6,622,553
Net earnings	3,051,297	3,271,229	3,834,297	3,940,553
Earnings per share:				
Basic	$ 0.23	$ 0.24	$ 0.28	$ 0.29
Diluted	$ 0.20	$ 0.22	$ 0.25	$ 0.26

EXHIBIT 3.2

AMENDED AND RESTATED BYLAWS

OF

CONSUMER PORTFOLIO SERVICES, INC.
(a California corporation)

ARTICLE I
OFFICES

Section 1. Principal Offices. The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside this state, and the corporation has one or more business offices in this state, the board of directors shall fix and designate a principal business office in the State of California.

Section 2. Other Offices. The board of directors may establish other business offices at any place or places where the corporation is qualified to do business.

ARTICLE II
MEETINGS OF SHAREHOLDERS

Section 1. Place of Meetings. Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation.

Section 2. Annual Meeting. The annual meetings of shareholders shall be held each year on the third Tuesday of May unless another date shall be designated by the board of directors. At each annual meeting directors shall be elected, and any other proper business may be transacted.

Section 3. Special Meeting. A special meeting of the shareholders may be called at any time by the board of directors, or by the chairman of the board, or by the president, or by one or more shareholders holding shares in the aggregate entitled to cast not less than 10% of the votes at the meeting.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president, or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Section 4 and 5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing construed as limiting, fixing or affecting the time when a meeting of shareholders is called by action of the board of directors may be held.

Section 4. Notice of Shareholders' Meeting. All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, or (ii) in the case of an annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the shareholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees whom, at the time of the notice, management intends to present for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California, (ii) an amendment of the articles of incorporation, pursuant to Section 902 of that Code, (iii) a reorganization of the

corporation, pursuant to Section 1201 of that Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of that Code, with the rights of outstanding preferred shares, pursuant to Section 2007 of that Code, the notice shall also state the general nature of that proposal.

Section 5. Manner of Giving Notice; Affidavit of Notice. Notice of any meeting of shareholders shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by first-class mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located. Notice shall be deemed to have given at the time when delivered personally or deposited in the mail or sent by telegram or the means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if these shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting shall be executed by the secretary, assistant secretary, or any transfer agent of the corporation giving the notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. Quorum. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of shareholders shall constitute a quorum for the transaction of business. The shareholders present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. Adjourned Meeting; Notice. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 6 of this Article II.

When any meeting of the shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than forty-five (45) days from the date set for the original meeting, in which case the board of directors shall set a new record date. Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. Voting. The shareholders entitled to vote at any meeting of shareholders shall be determined in accordance with the provisions of Section 11 of this Article II, subject to the provisions of Section 702 to 704, inclusive, of the Corporations Code of California (relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership). The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder before the voting has begun. On any matter other than elections of directors, any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares that the shareholder is entitled to vote. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any

matter (other than the election of directors) shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by California General Corporation Law or by the Articles of Incorporation.

Section 9. Waiver of Notice or Consent by Absent Shareholders. The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting, or an approval of the minutes. The waiver of notice of consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 4 of this Article II, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if that objection is expressly made at the meeting.

Section 10. Shareholder Action By Written Consent Without a Meeting. Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted. In the case of election of directors, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors; provided, however, that a director may be elected at any time to fill a vacancy on the board of directors that has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors. All such consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares or a personal representative of the shareholder or their respective proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing, and if the unanimous written consent of all such shareholders shall not have been received, the secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting. This notice shall be given in the manner specified in Section 5 of this Article II. In the case of approval of (i) contracts or transactions in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California, (ii) Section 317 of that Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of that Code, and (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of that Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval.

Section 11. Record Date for Shareholder Notice, Voting, and Giving Consents. For purposes of determining the shareholders entitled to notice of any meeting or to vote or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any such action without a meeting, and in this event only shareholders of record on the date so fixed are entitled to notice and to vote or give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the California General Corporation Law.

If the board of directors does not so fix a record date: (a) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting was held; (b) the record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall

be the day on which the first written consent is given, or (ii) when prior action of the board has been taken, shall be at the close of business on the day on which the board adopts the resolution relating to that action, or the sixtieth (60th) day before the date of such other action, whichever is later.

Section 12. Proxies. Every person entitled to vote for directors or any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, or otherwise) by the shareholder or shareholder's attorney in fact. A validly executed proxy which does not state that unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy; or (ii) written notice of the death or incapacity of the make of the proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 705(e) and 705(f) of the Corporations Code of California.

Section 13. Inspectors of Election. Before any meeting of shareholders, the Board of Directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the chairman of the meeting may, and on the request of any shareholder or shareholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

These inspectors shall (a) determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; (b) receive votes, ballots, or consents; (c) hear and determine all challenges and questions in any way arising in connection with the right to vote; (d) count and tabulate all votes or consents; (e) determine when the polls shall close; and (f) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

ARTICLE III
DIRECTORS

Section 1. Powers. Subject to any provision of the California General Corporation Law and any limitations in the articles of incorporation and these bylaws relating to action required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Section 2. Number and Qualification of Directors. The authorized number of directors of this corporation shall be not less than five nor more than nine. The exact number of authorized Directors shall be six until changed, within the limits specified above, by a bylaw amending this Section 2, duly adopted by the Board of Directors or by the Shareholders.

Section 3. Election and Term of Office of Directors. Directors shall be elected at each annual meeting of the shareholders to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

Section 4. Vacancies. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, except that a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the

written consent of holders of a majority of the outstanding shares entitled to vote. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in event of the death, resignation or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors is increased, or if any director or directors are elected, to elect the number of directors to be voted for at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election by written consent shall require the consent of a majority of the outstanding shares entitled to vote.

Any director may resign effective upon giving written notice to the chairman of the board, the president, the secretary or the board of directors of the corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

No reduction of the authorized number of directors shall have the effect or removing any director prior to the expiration of his term of office.

Section 5. Place of Meetings and Meetings by Telephone. Regular meetings of the board of directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the board. In the absence of such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board may be held at any place within or outside the State of California that has been designated in the notice of meeting, or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another, and all such directors shall be deemed to be present in person at the meeting.

Section 6. Annual Meeting. Immediately following each annual meeting of shareholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers, and the transaction of other business. Notice of this meeting shall not be required.

Section 7. Other Regular Meetings. Other regular meetings of the board of directors shall be held without call at such time as shall from time to time be fixed by the board of directors. Such regular meetings may be held without notice.

Section 8. Special Meetings. Special Meetings of the board of directors for any purpose of purposes shall be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. In case the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. In case the notice is delivered personally, or be telephone or telegram, it shall be personally or by telephone to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. Quorum. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 11 of this Article III. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as

the act of the board of directors, subject to the provisions of Section 310 of the Corporations Code of California (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), and Section 317(e) of that Code (as to indemnification of directors). A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 10. Waiver of Notice. The transactions of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting before or at its commencement, the lack of notice to that director.

Section 11. Adjournment. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. Notice of Adjournment. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four hours, in which case notice of the time and place meeting is adjourned for more than twenty-four house, in which case notice of the time and place shall be given before the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. Action Without Meeting. Any action required or permitted to be taken by board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent or consents shall be filled with the minutes of the proceedings of the board.

Section 14. Fees and Compensation of Directors. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the board. This Section 14 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for those services.

ARTICLE IV
COMMITTEES

Section 1. Committees of Directors. The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the General Corporation Law of California, also requires shareholders' approval of the outstanding shares;

(b) the filling of vacancies on the board of directors for serving on the board or on any committee;

(c) the fixing of compensation of the directors for serving on the board or on any committee;

(d) the amendment or repeal of bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members of these committees.

Section 2. Meetings and Action of Committees. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws, Section 5 (Place of Meeting), 7 (Regular Meetings), 8 (Special Meetings and Notice), 9 (Quorum), 10 (Waiver of Notice), 11 (Adjournment), 12 (Notice of Adjournment), and 13 (Action Without Meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee; special meetings of committees may also be called by resolution of the board of directors; and notice of all special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V
OFFICERS

Section 1. Officers. The officers of the corporation shall be a president and secretary, and a treasurer and chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article. Any number of offices may be held by the same person.

Section 2. Election of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen by the board of directors, and each shall serve at the pleasure of the board.

Section 3. Subordinate Officers. The board of directors may appoint, and may empower the president to appoint, such other officers as the business of corporation may require, each of whom shall hold office, such period, have such authority and perform such duties as provided in the bylaws or as the board of directors from time to time determine.

Section 4. Removal and Resignation of Officers. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either without cause, by the board of directors, at any or special meeting of the board, or, except in case of an officer chosen by the board of directors, by any officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

Section 5. Vacancies in Offices. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

Section 6. Chairman of the Board. The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the board of directors or prescribed by the bylaws. If there is no president, the chairman of the board shall in addition be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 7 of this Article V.

Section 7. President. Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, and in the absence of any other specifically named chief executive officer of the corporation, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction and control of the business and officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence of the chairman of the board, or if there be none, at all meetings of the board of directors. Subject to the authority granted to any specifically designated chief executive officer, the president shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or the bylaws.

Section 8. Vice President. In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors or the bylaws, and the president, or the chairman of the board. A vice president may, if the board of directors so elects, be designated as the chief executive officer of the corporation.

Section 9. Secretary. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors, committees or directors may elect, a book of minutes of all meetings and actions of directors, committees of directors, and shareholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice given, the names of those present at directors' meetings, the number of shares present or represented at shareholders' meetings, and the proceedings.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, a share register, or a duplicate share register, showing the names of the shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all the meetings of the shareholders and of the board of directors required by the bylaws or by law to be given, and he shall keep the seal of the corporation if one be adopted, in safe custody, and shall have such other and perform such other duties as may be prescribed by the board of directors or by the bylaws.

Section 10. Chief Financial Officer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, on account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

Section 11. Disallowance of Compensation and Expense Deductions. Any payments made to an officer of the corporation, such as salary, commission, bonus, interest, rent, travel or entertainment expense incurred by such officer, which shall be disallowed in whole or in part as a deductible expense by the Internal Revenue Service or the California Franchise Tax Board, shall be reimbursed by such officer to the corporation to the full extent of such disallowance. It shall be the duty of the directors, as a board, to enforce payment of such amount disallowed. In lieu of payment by the officer, subject to the determination of the directors, proportionate amounts may be withheld from his future compensation payments until the amount owed to the corporation has been recovered.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS,
EMPLOYEES, AND OTHER AGENTS

Section 1. Agents, Proceedings, and Expenses. For the purposes of this Article, "agent" means any person who is or was a director, officer, employee, or other agent of this corporation, or is or was serving at the request of this corporation as a director, officer, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee, or agent of a foreign or domestic corporation which was a predecessor corporation of this corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative, or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Section 4 or Section 5(c) of this Article.

Section 2. Actions Other than by the Corporation. This corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of this corporation) by reason of the fact that such person is or was an agent of this corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if that person acted in good faith and in a manner that person reasonably believed to be in the best interests of this corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of that person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of this corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Section 3. Actions by the Corporation. This corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of this corporation to procure a judgment in its favor by reason of the fact that person is or was an agent of this corporation, against expenses actually and reasonably incurred by that person in connection with the defense or settlement of that action if that person acted in good faith, in a manner that person believed to be in the best interests of this corporation and with such case, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. No indemnification shall be made under this Section 3:

(a) In respect of any claim, issue or matter as to which that person shall have been adjudged to be liable to this corporation in the performance of that person's duty to this corporation, unless and only to the extent that the court in which that action was brought shall determine upon application that, in view of all the circumstances of the case, that person is fairly and reasonably entitled to indemnity for the expenses which the court shall determine;

(b) Of amounts paid in settling or otherwise disposing of a threatened or action, with or without court or pending approval;

(c) Of expenses incurred in defending a threatened or pending action which is settled or otherwise disposed of without court approval.

Section 4. Successful Defense by Agent. To the extent that an agent of this corporation has been successful on the merits in defense of any proceeding referred to in Sections 2 or 3 of this Article, or in defense of any claim, issue, or matter therein, the agent shall be indemnified against expenses actually and reasonable incurred by the agent in connection therewith.

Section 5. Required Approval. Except as provided in Section 4 of this Article, any indemnification under this Article shall be made by this corporation only if authorized in the specific case on a determination the indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Section 2 or 3 of this Article, by:

(a) A majority vote of a quorum consisting of directors who are not parties to the proceeding;

(b) Approval by the affirmative vote of a majority of the shares of this corporation entitled to vote represented at a duly held meeting at which a quorum is present or by the written consent of holders of a majority of the outstanding shares entitled to vote. For this purpose, the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote thereon; or

(c) The court in which the proceeding is or was pending, on application made by this corporation or the agent of the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney, or other person is opposed by this corporation.

Section 6. Advance of Expenses. Expenses incurred in defending any proceeding may be advanced by this corporation before the final disposition of the proceeding on receipt of an undertaking by or on behalf of the agent to repay the amount of the advance unless it shall be determined ultimately that the agent is entitled to be indemnified as authorized in this Article.

Section 7. Other Contractual Rights. Nothing contained in this Article shall affect any right to indemnification to which persons other than directors and officers of this corporation or any subsidiary hereof may be entitled by contract or otherwise.

Section 8. Limitations. No indemnification or advance shall be made under this Article, except as provided in Section 4 or Section 5(c), in any circumstance where it appears:

(a) That it would be inconsistent with a provision of the articles, a resolution of the shareholders, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 9. Insurance. Upon and in the event of a determination by the board of directors of this corporation to purchase such insurance, this corporation shall purchase and maintain insurance on behalf of any agent of the corporation against any liability asserted against or incurred by the agent in such capacity or arising out of the agent's status as such whether or not this corporation would have the power to indemnify the agent against that liability under the provisions of this Section.

Section 10. Fiduciaries of Corporate Employee Benefit Plan. This Article does not apply to any proceeding against any trustee, investment manager, or other fiduciary of any employee benefit plan in that person's capacity as such, even though that person may also be an agent of the corporation as defined in Section 1 of this Article. Nothing contained in this Article shall limit any right to indemnification to which such a trustee, investment manager, or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by applicable law other than this Article.

ARTICLE VII
RECORDS AND REPORTS

Section 1. Maintenance and Inspection of Share Register. The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the board of directors, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder.

Shareholder or shareholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation may (i) inspect and copy the records of shareholders' names and addresses and shareholdings during usual business hours on five (5) days' prior written demand on the corporation, and (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the shareholders' names and addresses who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which that list has been compiled

or as of a date specified by the shareholder after the date of demand. This list shall be made available to any such shareholder by the transfer agent on or before the later of five (5) days after the demand is received or the date specified in the demand as the date as of which the list is to be compiled. The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder of a voting trust certificate. Any inspection and copying under this Section 1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

Section 2. Maintenance and Inspection of Bylaws. The corporation shall keep at its principal executive office, or if its principal executive office is not in the State of California, at its principal business office in this state, the original or a copy of the bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in this state, the secretary shall, upon the written request of any shareholder, furnish to that shareholder a copy of the bylaws as amended to date.

Section 3. Maintenance and Inspection of Other Corporate Records. The accounting books and records and minutes of proceedings of the shareholders and the board of directors and any committee or committees of the board of directors shall be kept at such place or places designated by the board of directors, or, in the absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. These rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

Section 4. Inspection by Directors. Every director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. This inspection by a director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts of documents.

Section 5. Annual Report to Shareholders. The board of directors shall cause an annual report to be sent to the shareholders not later than one hundred twenty (120) days after the close of the fiscal year adopted by the corporation. This report shall be sent at least fifteen (15) days before the annual meeting of shareholders to be held during the next fiscal year and in the manner specified in this Section 5 of Article II of the bylaws for giving notice to shareholders of the corporation. The annual report shall contain a balance sheet as of the end of the fiscal year and an income statement and statement of changes in financial position for the fiscal year, accompanied by any report of independent accounts or, if there is no such report, the certificate of an authorized officer of the corporation that the statements were prepared without audit from the books and records of the corporation.

Section 6. Financial Statements. A copy of any annual financial statement and any income statement of the corporation for each quarterly period of each fiscal year, and any accompanying balance sheet of the corporation as of the end of each such period, that has been prepared by the corporation shall be kept on file in the principal executive office of the corporation for twelve (12) months and each such statement shall be exhibited at all reasonable times to any shareholder demanding an examination of any such statement or a copy shall be mailed to any such shareholder.

If a shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation makes a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the then current fiscal year ended more than thirty (30) days before the date of the request, and a balance sheet of the corporation as of the end of that period, the chief financial officer shall cause that statement to be prepared, if not already prepared, and shall deliver personally or mail that statement or statements to the person making the request within thirty (30) days after the receipt of the old request. If the corporation has not sent to the shareholders its annual report for the last fiscal year, this report shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The corporation shall also, on the written request of any shareholder, mail to the shareholder a copy of the last annual, semi-annual, or quarterly income statement which it has prepared, and a balance sheet as of the end of that period.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of any independent accountants engaged by the corporation or the certificate of an authorized officer of the corporation that the financial statements were prepared without audit from the books and records of the corporation.

Section 7. Annual Statement of General Information. The corporation shall, during the period commencing on March 1 ending on August 31 of each year, file with the Secretary of State of the State of California, on the prescribed form, a statement setting forth the authorized number of directors, the names and complete business address or residence address of all incumbent directors, the names and complete business or residence addresses of the chief executive officer, secretary, and chief financial officer, the street address of its principal executive office and principal business office in the state, and the general type of business constituting the principal business activity of the corporation, together with a designation of the agent of the corporation for the purpose of service of process, all in compliance with Section 1502 of the Corporations Code of California.

ARTICLE VIII
GENERAL CORPORATE MATTERS

Section 1. Record Date for Purposes Other Than Notice and Voting. For purposes of determining the shareholders entitled to receive payment of any dividend or other dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action (other than action by shareholders by written consent without a meeting), which shall not be more than sixty (60) days before any such action, and in that case only shareholders of record on the date so fixed are entitled to receive the dividend, distribution, or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the California General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60th) day before the date of that action, whichever is later.

Section 2. Checks, Drafts, Evidences of Indebtedness. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. Corporate Contracts and Instruments; How Executed. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and this authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 4. Certificate for Shares. A certificate or certificates for shares of the capital stock of the corporation shall be issued to each shareholder when any of these shares are fully paid, and the board of directors may authorize the issuance of certificates of shares as party paid provided that these certificates shall state the amount of the consideration to be paid for them and the amount paid. All certificates shall be signed in the name of the corporation by the chairman of the board or vice chairman of the board or the president or vice president and by the chief financial officer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series owned by the shareholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed on a certificate shall have ceased to be that officer, transfer agent, or registrar before that certificate is issued, it may be

issued by the corporation with the same effect as if that person were an officer, transfer agent, or registrar at the date of issue.

Section 5. Lost Certificates. Except as provided in this Section 5, no new certificates for shares shall be issued to replace an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen, or destroyed, authorize the issuance of a replacement certificate on such terms and conditions as the board may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate.

Section 6. Representation of Shares of Other Corporation. The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors or by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all shares of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority granted to these officers to vote or represent on behalf of the corporation any and all shares held by the corporation in any other corporation or corporations may be exercised either by such officers in person or by any other person authorized to do so by proxy duly executed by these officers.

Section 7. Construction and Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the California General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX
AMENDMENTS

Section 1. Amendment by Shareholders. New bylaws may be adopted or these bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that if the articles of incorporation of the corporation set forth the number of authorized directors of the corporation, the authorized number of directors may be changed only by an amendment of the articles of incorporation.

Section 2. Amendment by Directors. Subject to the right of shareholders as provided in Section 1 of this Article IX, to adopt, amend, or repeal by laws, bylaws may be adopted, amended, or repealed by the board of directors, provided, however, that the board of directors may adopt a bylaw or amendment of a bylaw changing the authorized number of directors only for the purpose of fixing the exact number of directors within the limits specified in the articles of incorporation or in Section 2 of Article III of these bylaws.

EXHIBIT 10.2

CONSUMER PORTFOLIO SERVICES, INC.
1997 Long-Term Incentive Stock Plan

1. PURPOSES OF THE PLAN

The purposes of the 1997 Long-Term Incentive Stock Plan (the "Plan") of Consumer Portfolio Services, Inc., a California corporation (the "Company") are to: promote the interests of the Company and its stockholders by strengthening the Company's ability to attract and retain highly competent officers and other key employees; permit the awarding of opportunities for Plan participants to be rewarded using stock-based incentives; and to provide a means to encourage stock ownership and proprietary interest in the Company by the recipients of awards made under the Plan.

2. DEFINITIONS

a) "1934 Act" means the Securities and Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

b) "Award" means an Option (including an ISO), an SAR, a stock Award, a stock payment, any other award made pursuant to the terms of the Plan, or any combination of them, as described in and granted under the Plan.

c) "Board" means the board of directors of the Company.

d) "Change of Control" is defined in Section 11.

e) "Code" means the Internal Revenue Code of 1986, as amended, including any rules and regulations promulgated thereunder.

f) "Committee" means the Compensation Committee of the Board or such other committee as may be appointed by the Board to administer the Plan.

g) "Company" means Consumer Portfolio Services, Inc., a California corporation.

h) "Eligible Person" means any natural person who at the time of an Award (i) is an employee of the Company or any Subsidiary, or (ii) is an employee of a business acquired by or an entity merged into the Company or any Subsidiary; provided, however, that with respect to an Award of ISOs, an "Eligible Person" means only a natural person who is at the time of grant an employee of the Company or of a corporation to which the Company is a parent corporation as defined in Section 424 of the Code, or successor provision.

i) "Fair Market Value" means the average of the high and low selling prices of a Share as reported in The Wall Street Journal (or other readily available public source designated by the Committee) for the last trading day for which such prices are available prior to the applicable transaction date under the Plan. If the Committee determines that there is no readily available source of information regarding transactions in Shares, then Fair Market Value shall mean the fair market value of a Share as determined by the Committee.

j) "ISO" means an incentive stock option as defined in Section 422 of the Code.

k) "Option" means an Award under the Plan of an option to purchase Shares, and includes ISO Awards and options that do not meet the requirements of Section 422 of the Code.

l) "Participant" means an Eligible Person who has been granted an Award under the Plan.

m) "Plan Year" means a twelve-month period beginning with January 1 of each year, commencing with January 1, 1997.

n) "Prior Plan" means the Consumer Portfolio Services, Inc. 1991 Stock Option Plan.

o) "SAR" means a stock appreciation right.

p) "Shares" means the common stock of the Company, no par value.

q) "Subsidiary" mean any entity that is directly or indirectly controlled by the Company, or any entity, including an acquired entity, in which the Company has a significant equity interest, as determined by the Committee.

3. EFFECTIVE DATE OF PLAN AND DURATION OF PLAN

The Plan shall become effective upon its adoption by the Board. Any Awards hereunder may be made immediately upon such effectiveness; provided, however, (i) that the Plan and any such Awards shall be void ab initio if the shareholders of the Company do not approve the Plan within one year after its adoption by the Board, and (ii) no ISO or

SAR may be exercised prior to shareholder approval. Unless previously terminated by the Board of Directors, the Plan shall expire at the close of business on April 30, 2007.

4. PLAN ADMINISTRATION

a) Committee -- The Committee shall administer the Plan. The Committee shall comprise two or more members of the Board, each of whom shall be both (i) a non-employee director within the meaning of Rule 16b-3 under the 1934 Act and (ii) an outside director within the meaning of Section 162(m) of the Code; provided, however, that the Board may by resolution specifically declaring that compliance with said restrictions of Rule 16b-3 or Section 162(m), or both, is no longer necessary or advisable, name to the Committee individuals who do not meet such definitions. Each member of the Committee shall serve for such term as the Board may determine, subject to removal by the Board at any time.

b) Committee Authority -- The Committee shall have full and exclusive authority to interpret the Plan and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper, all of which authority shall be executed in the best interests of the Company and in keeping with the provisions and objectives of the Plan. Without limiting the preceding grant of authority, the Committee shall have the authority (i) to select Award recipients, (ii) to establish all Award terms and conditions, (iii) to adopt procedures and regulations governing Awards, (iv) to approve forms of Award agreements for use under this Plan, (v) to amend the terms of any outstanding Award, including a reduction in the exercise price of any Option or SAR to reflect a decrease in Fair Market Value, subject to consent of the Participant to the extent required by the applicable Award agreement, (vi) to construe and interpret the Plan and any Award agreements, and (vii) to make all other determinations necessary or advisable for the administration of this Plan, including the authority in the event of a spin-off or other corporate transaction to replace an Award under the Plan with an award from another issuer or plan or an award relating to property other than Shares. All decisions made by the Committee shall be conclusive, final and binding on all persons affected by such decisions.

c) No member of the Committee shall be liable for any action or determination with respect to the Plan, and the members shall be entitled to indemnification and reimbursement in the manner provided in the Company's Articles of Incorporation and its bylaws, as amended. In the performance of its functions under the Plan, the Committee shall be entitled to rely upon information and advice furnished by the Company's officers, accountants, counsel and any other party the Committee deems necessary, and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such advice.

5. PARTICIPATION

The Committee may from time to time grant Awards under the Plan to any Eligible Person. The Committee may impose such terms and conditions on any such Award as the Committee may find advisable.

6. AVAILABLE SHARES OF COMMON STOCK

a) Subject to any adjustment pursuant to Section 6(c), grants of Awards are subject to the following limitations:

(i) the aggregate number of Shares as to which Awards may be granted shall not exceed 1,500,000.

(ii) In addition, awards may be granted with respect to the following: any Shares available for grants under the Prior Plan that have not been committed for issuance under grants made under the Prior Plan; any Shares that are represented by grants or portions of grants made under the Plan or the Prior Plan that are forfeited, expire or are canceled without the issuance of Shares; and any Shares that may be tendered, either actually or by attestation, by a person as full or partial payment made to the Company in connection with the exercise of any stock option under the Plan or the Prior Plan.

(iii) The aggregate number of Shares that may be represented by Awards granted to any one individual under Sections 7(b), 7(c), 7(d) and 7(e) of the Plan shall not exceed 750,000 over the life of the Plan.

(iv) The aggregate number of Shares that may be used in settlement of Awards pursuant to Section 7(d) of the Plan shall not exceed 30% of total number of Shares available under this Section 6(a).

b) Exclusions and Source of Shares -- Any Shares issued, and any Awards that are granted through the assumption of, or in substitution for, outstanding awards previously granted by an acquired entity shall not be counted against the Shares available for Awards under the Plan. No fractional Shares shall be issued under the Plan. Cash may be paid in lieu of any fractional Shares in settlements of awards under the Plan.

c) Adjustments -- In the event of any stock dividend, stock split, combination or exchange of equity securities, merger, consolidation, recapitalization, spin-off or other distribution (other than normal cash dividends) of Company's assets to stockholders, or any other change affecting Shares or Share price the Committee in its discretion may

make such proportionate adjustments as it may deem appropriate to reflect such change with respect to: (i) the limitations on the numbers of Shares that may be issued and represented by Awards as set forth in Section 6(a); (ii) each outstanding Award; and (iii) the exercise price per Share for any outstanding Options, SARs or similar Awards.

7. AWARDS

a) General -- The Committee shall determine the type or types of Award(s), if any, to be made to each Eligible Person. Awards may be granted singly, in combination or in tandem. Awards also may be made in combination or in tandem with, in replacement of, as alternatives to grants or rights under the Plan or any other employee compensation plan of the Company, including the plan of any acquired entity. The types of Awards that may be granted under the Plan are:

b) Stock Options -- An Option shall represent a right to purchase a specified number of Shares during a specified period as determined by the Committee. The purchase price per Share shall be as specified in the Committee resolution granting same, or, in the absence of any specification, shall be the Fair Market Value of one Share. The Committee shall designate each Option as an ISO or as an Option other than an ISO. The Shares covered by an Option may be purchased, in accordance with the applicable Award agreement , by cash payment or any other method permitted by the Committee, which other methods may include (i) tender (either actually or by attestation) of Shares valued at the Fair Market Value at the date of exercise; (ii) authorizing a third party to sell the Shares (or a sufficient portion thereof) acquired upon exercise of a stock option, and assigning for delivery to the Company a sufficient amount of the sale proceeds to pay for all the Shares acquired through such exercise and any tax withholding obligations resulting from such exercise; (iii) delivery of the Participant's promissory note with such recourse, interest, term, security and other provisions as the Committee deems appropriate, or (iv) any combination of the above. Unless some other method of payment is explicitly authorized, either by resolution of the Committee or the terms of the written Option agreement, payment for Shares shall be by delivery of cash to the Company prior to the issuance of such Shares. The Committee may grant Options that provide for the grant of a subsequent restoration Option if the exercise price has been paid for by tendering Shares to the Company. Any restoration Option may cover up to the number of Shares tendered in exercising the predecessor Option, with the Option purchase price set at the then-current Fair Market Value, and the term of such restoration Option may not extend beyond the remaining term of the original option.

c) SARs -- An SAR shall represent a right to receive a payment, in cash, Shares or a combination, equal to the excess of the Fair Market Value of a specified number of Shares on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award agreement; except that if an SAR is granted retroactively in tandem with or in a substitution for a stock option, the designated Fair Market Value in the applicable Award agreement may be the Fair Market Value on the date such stock option was granted.

d) Stock Awards -- A stock Award shall represent an Award made in Shares or denominated in units equivalent in value to Shares. All or part of any stock Award may be subject to conditions and restrictions established by the Committee, and set forth in the Award agreement, which may include, but are not limited to, continuous service with the Company, the achievement of performance goals, or both. The vesting period of any stock Award will be not less than six months. The performance criteria that the Committee may use in granting stock Awards contingent on performance goals for officers to whom Section (S)162(m) of the Code is applicable shall consist of Fair Market Value of Shares, earnings, return on equity, and revenues. The Committee may select one criterion or multiple criteria for measuring performance, and the measurement may be based on absolute Company or business unit performance or based on performance as compared with other companies.

e) Stock Payment -- A Stock Payment shall represent an issuance of Shares as payment for compensation which otherwise would have been delivered in cash (including without limitation any compensation that is intended to qualify as performance-based compensation for purposes of Section 162(m) of the Code). No minimum vesting period need apply to Shares issued as a Stock Payment. Any Shares used for such payment will be valued at their Fair Market Value at the time of payment and shall be subject to such restrictions (including without limitation restrictions on transfer), if any, and other terms and conditions as may be determined by the Committee at the time of payment.

8. DIVIDENDS AND DIVIDEND EQUIVALENTS

The Committee may provide that any Awards may earn dividends or dividend equivalents, which shall not be deemed earned in the absence of explicit provision therefor. Such dividends or dividend equivalents may be paid currently or may be credited to a Participant's account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional Shares or share equivalents.

9. PAYMENTS AND PAYMENT DEFERRALS

Payment of Awards may be in the form of cash, Shares, other Awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee also may require or permit Participants to elect to defer the issuance of Shares from Stock Options or Stock Awards or the settlement of Awards in cash under such rules and procedures as it may establish under the Plan. It also may provide that deferred settlements include the payment or crediting of interest on the deferred amounts, or the payment or crediting of dividend equivalents where the deferred amounts are denominated in Share equivalents. In addition, the Committee may stipulate in an Award agreement, either at time of grant or by subsequent amendment, that a payment or portion of a payment of an Award be delayed in the event that Section 162(m) of the Code (or any successor or similar provision of the Code affecting tax deductibility) would operate to disallow a tax deduction by the Company for all or a portion of such payment. The period of any such delay in payment shall be until the payment, or portion thereof, is tax deductible, or such earlier date as the Committee may determine.

Shares shall not be issued pursuant to an Award unless the issuance and delivery of such Shares pursuant thereto would comply with all applicable laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Company shall have no obligation to cause compliance with any applicable law. In particular, but without limitation, the Company shall have no obligation to register under the Securities Act of 1933 the Shares issuable pursuant to any Award.

As a condition to the issuance of Shares to a Participant, the Company may require the Participant to represent and warrant at the time of any such issuance that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any applicable law.

10. TRANSFERABILITY

Awards under the Plan shall not be transferable or assignable other than by will or the laws of descent and distribution, except that the Committee may provide for the transferability of particular Awards, other than ISOs:

a) by gift or other transfer to (i) any trust or estate in which the original Award recipient or such person's spouse or other immediate relative has a beneficial interest; or (ii) a spouse or other immediate relative, provided, however, that the Participant continues to have substantial beneficial interest in the Shares covered by the Award after such transfer; or

b) pursuant to a qualified domestic relations order.

In the event that a Participant terminates employment with the Company or any Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution, the Committee may subsequently authorize a third party, including but not limited to a "blind" trust, to act on behalf of and for the benefit of such Participant regarding any outstanding Award held by the Participant subsequent to such termination of employment. If so permitted by the Committee, a Participant may designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any distribution under the Plan upon the death of the Participant.

11. CHANGE OF CONTROL

a) In order to maintain the Participants' rights in the event of a Change of Control, the Committee in its sole discretion may, either at the time an Award is made hereunder or at any time prior to, or coincident with or after the time of a Change of Control:

i) provide for the acceleration of any time periods relating to the exercise or realization of such Awards so that such Awards may be exercised or realized in full on or before a date fixed by the Committee;

ii) provide for the purchase of such Awards, upon the Participant's request, for an amount of cash equal to the amount which could have been obtained upon the exercise or realization of such rights had such Awards been currently exercisable or payable;

iii) make such adjustment to the Awards then outstanding as the Committee deems appropriate to reflect such transaction or change; or

iv) cause the Awards then outstanding to be assumed, or new rights substituted therefore, by the surviving corporation in such change.

b) The Committee may, in its discretion, include such further provisions and limitations in any agreement documenting such Awards as it may deem equitable and in the best interests of the Company.

c) A "Change of Control" shall be deemed to occur if and when:

i) any person, including a "person" as such term is used in Section 14(d)(2) of the 1934 Act (a "Person"), is or becomes a beneficial owner (as such term is defined in Rule 13d-3 under the 1934 Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities, but excluding any such person who holds such voting power as of the date of adoption of the Plan;

ii) any plan or proposal for the liquidation or dissolution of the Company is adopted by its shareholders;

iii) individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then constituting the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

iv) all or substantially all or the assets of the Company are sold, liquidated or distributed; or

v) there occurs a reorganization, merger, consolidation or other corporate transaction involving the Company (a "Transaction"), in each case, with respect to which the shareholders of the Company immediately prior to such Transaction do not, immediately after the Transaction, own more than 50 percent of the combined voting power of the Company or other corporation resulting from such Transaction.

d) Any good faith determination by the Incumbent Board of whether a Change of Control within the meaning of this definition has occurred shall be conclusive.

12. AWARD AGREEMENTS

Awards under the Plan shall be evidenced by agreements that set forth the terms, conditions and limitations for each Award, which may include the term of the Award (except that in no event shall the term of any ISO exceed a period of ten years from the date of its grant), the provisions applicable in the event the Participant's employment terminates, and the Company's authority unilaterally or bilaterally to amend, modify, suspend, cancel or rescind any Award. The Committee need not require the execution of any such Agreement by the Participant, in which case acceptance of the Award by the Participant shall constitute agreement by the Participant to the terms of the Award.

13. PLAN AMENDMENT

The Board may at any time amend, suspend or terminate the Plan as it deems necessary or appropriate to better achieve the purposes of the Plan, except that the Board may not, without the approval of the Company's stockholders, materially increase the number of shares available for issuance in accordance with Section 6 of the Plan.

14. TAX WITHHOLDING

The Company shall have the right to deduct from any settlement of an Award made under the Plan, including the delivery or vesting of Shares, a sufficient amount to cover withholding of any federal, state or local taxes required by law or such greater amount of withholding as the Committee shall determine from time to time, or to take such other action as may be necessary to satisfy any such withholding obligations. If the Committee permits or requires Shares to be used to satisfy required tax withholding, such Shares shall be valued at the Fair Market Value as of the tax recognition date for such Award. No Shares or other property shall be delivered under the Plan to any Participant or other person until such Participant or other person has made arrangements acceptable to the Committee for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of shares or the disqualifying disposition of shares received on exercise of an ISO. Upon exercise of an Option, the Company shall withhold or collect from the Participant an amount sufficient to satisfy such tax obligations.

15. OTHER BENEFIT AND COMPENSATION PROGRAMS

Unless otherwise specifically determined by the Committee, settlements of Awards received by participants under the Plan shall not be deemed a part of a participant's regular, recurring compensation for purposes of calculating payments or benefits from any Company benefit plan or severance program. Further, the Company may adopt other compensation programs, plans or arrangements as it deems appropriate or necessary.

16. UNFUNDED PLAN

Unless otherwise determined by the Board, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of an Award granted under the Plan, such rights shall constitute general unsecured liabilities of the Company and shall not confer upon any Participant any right, title or interest in any assets of the Company.

17. USE OF PROCEEDS

The cash proceeds received by the Company from the issuance of Shares pursuant to the exercise of stock options or the settlement of other Awards under the Plan may be used for general corporate purposes.

18. REGULATORY APPROVALS

The implementation of the Plan, the grant of any Award under the Plan, and the issuance of Shares upon the exercise or settlement of any Award shall be subject to the Company's receiving all approvals and permits required by regulatory authorities having jurisdiction over the Plan, Awards or the Shares issued pursuant to Awards.

19. FUTURE RIGHTS

No person shall have any claim or rights to be granted an Award under the Plan, and no Participant shall have any rights under the Plan to be retained in the employment of the Company. Likewise, participation in the Plan will not in any way affect the Company's right to terminate the employment of the Participant at any time with or without cause. Any discretionary authority held by the Committee or the Board shall not give rise to any duty on the part of such body to exercise such discretion for the benefit of any Participant; and all such discretion may be exercised for the exclusive benefit of the Company.

20. GOVERNING LAW

The validity, construction and effect of the Plan and any actions taken or relating to the Plan shall be determined in accordance with the internal laws of the State of California and applicable federal law.

21. SUCCESSORS AND ASSIGNS

The Plan shall be binding on all successors and assigns of a Participant, including, without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors. However, no Award or other interest in the Plan may be assigned, pledged or otherwise alienated, except to the extent permitted in accordance with Section 10 of the Plan and the applicable Award agreement.

RECEIVABLES FUNDING AND SERVICING AGREEMENT, dated as of November 24, 1997 (the "Agreement") by and among CPS WAREHOUSE CORP., a Delaware corporation (the "Borrower"), the financial institutions listed on the signature pages of this Agreement under the heading "Investors" and their respective successors and assigns; VARIABLE FUNDING CAPITAL CORPORATION, a Delaware corporation, ("VFCC") as lender (a "Lender"), FIRST UNION CAPITAL MARKETS CORP. ("FCMC"), as deal agent (the "Deal Agent"); FIRST UNION NATIONAL BANK ("First Union"), as the liquidity agent (the "Liquidity Agent") and as the collateral agent (the "Collateral Agent") and CONSUMER PORTFOLIO SERVICES, INC., a California corporation (as such, together with its successors and assigns, the "Parent"), as servicer hereunder (as such, together with its successors and permitted assigns, the "Servicer").

W I T N E S S E T H:

WHEREAS, the Borrower is an Affiliate of the Parent:

WHEREAS, the Borrower has been formed for the sole purpose of purchasing and financing certain Receivables originated or purchased by the Parent and purchased by or contributed to the Borrower pursuant to the Receivables Transfer Agreement, dated as of November 24, 1997 (the "Receivables Transfer Agreement"), by and between the Parent and the Borrower;

WHEREAS, the Borrower and the Lenders intend that the Lenders will make advances to the Borrower from time to time, such advances to be secured by certain receivables and other collateral owned by the Borrower:

WHEREAS, the Deal Agent has been requested and is willing to act as agent on behalf of the Lenders in connection with the making and financing of such advances;

WHEREAS, in order to effectuate the purposes of this Agreement, the Lenders and the Deal Agent desire that a servicer be appointed to perform certain servicing, administrative and collection functions in respect of the Receivables financed by the Lenders under this Agreement;

WHEREAS, the Parent has been requested and is willing to act as the Servicer; and

WHEREAS, in order to secure the advances made to the Borrower by the Lenders, the Borrower intends to grant to the Lenders a security interest in such Receivables and other collateral owned by the Borrower, and the Lender intends to assign such security interest to the Collateral Agent and to grant to the Collateral Agent a security interest in certain other collateral.

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Certain Defined Terms. As used herein, the following terms shall have the following meanings:

"Accrued Monthly Yield" means, for any day within a Settlement Period, the Daily Yield and Daily Facility Fees calculated for each day from and including the first day of the Settlement Period through and including the day for which the calculation is being made.

"Accrued Servicing Fee" means, for any day of determination within a Settlement Period, the Servicing Fee calculated for each day from and including the first day of such Settlement Period through and including such day of determination.

"Acquisition Amount" has the meaning set forth in the Liquidity Purchase Agreement, dated as of November 24, 1997, by and among VFCC, the investors party thereto, FCMC, as deal agent and First Union, as liquidity agent, as the same may be amended, supplemented or otherwise modified from time to time.

"Actual Payment" means, with respect to any Contract, all payments received by, from or for the account of the related Obligor on such Contract.

"Added Receivables" means all Transferred Receivables pledged hereunder since the later to occur of the Effective Date and date of the last Disposition.

"Additional Amounts" means any amounts payable to any Affected Party under Sections 2.10 and 2.11.

"Additional Costs" has the meaning specified in Section 2.10(b).

"Adjusted Eurodollar Rate" means on any day, an interest rate per annum equal to the product of (i) the LIBOR Rate on such day and (ii) 100% minus the Eurodollar Reserve Percentage on such day.

"Administration Agreement" means that certain Administration Agreement, dated as of September 28, 1995, between VFCC and First Union Capital Markets Corp., as the same may be amended, supplemented, or otherwise modified from time to time.

"Advance" has the meaning set forth in Section 2.01.

"Advance Rate" means, for any Receivable within a Subgroup of Receivables and date within a Report Period, a percentage equal to the lesser of (a) 97% and (b) 1 minus the product of (i) three (3) and (ii) the Net Loss Factor applicable to the related Subgroup of Receivables during such Report Period.

"Advances Available" means, as of the date of any calculation, (a) the Availability as of such date, minus (b) Advances Outstanding, but, if less than $150,000, Advances Available shall be deemed to be zero.

"Advances Outstanding" means, for any day, the aggregate principal amount of Advances outstanding on such day, after giving effect to all repayments and issuances of Advances on such day.

"Adverse Claim" means any claim of ownership or any lien, security interest, title retention, trust or other charge or encumbrance, or other type of preferential arrangement having the effect or purpose of creating a lien or security interest, other than the security interest created under this Agreement or the Collateral Agent Agreement.

"Affected Party" means any Lender, the Deal Agent, any letter of credit provider, enhancer, or liquidity provider of a Lender, or any affiliate of the foregoing persons.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For the purposes of this definition, the terms "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or to cause the direction of management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Agent's Account" means a special account (account number 22341), in
the name of the Deal Agent, maintained at Banker's Trust Company.

"Aggregate Unpaids" means at any time, an amount equal to the sum of
the aggregate outstanding principal amount of Advances, all Daily Yield accrued and all other amounts owed (whether due or accrued) hereunder or under the Fee Letter to the Deal Agent, the Liquidity Agent and the Lenders at such time.

"Agreement" means this Receivables Funding and Servicing Agreement,
among the Borrower, the Lenders, the Servicer, the Deal Agent, the Liquidity Agent, the Collateral Agent and the Investors.

"Allocation Formula" has the meaning set forth in the Consent of
General Electric Capital Corporation and Redwood Receivables Corporation, dated as of November 24, 1997.

"Allotment Obligors" means Obligors in respect of the Transferred
Receivables who make payments by way of wire transfers to the Lockbox Account from a financial institution through an electronic allotment system.

"Alternative Rate" means an interest rate per annum equal to the
Adjusted Eurodollar Rate or the Base Rate; provided, however, that the
Alternative Rate for any outstanding principal amount of any Advance allocated to a Fixed Period shall be the Eurodollar Rate unless (a) on or before the first day of such Fixed Period, the relevant Lender shall have notified the Deal Agent that a Eurodollar Disruption Event has occurred, (b) such Fixed Period is a period of less than one month or (c) such outstanding principal amount of such Advance is less than $2,000,000.

"Amount Financed" with respect to a Receivable means the amount
originally advanced to the related Obligor with respect to the related Financed Vehicle (and all other costs, accessories, fees, taxes, insurance and the like).

"Applicable Margin" has the meaning set forth in the Fee Letter from
time to time.

"APR" has the meaning given to that term pursuant to the Truth-in-
Lending Act.

"Assignment and Acceptance" means an assignment and acceptance entered
into by an Investor and an Eligible Assignee, and accepted by the Deal Agent, in substantially the form of Exhibit A to the Liquidity Purchase Agreement.

"Assignment of Insurance Interests" means the Assignment of Insurance
Interests in the form attached as Exhibit 3 to the Receivables Transfer Agreement.

"Availability" means, as of any date, the lesser of (a) the product of
the Borrowing Base as of such date and the Weighted Average Advance Rate, or (b) the Maximum Facility Amount.

"Balance Sheet Date" means December 31, 1996.

"Base Rate" means on any date, a fluctuating rate of interest per
annum equal to the higher of (a) the Prime Rate and (b) the Federal Funds Rate plus the Applicable Margin.
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"Basic Documents" means this Agreement, the Notes, the Receivables
Transfer Agreement, the Sale Assignments, the Custodial Agreement, the Liquidity Purchase Agreement and all agreements, instruments, certificates, financing statements or other documents required to be delivered hereunder or thereunder.

"Borrower" means CPS Warehouse Corp.

"Borrower Account Collateral" has the meaning specified in Section
8.01(c).

"Borrower Assigned Agreements" has the meaning specified in Section 8.01(b).

"Borrower Notice" means a notice in the form of Exhibit A, setting forth the information required by Section 2.03(a).

"Borrower Secured Obligations" means all obligations of every nature of the Borrower (other than to the Parent or Servicer), now or hereafter existing, under this Agreement, the Notes, and any promissory note or other document or instrument delivered pursuant to such documents, and all amendments, extensions or renewals hereof or thereof, whether for principal, interest, fees, expenses or otherwise, whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owned with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred and all or any portion of such obligations that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from the Lenders, the Deal Agent, the Liquidity Agent or the Collateral Agent as a preference, fraudulent transfer or otherwise.

"Borrower's Share" means the ratio of the Maximum Facility Amount to the aggregate maximum commitments under this Agreement and all Other Funding Agreements.

"Borrowing Base" means, as of the date of its computation, an amount equal to (a) the aggregate Contract Principal Balance of Transferred Receivables that are Eligible Receivables, plus (b) an amount equal to the aggregate Contract Principal Balance of Eligible Receivables to be purchased or contributed on that date.

"Borrowing Base Certificate" means, on any Business Day, an Officer's Certificate in the form of Exhibit B, computing for such Business Day the Borrowing Base, the Availability and Advances Available.

"Borrowing Excess" means, for any date, as disclosed in the most recently submitted Borrowing Base Certificate, the extent to which the then Advances Outstanding exceeds the Availability as of such date.

"Breakage Costs" has the meaning specified in Section 2.11.

"Business Day" means any day of the year other than a Saturday, Sunday or any day on which (a) banks generally are required, or authorized, to close in New York, New York or Charlotte, North Carolina and (b) if the term "Business Day" is used in connection with the Adjusted Eurodollar Rate, dealings in United States Dollar deposits are carried on in the London interbank market.

"Certificate of Title" means, with respect to each Financed Vehicle, the Certificate of Title (or other evidence of ownership) issued by the department of motor vehicles, or other appropriate governmental body, of the state in which the Financed Vehicle is to be registered.

"Change in Control" shall mean the time when (i) any Person or "group" (other than the shareholders of such Person as of the date hereof currently holding in excess of thirty percent (30%) of the voting power for the election of directors of such Person under ordinary circumstances) has acquired "beneficial ownership" (as such terms are defined under Section 13d-3 of and Regulation 13D under the Securities Exchange Act of 1934, as amended), either directly or indirectly, of outstanding shares of Stock of the Servicer having more than thirty percent (30%) of the voting power for the election of directors of the Servicer under ordinary circumstances, (ii) more than fifty percent (50%) of the Members of the Servicer's board of directors shall have been replaced by new directors not nominated for membership on the board by a majority of directors who were either (x) directors on the Effective Date or (y) directors after the Effective Date and whose nomination to the board of directors of the Servicer was itself approved by a majority of directors on the board who were directors on the Effective Date, or (iii) (except for transfer of Receivables in connection with any securitization) the Servicer has sold, transferred, conveyed, assigned or otherwise disposed of all or substantially all of the assets of the Servicer.

"Collateral" means the collateral pledged by the Borrower in Section 8.01.

"Collateral Agent" means First Union or such other party designated as agent for the Secured Parties.

"Collection Account" means the account maintained with the Depositary described in Section 6.01(b).

"Collection Account Deficiency" means, for any Settlement Date, any deficiency in the amounts on deposit in the Collection Account necessary to make the payments required under Sections 6.04(a)(i) through (iii).

"Collections" means, with respect to any Receivable, all cash collections and other Proceeds of such Receivable (including late charges, fees and interest arising thereon and all recoveries with respect to Receivables that have been written off as uncollectible).

"Commercial Paper" means commercial paper issued by VFCC.

"Commitment" means for each Investor, the commitment of such Investor to fund any Advance to the Borrower in an amount not to exceed the amount set forth opposite such Investor's name on the signature pages of this Agreement, as such amount may be modified in accordance with the terms hereof.

"Commitment Termination Date" means the earlier of (a) the date so designated pursuant to Section 9.01 as a result of a Termination Event, and (b) the Final Maturity Date.

"Consolidated Net Worth Percentage" means, with respect to any Person, a fraction (expressed as a percentage), in which the numerator equals the Net Worth and the denominator equals the total assets of such Person and its consolidated Subsidiaries.

"Contract" means an installment or conditional sale contract, with any amendments, owned or acquired by the Borrower pursuant to which an Eligible Obligor has: (i) purchased a Motor Vehicle having a useful life longer than the Contract term; (ii) granted a security interest in the Motor Vehicle to secure the Obligor's payment thereunder; and (iii) agreed to pay the unpaid purchase price and a finance charge in periodic installments no less frequently than monthly installments.

"Contract Date" means, with respect to a Contract, the date of effective execution of such Contract by the parties thereto.

"Cost of Funds" means for any day of determination the sum of (1) the average (weighted on the basis of the outstanding principal amount of relative Advances bearing interest at the respective rates) of the Weighted Average CP Rate, Weighted Average Liquidity Rate, and Weighted Average Base Rate, and (2) the Fixed Rate Spread Percentage.

"Contract Principal Balance" means, with respect to any Contract, an amount equal to the Gross Contract Balance less the Unearned Interest Amount.

"CP Disruption Event" means the inability of a Lender, at any time, whether as a result of a prohibition, a contractual restriction or any other event or circumstance whatsoever, to raise funds through the issuance of its commercial paper notes (whether or not constituting commercial paper notes issued to finance fundings hereunder) in the United States commercial paper market.

"CP Rate" means as to a Fixed Period, a rate equivalent to the sum of (i) the rate (or if more than one rate, the weighted average of the rates) at which Commercial Paper having a term equal to such Fixed Period may be sold by any placement agent or commercial paper dealer selected by VFCC, as agreed between each such agent or dealer and VFCC and notified by VFCC to the Deal Agent and the Servicer (which rate shall include any fee paid or payable to any such placement agent or commercial paper dealer); provided, however, if

the rate (or rates) as agreed between any such agent or dealer and VFCC with regard to any Fixed Period for the applicable Advance is a discount rate (or rates), the CP Rate for such Fixed Period shall be the rate (or if more than one rate, the weighted average of the rates) resulting from converting such discount rate (or rates) to an interest-bearing equivalent rate per annum (which rate shall include any fee paid or payable to any such placement agent or commercial paper dealer) and (ii) the Applicable Margin.

"CP Holder" means any Person holding record or beneficial ownership of Commercial Paper.

"Credit and Collection Policies" means the credit, collection, customer relations and service policies of the Parent in effect on the Effective Date, as set forth in writing and delivered to the Deal Agent on or before the Effective Date pursuant to Section 3.01(o), and, as such policies may hereafter be amended, modified or supplemented from time to time in accordance with Section 7.05(h).

"Custodian" means Norwest Bank Minnesota, National Association or such other custodian as the Collateral Agent may appoint.

"Custodial Agreement" means that certain Custodial Agreement dated as of the date hereof among the Custodian, Collateral Agent, Parent, Servicer and Borrower.

"Daily Facility Fee" means, for any day an amount equal to the product of (i) the Facility Fee Rate and (ii) an amount equal to Maximum Facility Amount on such day divided by 360.

"Daily Yield" means for each Advance and day in any Fixed Period, the product of

$$\frac{YRT \times A}{360}$$

where:

A = the outstanding principal amount of the Advance allocated to such Fixed Period, and

YRT = the Yield Rate for such Fixed Period, plus the Applicable Margin for such Advance;

provided, however that (a) no provision of this Agreement shall require the payment or permit the collection of Daily Yield in excess of the maximum permitted by applicable law and (b) Daily Yield shall not be considered paid by any distribution if at any time such distribution is rescinded or must otherwise be returned for any reason.

"Deal Agent" means FCMC, as Deal Agent hereunder, together with its successors and assigns.

"Dealer Agreement" means any dealer agreement entered into by VFCC for the distribution of Commercial Paper.

"Debt" of any Person means (without duplication) all liabilities, obligations and indebtedness of such Person (a) for borrowed money, (b) evidenced by promissory notes, bonds, debentures, notes or other similar instruments, (c) to pay the deferred purchase price of property or services, (d) as lessee under leases which have been or should be, in accordance with GAAP, recorded as capital leases, (e) secured by any lien or other charge upon property or asset, owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations, (f) under any interest rate, swap, "cap", "collar" or other hedging agreement, (g) under reimbursement agreements or similar agreements with respect to the issuance of letters of credit (other than obligations in respect of letters of credit opened to provide for payment of goods and services purchased in the ordinary course of business), (h) under direct or indirect guaranties in respect of, and obligations

(contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (a) through (h) above, and (i) for liabilities in respect of unfunded vested benefits under plans covered by ERISA. For the purposes hereof, the term "guarantee" shall include any agreement, whether such agreement is on a contingency or otherwise, to purchase, repurchase or otherwise acquire Debt of any other Person, or to purchase, sell or lease, as lessee or lessor, property or services, in any such case primarily for the purpose of enabling another person to make payment of Debt, or to make any payment (whether as an advance, capital contribution, purchase of an equity interest or otherwise) to assure a minimum equity, asset base, working capital or other balance sheet or financial condition, in connection with the Debt of another Person, or to supply funds to or in any manner invest in another Person in connection with Debt of such Person.

"Debt Ratio" means a fraction (expressed as a percentage), in which
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the numerator equals the total Debt (other than Subordinated Debt) of such Person and the denominator equals the Net Worth.

"Default Rate" means, with respect to any Settlement Period the
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percentage equivalent of a fraction, the numerator of which is the product of (a) 12 and (b) the Contract Principal Balance of all Transferred Receivables that became Defaulted Receivables during such Settlement Period and the denominator of which is the average Contract Principal Balance of all Transferred Receivables during such Settlement Period.

"Defaulted Receivable" means, with respect to any Settlement Period, a
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Receivable with respect to which any of the following has occurred during such Settlement Period: (i) the Financed Vehicle that secures such Receivable has been repossessed and the Servicer has determined in good faith that payments thereunder are unlikely to be resumed, or (ii) the Financed Vehicle that secures such Receivable has been repossessed without reinstatement of such Receivable on or before the last day of such Settlement Period and any applicable redemption period has expired.

"Delinquency Rate" means, with respect to any Settlement Period the
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percentage equivalent of a fraction the numerator of which is the Contract Principal Balance of all Transferred Receivables that are Delinquent Receivables on the last day of such Settlement Period and the denominator of which is the Contract Principal Balance of Transferred Receivables as of the last day of such Settlement Period.

"Delinquent Receivables" means, as of the end of any Settlement
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Period, the sum of all Receivables, other than Liquidated Receivables, which have at least two Scheduled Payments (or any part thereof) due and unpaid, provided, that if the Obligors have paid more than 90% of the most overdue
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Scheduled Payments such scheduled Payment shall be deemed paid for purposes hereof.

"Depositary" means Bankers Trust Company and any other Person
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designated as the successor Depositary from time to time.

"Disposition" means a Securitization, Whole Loan Sale transaction, or
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other disposition of Receivables subject to this Agreement, in each case by the Parent or an Affiliate thereof.

"Disposition Period" means a Settlement Period in which a Disposition
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occurs.

"Dollar" and "$" mean lawful currency of the United States of America.

"Effective Date" means November 24, 1997.

"Eligible Assignee" has the meaning specified in the Liquidity
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Purchase Agreement.

"Eligible Obligor" means any Obligor which is not an Excluded Obligor.

"Eligible Originator" means the Parent, LINC, Samco, and such other
Person or Persons as may from time to time be consented to in writing by the Parent, the Borrower, the Deal Agent, and the Liquidity Agent, such consent not to be unreasonably withheld.

"Eligible Receivable" means each Receivable pursuant to a Contract delivered by the Borrower to the Custodian acting as agent for the Collateral Agent which is listed on a List of Contracts delivered by the Borrower to the Custodian at the same time, and which satisfies each of the following requirements:

(a) All of the representations and warranties in Sections 4.01, 4.02 and 4.03 are true with respect to, and all conditions precedent in Section 3.02 have been and continue to be met with respect to, the Contract, Financed Vehicle, Obligor, Required Obligor Insurance, and Optional Obligor Insurance.

(b) The first Scheduled Payment is due within forty-five (45) days after the date of the Contract and the Contract Date is within five (5) days of the delivery of the Financed Vehicle.

(c) The Contract has a fixed APR and the Finance Charge was computed using a fixed rate.

(d) The initial term of the Contract does not exceed sixty (60) months and the Schedule of Payments has equal monthly payments except for the final payment which may be within 5% of the other equal payments, the payment obligation is in Dollars, and at the time the Contract as delivered to the Custodian, there were at least twenty (20) remaining Scheduled Payments.

(e) The Contract is for the absolute sale of the Financed Vehicle to the Obligor, and the Financed Vehicle is not on approval or subject to any agreement between the Obligor and the Vehicle Dealer for the repurchase or return of the Financed Vehicle.

(f) The Contract was selected in accordance with the Allocation Formula from new or used automobile or light truck installment sale contracts or promissory notes in the Parent's portfolio utilizing no selection procedures adverse to the Lenders relative to similar new or used automobile or light truck installment sale contracts or promissory notes in Borrower's and Parent's Portfolio taken as a whole.

(g) The Vehicle Dealer has been paid all amounts due for the purchase of the Contract from the Vehicle Dealer.

(h) The Obligor is an Eligible Obligor.

(i) The Contract contains the original signature of the Obligor and the Vehicle Dealer.

(j) The Contract is the only unsatisfied original executed Contract for the purchase of the Financed Vehicle and accurately reflects all of the actual terms and conditions of the Obligor's purchase of the Financed Vehicle.

(k) Neither the Borrower nor an Affiliate has made any agreement with the Obligor to reduce the amount owed on the Contract.

(1) Neither the Borrower nor an Affiliate is required to perform any additional service for, or perform or incur any additional obligation to, the Obligor in order for the Borrower to enforce the Contract.

(m) The Contract, at the time the Borrower purchased it, materially complied with the Credit and Collection Policies; or the Deal Agent approved any material deviation from the Credit and Collection Policies for that Contract in writing.

(n) The Obligor's obligations under the Contract are secured by a validly perfected first priority security interest in the Financed Vehicle in favor of the Servicer as secured party and such security interest has been validly assigned to the Lenders under this Agreement.

(o) The Contract has not been, nor is it designated to be, terminated, satisfied, canceled, subordinated or rescinded in whole or in part; nor has the Financed Vehicle been released, or designated for release, from the security interest granted by the Contract; and all of the holder's obligations under the Contract have been performed except those which arise subsequent to the delivery to the Deal Agent.

(p) No provision of the Contract has been waived, extended, altered or modified in any respect except in accordance with the Credit and Collection Policies.

(q) The day of the month that Scheduled Payments are due has not been changed from the original Schedule of Payments except for no more than one change which did not change the due date in a manner such that there was more than a thirty (30) day period for which no Scheduled Payment was due.

(r) No claims of rescission, setoff, counterclaim, defense or other material disputes have been asserted with respect to the Contract or Financed Vehicle.

(s) There are no unsatisfied liens or claims for taxes, labor, materials, fines, confiscation, or replevin relating to the Contract or Financed Vehicle. There is no unsatisfied claim against the Obligor based on the operation or use of the Financed Vehicle. All taxes due for the purchase, use and ownership of the Financed Vehicle have been paid. All taxes due on the transfer of the Contract to the Borrower and the Lenders have been paid.

(t) The Contract requires Required Obligor Insurance and the Servicer is a loss payee or insured under the Required Obligor Insurance.

(u) The Company has not repossessed the Vehicle or commenced a replevin action or other lawsuit against the Obligor or Financed Vehicle.

(v) The model year of the Financed Vehicle is in accordance with the Credit and Collection Policies at the time the Contract is delivered to the Custodian.

(w) The obligation of the original Obligor has not been released or assumed by another Person unless the release or assumption was properly documented and the Deal Agent consents in writing to it for purposes of the Contract being an Eligible Contract.

(x) The Obligor Documents exist and the Obligor Delivery Documents have been delivered to the Custodian in accordance with Section 1(b) of the Custodial Agreement.

(y) As of the date of the initial Advance hereunder that is made with respect to such Eligible Receivable, there are not more than two Scheduled Payments (or any part thereof) due and unpaid, provided, that if the Obligors
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have paid more than 90% of the most overdue Scheduled Payments such Scheduled Payment shall be deemed paid for purposes hereof, and on each day thereafter, there are not more than three Scheduled Payments (or any part thereof) due and unpaid, provided, that if the Obligors have paid more than 90% of the most
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overdue Scheduled Payments such Scheduled Payment shall be deemed paid for purposes hereof.

(z) The cash down payment has been paid in full by the Obligor in accordance with the Credit and Collection Policies.

(aa) The Contract was purchased by an Eligible Originator from a Vehicle Dealer in the ordinary course of the Vehicle Dealer's business (or, with reference to Samco only, from a finance company in the ordinary course of the finance company's business) within 60 days after the Contract Date.

(bb) The first or second Scheduled Payment (or both) remain(s) unpaid more than thirty (30) days after its/their scheduled due date(s).

(cc) The Amount Financed does not exceed one hundred fifty percent (150%) of the net cost, or value, if applicable, shown on the Vehicle Dealer Invoice.

(dd) The Amount Financed on the Contract Date does not exceed $29,000 and the Vehicle has no more than 85,000 miles on its odometer on the Contract Date.

(ee) Not more than one hundred eighty (180) days has elapsed since the date the Contract was pledged to the Lender hereunder.

(ff) On or before the date which is one hundred twenty (120) days after the Contract Date, the original Certificate of Title or equivalent title documents issued by the relevant state motor vehicle authority, if applicable, shall be delivered to the Custodian.

"ERISA" means the Employee Retirement Income Security Act of 1974, as it may be amended from time to time and the regulations promulgated thereunder.

"Event of Bankruptcy" means, with respect to any specified Person, the occurrence of any of the following events:

(a) a case or other proceeding shall be commenced, without the application or consent of such Person, in any court, seeking the liquidation, reorganization, debt arrangement, dissolution, winding up, or composition or readjustment of debts of such Person, the appointment of a trustee, receiver, custodian, liquidator, assignee, sequestrator or the like for such Person or any substantial part of its assets, or any similar action with respect to such Person under any law (foreign or domestic) relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, and such case or proceeding shall continue undismissed, or unstayed and in effect, for a period of 60 days or an order for relief in respect of such Person shall be entered in an involuntary case under the federal bankruptcy laws or other similar laws (foreign or domestic) now or hereafter in effect; or

(b) such Person shall commence a voluntary case or other proceeding under any applicable bankruptcy, insolvency, reorganization, debt arrangement, dissolution or other similar law now or hereafter in effect, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) for, such Person or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail to, or admit in writing its inability to, pay its debts generally as they become due.

"Eurocurrency Liabilities" has the meaning defined in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Disruption Event" means with respect to all Advances allocated to any Fixed Period, any of the following: (a) a determination by a Lender that it would be contrary to law or to the directive of any central bank or other governmental authority (whether or not having the force of law) to obtain United States Dollars in the London interbank market to make, fund or maintain any Advance for such Fixed Period, (b) the failure of one or more of the Reference Banks to furnish timely information for purposes of determining the Adjusted Eurodollar Rate, (c) a determination by a Lender that the rate at which deposits of United States Dollars are being offered to such Lender in the London interbank market does not accurately reflect the cost to such Lender of making, funding or maintaining any Advance for such Fixed Period or (d) the inability of a Lender to obtain United States Dollars in the London interbank market to make, fund or maintain any Advance for such Fixed Period.

"Eurodollar Reserve Percentage" of any Reference Bank for any Fixed
Period for any Advance means the reserve percentage applicable during such Fixed Period (or, if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Fixed Period during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Reference Bank with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Fixed Period.

"Event of Servicer Termination" has the meaning specified in Section 9.02.

"Excluded Obligor" means an Obligor which is (a) an Affiliate of the Parent or the Borrower, (b) a Governmental Authority or (c) which is domiciled outside the United States.

"Extension Date" has the meaning given to such term in Section 2.01(b) hereof.

"Facility Fee" means a fee payable by the Borrower to the Lender for each Settlement Period equal to the product of (i) the average daily Maximum Facility Amount during such Settlement Period, (ii) the Facility Fee Rate, and (iii) the actual number of days in the Settlement Period divided by 360.

"Facility Fee Rate" has the meaning set forth in the Fee Letter.

"Fee Letter" means the fee letter agreement dated November 24, 1997 between the Borrower and the Deal Agent.

"Federal Funds Rate" means for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the federal funds rates as quoted by First Union and confirmed in Federal Reserve Board Statistical Release H.15 (519) or any successor or substitute publication selected by First Union (or, if such day is not a Business Day, for the next preceding Business Day), or, if, for any reason, such rate is not available on any day, the rate determined, in the sole opinion of First Union, to be the rate at which federal funds are being offered for sale in the national federal funds market at 9:00 A.M. New York City time.

"Final Maturity Date" means November 23, 1998 or, if extended, in the sole discretion of VFCC and each Investor in accordance with the terms of Section 2.01 (b), the Extension Date.

"Finance Charge" has the meaning given to that term in the Truth-in-Lending Act.

"Financed Vehicle" means the new or used Motor Vehicle purchased by an Obligor pursuant to a Contract, or any substituted vehicle which is properly documented.

"First Union" means First Union National Bank, with its principal office in Charlotte, North Carolina, in its individual capacity and its successors.

"Fixed Period" means for any outstanding principal amount of any Advance, (a) if Daily Yield in respect of all or any part thereof is computed by reference to the CP Rate, the period of 270 days or less set by the Deal Agent pursuant to Section 2.04 hereof, (b) if Daily Yield in respect thereof is computed by reference to the Adjusted Eurodollar Rate, a period of any number of days up to one month, or one, two or three months and (c) if Daily Yield in respect thereof is computed at the Base Rate, a period of 1 to and including 31 days, in each case, as determined pursuant to Section 2.04.

"Fixed Rate Spread Percentage" means, for any Settlement Period, the positive or negative percentage equivalent of a fraction, the numerator of which is the product of (a) the aggregate amount paid to (if positive) or received from (if negative) any counterparty with respect to Hedging Instruments and (b) 12, and the

denominator of which is the average aggregate outstanding principal balance of Transferred Receivables that are Eligible Receivables for such Settlement Period.

"Funding Date" means each day on which an Advance is made.

"GAAP" means generally accepted accounting principles as in effect in the United States, consistently applied, as of the date of such application.

"Governmental Authority" means the United States of America, any state, local or other political submission thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions thereof or pertaining thereto.

"Governmental Consents" has the meaning specified in Section 4.02(a)(xiv).

"Gross Contract Balance" means, with respect to any Contract, an amount equal to the number of remaining Scheduled Payments multiplied by the amount of each Scheduled Payment minus any Prepayments or other payments applied to reduce the unpaid principal balance of such Contract.

"Hedging Counterparty" means an entity (i) (A) whose commercial paper or short-term deposit rating is at least P-1 from Moody's and at least A-1 from S&P and (B) who shall agree that, in the event that its commercial paper or short-term deposit rating is reduced below A-1 by S&P or P-1 by Moody's, it shall secure its obligations as the Lenders may reasonably request, and (ii) which shall be rated at least Aa and A2 by S&P and Moody's, respectively and (iii) which has entered into a Hedging Instrument.

"Hedging Instrument" means any interest rate cap agreement, interest rate floor agreement, interest rate swap agreement or other interest rate hedging agreement entered into by the Borrower with a Hedging Counterparty and payable no less frequently than quarterly to the Borrower, which agreement requires the Hedging Counterparty to deposit amounts payable by the Hedging Counterparty thereunder directly to the Collection Account.

"Income Taxes" means any federal, state, local or foreign taxes based upon, measured by, or imposed upon gross or net income, gross or net receipts, capital, net worth, or the privilege of doing business, and any minimum taxes or withholding taxes based upon any of the foregoing, including any penalties, interest or additions to tax imposed with respect thereto.

"Ineligible Receivable" means a Transferred Receivable that is not an Eligible receivable.

"Indemnified Amounts" has the meaning specified in Section 12.01(a).

"Indemnified Party" has the meaning specified in Section 12.01(a).

"Interest Coverage Ratio" means (a) the sum of the Borrower's year-to-date pre-tax income and the Borrower's year-to-date interest expense, divided by (b) the Borrower's year-to-date interest expense.

"Investments" means, with respect to any Borrower Account Collateral, the certificates, instruments or other Permitted Investments in which amounts in such accounts are invested from time to time.

"Investors" means the financial institutions from time to time party hereto and to the Liquidity Purchase Agreement.

"Issuer" means VFCC and any other Lender whose principal business consists of issuing commercial paper or other securities to fund advances or the acquisition and maintenance of receivables, accounts, instruments, chattel paper, general intangibles and other similar assets.

"Lenders" means collectively, VFCC, the Investors and any other Person
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that agrees, pursuant to the pertinent Assignment and Acceptance, to fund Advances pursuant to Article II of this Agreement.

"LIBOR Rate" means for a Fixed Period, an interest rate per annum
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equal to the sum of (i) the rate appearing on the Telerate Page 3750 as of 11:00 a.m. (London time) on the Business Day which is the second Business Day immediately preceding the first day of such Fixed Period for a term comparable to such Fixed Period or, if no such rate appears on such day, the average (rounded upward to the nearest one-sixteenth (1/16) of one percent) per annum rate of interest determined by First Union at its principal office in Charlotte, North Carolina (each such determination, absent manifest error, to be conclusive and binding) as of two Business Days prior to the first day of the applicable Fixed Period, to be the rate at which deposits in immediately available funds in United States Dollars are being, have been, or would be offered or quoted by the Reference Banks to major banks in the interbank market for Eurodollar deposits at or about 11:00 A.M. (Charlotte, North Carolina time) on such day, for a term comparable to such Fixed Period and in an amount approximately equal to the requested Advance and (ii) the Applicable Margin.

"LINC" means LINC Acceptance Company LLC, a Delaware limited-liability
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company, the chief executive office of which is set forth in Schedule 1 hereto.

"Liquidated Receivable" means a Receivable (i) which has at least five
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(5) Scheduled Payments (or any part thereof) due and unpaid, provided that if the Obligors have paid more than 90% of the most overdue Scheduled Payments such Scheduled Payment shall be deemed paid for purposes hereof, or (ii) as to which the Servicer has determined that all recoveries in respect of such receivable have been received, or (iii) with respect to which the related Financed Vehicle has been repossessed and disposed of.

"Liquidity Agent" means First Union and its successors and assigns as
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agent for the Investors pursuant to the Liquidity Purchase Agreement.

"Liquidity Purchase Agreement" means the Liquidity Purchase Agreement
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dated as of November 24, 1997, among VFCC, the Deal Agent, the Liquidity Agent and the investors party thereto.

"List of Contracts" means the list substantially in the form of
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Exhibit I hereto with respect to each Contract or group of Contracts.

"Loans" means any indebtedness issued by the Borrower to an Affected
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Party, including Advances.

"Lockbox" means a lockbox or post office box established by the
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Servicer under the control of the Collateral Agent.

"Lockbox Account" means an account in the name of the Collateral Agent
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described in Section 6.01(a).

"Lockbox Account Bank" means each bank or financial institution listed
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on Schedule 2 (as such schedule may be amended from time to time by written notice from the Servicer to the Lender and the Deal Agent and its successors and assigns in accordance with a Lockbox Agreement).

"Lockbox Agreement" means each agreement among a Lockbox Account Bank,
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the Servicer and the Collateral Agent executed in connection with establishment of a Lockbox Account in form and substance satisfactory to the Deal Agent.

"Maximum Facility Amount" means at any time, $150,000,000, as such
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amount may be adjusted from time to time pursuant to Section 2.01(c) and Section 2.03, provided, however, that at all times, on or after the Termination Date,
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the "Maximum Facility Amount" shall mean the aggregate outstanding principal amount of Advances.

"Maximum Lawful Rate" has the meaning specified in Section 2.07(c).

"Monthly Report" has the meaning set forth in Section 5.02(a)(ii).

"Moody's" means Moody's Investors Service, Inc.

"Motor Vehicle" means a passenger motor vehicle, van or light duty truck which is not manufactured for a particular commercial purpose.

"Net Loss Factor" means, with respect to any Subgroup of Receivables and Report Period, the average (if more than one Net Loss Rate) of the Net Loss Rate with respect to such Subgroup of Receivables reported as of the three (3) most recent Reset Dates (or such lesser number of Reset Dates for which such information is available), provided, however, that the Net Loss Rate shall be deemed to be zero (0) for any Report Period for which a Net Loss Rate cannot be calculated because no Receivables in such Subgroup had yet been transferred under the Receivables Transfer Agreement.

"Net Loss Rate" means, with respect to any Subgroup of Receivables and Settlement Period, the percentage equivalent of a fraction, determined as of the Reset Date immediately following such Settlement Period, the numerator of which is the product of (a) Net Losses for such Subgroup of Receivables and Settlement Period and (b) 12, and the denominator of which is the average aggregate Contract Principal Balance of Transferred Receivables for each day in such Settlement Period that there were Transferred Receivables in such Subgroup, provided, however, that the denominator for computing the Net Loss Rate for the Added Receivables Subgroup shall be the average aggregate Contract Principal Balance of all Transferred Receivables that were Added Receivables for each day in such Settlement Period that there were Transferred Receivables in such Subgroup.

"Net Losses" means, for any Settlement Period, the excess of (i) the unpaid principal balance of Transferred Receivables that became Liquidated Receivables during such Settlement Period, minus (ii) the sum (a) of all recoveries in respect of such Liquidated Receivables and (b) recoveries received during such Settlement Period in respect of Transferred Receivables that became Liquidated Receivables prior to such Settlement Period.

"Net Portfolio Yield" has the meaning set forth in Section 9.01(r).

"Net Worth" means the total of shareholders' equity (including capital stock, additional paid-in capital and retained earnings) plus Subordinated Debt, less (i) the total amount of loans to shareholders, officers or employees (other than loans of less than $l0,000 to employees), and (ii) the total amount of any intangible assets, including, without limitation, deferred charges and goodwill.

"Notes" has the meaning set forth in Section 2.05(a).

"Obligations" means all amounts owed by the Borrower under this Agreement, including Advances, Interest, Fees, Additional Amounts and indemnities.

"Obligor" means, with respect to any Receivable, the Person primarily obligated to make payments with respect thereto.

"Obligor Delivery Documents" means:

(a) the fully executed original of the Contract (together with any agreements modifying the Contract, including without limitation any extension agreements);

(b) the original Certificate of Title in the name of the Parent (or, with respect to the Samco or Linc Receivables, Samco or Linc, respectively) or such documents that the Parent shall keep on file, in accordance with its customary procedures, evidencing the security interest of the Parent

(or, with respect to the Samco or Linc Receivables, Samco or Linc, respectively) in the Financed Vehicle or, if not yet received, a copy of the application therefor showing the Parent (or, with respect to the Samco or Linc Receivables, Samco or Linc, respectively) as secured party.

"Obligor Documents" means, with respect to each Obligor:

(a) the original Certificate of Title or equivalent title documents issued by the relevant state motor vehicle authority, if applicable, meeting the requirements for Obligor Delivery Documents;

(b) the original executed Contract and the executed assignment thereof, meeting the requirements for Obligor Delivery Documents;

(c) hereafter, on new Financed Vehicles a copy of the Vehicle Dealer Invoice and invoices for any additional equipment included in the Contract;

(d) an original or copy of the credit application of the Obligor;

(e) copies of, but with respect to portfolio purchase of Contracts, only if such are available to the Borrower from the seller of the portfolio purchase Contracts:

(i) an electronic image of the credit bureau reports,

(ii) an electronic image of the credit analysis,

(iii) the completed verification of employment and income forms, and

(iv) the Obligor's references;

(f) written verification of Required Obligor Insurance showing the Servicer as loss payee, additional insured, or lienholder at the time of the Borrower's purchase of the Contract, but with respect to portfolio purchases of Contracts, only if such are available to the Borrower from the seller of the Contracts;

(g) a certificate for each type of Optional Obligor Insurance purchased by the Obligor; and

(h) the Servicer's loan process or "deal structure" sheet.

"Officer's Certificate" means, with respect to any Person, a certificate of such Person signed on its behalf by the Chairman of the Board, Vice Chairman of the Board, the President, a Vice President, the Treasurer, the Secretary or any other duly authorized officer of such Person acceptable to the Deal Agent.

"Optional Obligor Insurance" means any insurance (other than Required Obligor Insurance) which insures a Financed Vehicle or an Obligor's obligations under a Contract, including but not limited to credit life, credit health, credit disability, unemployment insurance and any service contract, mechanical breakdown coverage, warranty or extended warranty for Financed Vehicles.

"Optional Prepayment of Advances" means the option of the Borrower to repay an Advance pursuant to a Borrower Notice and in accordance with Article VI.

"Optional Repayment Amount" means the principal amount of any Optional Prepayment of Advances, plus the interest accrued on such principal amount through the prepayment date, as set forth in any Borrower Notice.

"Other Costs" has the meaning specified in Section 14.03(a).

"Other Funding Agreements" means other agreements for the purchase or
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funding of receivables entered into from time to time by VFCC in which it is contemplated that such purchases or fundings will be financed in the same manner as contemplated hereunder.

"Parent" means Consumer Portfolio Services, Inc.

"Permitted Investments" means one or more of the following:

(a) marketable obligations of the United States, the full and timely payment of which are backed by the full faith and credit of the United States which have a maturity of not more than 270 days from the date of acquisition;

(b) marketable obligations, the full and timely payment of which are directly and fully guaranteed by the full faith and credit of the United States and which have a maturity of not more than 270 days from the date of acquisition;

(c) bankers' acceptances and certificates of deposit and other interest-bearing obligations (in each case having a maturity of not more than 270 days from the date of acquisition) denominated in Dollars and issued by any bank with capital, surplus and undivided profits aggregating at least $100,000,000, the short-term securities of which are rated at least A-1 by S&P and P-1 by Moody's;

(d) repurchase obligations with a term of not more than ten days for underlying securities of the types described in clauses (a), (b) and
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(c) above entered into with any bank of the type described in clause (c)
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above;

(e) commercial paper rated at least A-1 by S&P and P-1 by Moody's; and

(f) demand deposits, time deposits or certificates of deposits (having original maturities of no more than 365 days) of depository institutions or trust companies incorporated under the laws of the United States or any state thereof (or domestic branches of any foreign bank) and subject to supervision and examination by federal or state banking or depository institution authorities; provided that at the same time such
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investment, or the commitment to make such investment, is entered into, the short-term debt rating of such depository institution or trust company shall be at least A-1 by S&P and P-1 by Moody's.

"Person" means an individual, partnership, corporation (including a
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business trust), joint stock company, trust, association, joint venture, Governmental Authority or any other entity of whatever nature.

"Portfolio Requirements" means, with respect to the Eligible

Receivables at any date of determination specified below, each of the following requirements:

(i) the Contract Principal Balance as of the end of the prior Settlement Period of all Eligible Receivables secured by Financed Vehicles that were new at the time of the sale generating such Eligible Receivable shall not exceed 40% of the aggregate Contract Principal Balance of Eligible Receivables as of the end of such Settlement Period;

(ii) the aggregate Contract Principal Balance as of the end of the prior Settlement Period of all Eligible Receivables (a) purchased from non-manufacturer franchised Vehicle Dealers shall not exceed an amount equal to 10% of the aggregate Contract Principal Balance of Eligible Receivables as of the end of such Settlement Period and (b) purchased from any single Vehicle Dealer shall not

exceed an amount equal to 5% of the aggregate Contract Principal Balance of Eligible Receivables as of the end of such Settlement Period;

(iii) the aggregate Contract Principal Balance as of the end of the prior Settlement Period of all Eligible Receivables (a) originated under the Delta Program (as defined in the Credit and Collection Policies) shall not exceed 25% of the aggregate Contract Principal Balance of Eligible Receivables at the end of the Settlement Period, and (b) originated under the First Time Buyer Program (as defined in the Credit and Collection Policies) shall not exceed 20% of the aggregate Contract Principal Balance of Eligible Receivables at the end of such Settlement Period; and

(iv) the aggregate Contract Principal Balance as of the end of the prior Settlement Period of all Eligible Receivables (a) originated in California shall not exceed 30% of the aggregate Contract Principal Balance of Eligible Receivables as of the end of such Settlement Period; and (b) originated in any other state shall not exceed 15% of the aggregate Contract Principal Balance of Eligible Receivables at the end of such Settlement Period.

"Potential Termination Event" means an event which, upon the giving of notice or the passage of time, or both, would become a Termination Event.

"Prepayment" means, with respect to a Contract on any day of determination, the amount, if any, by which the Actual Payment exceeds the Scheduled Payment due for the period during which such Actual Payment is received.

"Prime Rate" means the rate announced by First Union from time to time as its prime rate in the United States, such rate to change as and when such designated rate changes. The Prime Rate is not intended to be the lowest rate of interest charged by First Union in connection with extensions of credit to debtors.

"Proceeds" means, with respect to any Collateral, whatever is receivable or received when such Collateral is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes all rights to payment, including returned premiums, with respect to any insurance relating to such Collateral.

"Program Documents" means any letter of credit agreement, liquidity agreement, collateral agreement, depositary agreement, commercial paper, dealer agreement or any similar agreement relating to the funding of an Advance by a Lender.

"Rating Agency" means each of Moody's and S&P.

"Receivable" means:

(a) indebtedness of an Obligor (whether constituting an account, chattel paper, instrument or general intangible) arising in connection with a Contract, including the right to payment of any interest or finance charges and other obligations of such Obligor with respect thereto;

(b) all security interests or liens and property subject thereto from time to time securing or purporting to secure payment by the Obligor;

(c) all guarantees, indemnities and warranties and proceeds thereof, proceeds of insurance policies, financing statements and other agreements or arrangements of whatever character from time to time supporting or securing payment of such Receivable;

(d) all Collections with respect to any of the foregoing;

(e) all Records and Obligor Documents with respect to any of the foregoing; and

(f) all Proceeds of any of the foregoing.

"Receivable Yield" means, for any Contract, the internal rate of return for such Contract after taking into account the Unearned Discount Amount in respect thereof.

"Receivables Transfer Agreement" means the Receivables Transfer Agreement, dated November 24, 1997, between the Parent and the Borrower, providing for the purchase by, or the contribution to, the Borrower from the Parent of Receivables from time to time,

"Records" means all Contracts and other documents, books, records and other information (including, without limitation, computer programs, tapes, disks, data processing software and related property and rights) prepared and maintained by the Parent, the Servicer or the Borrower with respect to Receivables and the related Obligors.

"Reference Banks" means three major banks in the London interbank market selected by the Deal Agent.

"Register" has the meaning set forth in Section 14.01A.

"Regulatory Change" shall mean any change after the Effective Date in federal, state or foreign law or regulations (including, without limitation, Regulation D of the Federal Reserve Board) or the adoption or making after such date of any interpretation, directive or request applying to any Affected Party of or under any federal, state or foreign law or regulations (whether or not having the force of law) by any Governmental Authority charged with the interpretation or administration thereof.

"Rejected Amount" means, with respect to the Borrower, the amount of the capital contribution which the Parent is required to make to the Borrower (as determined by the Deal Agent) as a result of breaches of representations and warranties with respect to Receivables sold or contributed to the Borrower by the Parent pursuant to Section 4.04(iii) of the Receivables Transfer Agreement.

"Remaining Receivables" means, with respect to any Settlement Period, all Transferred Receivables remaining immediately after any Disposition occurring in such Settlement Period, or if none, the preceding Disposition, provided that, there shall be no Remaining Receivables until a Disposition
- occurs after the date hereof.

"Report Date" means, with respect to any Report Period, the first Business Day of such Report Period.

"Report Period" means with respect to any Settlement Period, the period from and including the fifth (5th) Business Day in such Settlement Period, to but excluding the fifth (5th) Business Day of the next succeeding Settlement Period.

"Request Notice" has the meaning set out in the Receivables Transfer Agreement.

"Required Information" means, with respect to a Receivable, (a) the Obligor, (b) the Obligor's address, (c) the Amount Financed, (d) the Gross Contract Balance, (e) the Contract Principal Balance, (f) any discounts, and (g) whether or not such Receivable is an Eligible Receivable.

"Required Investors" means at a particular time, Investors with Commitments in excess of 50% of the Facility Limit.

"Required Obligor Insurance" means the casualty insurance that the Obligor is required to obtain pursuant to the terms of the Contract.

"Required Reserve Account Amount" means, with respect to any Settlement Date following the date on which a financial covenant set forth in Section 7.06 is not met, 0.10% of the average daily Maximum Facility Amount during the immediately preceding Settlement Period or such lesser amount as the Deal Agent may agree to in writing.

"Reserve Account Deposit Amount" means with respect to any Settlement Date, the excess as of such Settlement Date (prior to giving effect to distributions or deposits to the Successor Servicer Reserve Account on such Settlement Date) of (i) the Required Reserve Account Amount over (ii) the balance of funds on deposit in the Successor Servicer Reserve Account.

"Reset Date" means, with respect to any Report Period, first Business Day of such Report Period, provided, however, that the first Reset Date under this Agreement shall be the Reset Date occurring in January 1997.

"Restrictions on Transferability" means any material condition to, or restriction on, the ability of the holder or an assignee of the holder of any right, title or interest to sell, assign, transfer or otherwise liquidate such right, title or interest in a commercially reasonable time and manner or which would otherwise materially deprive the holder or any assignee of the holder of the benefits thereof.

"Revolving Period" means the period commencing on the Effective Date of this Agreement and ending on the day immediately prior to the Commitment Termination Date.

"Samco" means Samco Acceptance Corp., a Delaware corporation, the chief executive office of which is set forth in Schedule 1 hereto.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc.

"Sale Assignment" means the assignment entered into between the Parent and the Borrower on any Transfer Date substantially in the form of Exhibit 1 to the Receivables Transfer Agreement.

"Sale Date" has the meaning given to that term in the Receivables Transfer Agreement.

"Sale Price" has the meaning given to that term in the Receivables Transfer Agreement.

"Schedule of Payments" means, for any Contract, the schedule of payments disclosed in such Contract.

"Scheduled Payment" means, for any Contract, the periodic installment payment amount disclosed in the Schedule of Payments for such Contract.

"Secured Parties" means, collectively, the Lenders.

"Securitization" means a disposition of Receivables in one or a series of structured-finance securitization transactions.

"Servicer" means the Parent, or any Person designated as Successor Servicer, and its successors and assigns from time to time hereunder.

"Servicer Termination Notice" means a notice by the Deal Agent to the Servicer that an Event of Servicer Termination has occurred and that the Servicer's appointment hereunder has been terminated.

"Servicing Fee" means the monthly Servicing Fee set forth in the Fee Letter.

"Servicing Records" means all documents, books, records and other information (including, without limitation, computer programs, tapes, disks, data processing software and related property and rights) prepared and maintained by the Servicer with respect to the Transferred Receivables and the related Obligors.

"Settlement Date" means, with respect to a Settlement Period, the seventh (7th) Business Day of the next succeeding Settlement Period, provided, however, that the first Settlement Date under this Agreement shall be the Settlement Date occurring in January 1997.

"Settlement Period" means in the case of the initial Settlement Period, the period beginning with the Effective Date to and including the last day of the calendar month in which such Effective Date occurs; with respect to the final Settlement Period, the period ending on the Final Maturity Date and beginning with the first day of the calendar month in which the Final Maturity Date occurs; and with respect to all other Settlement Periods, each calendar month.

"Subgroup" means, with respect to any Settlement Period, the Remaining Receivables or the Added Receivables, as the case may be.

"Subordinated Debt" means any Debt which is subordinated in right of payment to the obligations of the Borrower under this Agreement.

"Sub-Servicer" means any Person with whom the Servicer enters into a Sub-Servicing Agreement.

"Sub-Servicing Agreement" means any written contract between the Servicer and any Sub-Servicer, relating to servicing, administration or collection of Transferred Receivables as provided in Section 7.01, in such form as has been approved in writing by the Servicer and the Deal Agent.

"Subsidiary" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the Board of Directors or other Persons performing similar functions are at the time directly or indirectly owned or controlled by such Person.

"Successor Servicer" has the meaning specified in Section 11.02.

"Successor Servicer Reserve Account" has the meaning specified in Section 6.01(c).

"Successor Servicing Fees and Expenses" means the fees and expenses payable by the Borrower to Successor Servicer, as agreed to by the Borrower, the Lenders, the Deal Agent and the Liquidity Agent.

"Taxes" has the meaning specified in Section 2.12.

"Telerate" means, when used in connection with any designated page and rate, the display page so designated on the Dow Jones Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information vendor, for the purpose of displaying rates comparable to such designated rate).

"Termination Event" has the meaning specified in Section 9.01.

"Transfer Date" means each date on which a Transferred Receivable is sold or contributed to the Borrower by the Parent under the Receivables Transfer Agreement.

"Transferred Receivable" means any Receivable which has been purchased by the Borrower or contributed as capital by the Parent to the Borrower, under the Receivables Transfer Agreement and not subsequently disposed of in a Disposition.

"Truth-in-Lending Act" means the federal Act cited as 15 U.S.C. (S)1601 et seq., as amended.

"Transfer Request" has the meaning specified in Section 8.07(a).

"UCC" means, for any jurisdiction, the Uniform Commercial Code as from time to time in effect in such jurisdiction.

"Unearned Discount Amount" means, with respect to any Contract, the product of (i) the original dollar discount at which the Contract was purchased from the Vehicle Dealer or other cash fees paid by the Vehicle Dealer and (ii) the ratio of which the numerator is the Contract Principal Balance and the denominator is the original Amount Financed with respect to such Contract.

"Unearned Interest Amount" means, with respect to any Contract, that portion of the total finance charge to be paid with respect to such Contract which the Obligor would not be required to pay in the event of a total prepayment, for which the exact computation to be made is based on the Rule of 78s, or such other method as provided for in such Contract.

"Vehicle Dealer" means the seller of the Financed Vehicle to the Obligor.

"Vehicle Dealer Invoice" means (i) as to new Financed Vehicles, the invoice prepared by the manufacturer and (ii) as to used Financed Vehicles, the KELLEY WHOLESALE BLUE BOOK value or NADA USED CAR GUIDE TRADER wholesale value, as typically used in the applicable market.

"Weighted Average Advance Rate" means, as of any date of determination, the weighted average (weighted on the basis of relative aggregate Contract Principal Balances) of the most recent Advance Rates for each Subgroup.

"Weighted Average Base Rate" means for any date of determination the average of Base Rates as of such dates for all Advances to which Base Rates apply, weighted by the outstanding principal balance of Advances to which each such Base Rate applies.

"Weighted Average CP Rate" means for any date of determination the average of CP Rates as of such dates for all tranches of outstanding Commercial Paper, weighted by the outstanding Commercial Paper in each tranche.

"Weighted Average Liquidity Rate" means for any date of determination the average of the Adjusted Eurodollar Rates as of such dates for all Advances to which Adjusted Eurodollar Rates apply, weighted by the outstanding principal balance of Advances to which each such Adjusted Eurodollar Rate applies.

"Whole Loan Sale" means a disposition of Receivables pursuant to a whole-loan sale.

"Yield Rate" For any Fixed Period for all principal amounts of Advances allocated to such Fixed Period:

(a) to the extent the relevant Lender will be funding the applicable Advance on the first day of such Fixed Period through the issuance of commercial paper, a rate equal to the CP Rate for such Fixed Period, and

(b) to the extent the relevant Lender will not be funding the applicable Advance on the first day of such Fixed period through the issuance of commercial paper, a rate equal to the Alternative Rate for such Fixed Period or such other rate as the Deal Agent and the Borrower shall agree to in writing.

Section 1.02. Other Terms. All accounting terms not specially defined herein shall be construed in accordance with GAAP. All terms used in Article 9 of the UCC of the State of New York, and not specifically defined herein, are used herein as defined in such Article 9. All hourly references herein shall refer to New York City time.

Section 1.03. Interpretation. Except as otherwise indicated, all agreements defined in this Agreement refer to the same as from time to time amended or supplemented or as the terms of such agreements are waived or modified in accordance with their terms.

ARTICLE II

ADVANCES

Section 2.01. Advances.

(a) On the terms and conditions hereinafter set forth, the Borrower may for any Funding Date, at its option, request that the Lenders make advances (each, an "Advance") to the Borrower in an amount not to exceed the Availability less Advances Outstanding. VFCC may, in its sole discretion, fund, or if VFCC shall decline to fund, the Liquidity Agent shall fund on behalf of the Investors, Advances from time to time during the Revolving Period. Under no circumstances shall any Lender make any Advance if, after giving effect to such Advance, the aggregate principal amount of Advances outstanding hereunder would exceed the Availability (calculated after giving effect to any purchase of additional Eligible Receivables with the proceeds of such Advance). In addition, no Advance shall be made if an event described in Section 9.01(c) has occurred and is continuing on such day with respect to either of the Borrower or the Parent.

(b) The Borrower may, within 60 days, but no later than 45 days, prior to the then Final Maturity Date, by written notice to the Deal Agent, make written request for VFCC and the Investors to extend the Commitment Termination Date for an additional period of 364 days. The Deal Agent will give prompt notice to VFCC and each of the Investors of its receipt of such request for extension of the Final Maturity Date. VFCC and each Investor shall make a determination, in their sole discretion and after a full credit review, not less than 15 days prior to the then applicable Final Maturity Date as to whether or not they will agree to extend the Final Maturity Date; provided, however, that the failure of VFCC or any Investor to make a timely response to the Borrower's request for extension of the Final Maturity Date shall be deemed to constitute a refusal by VFCC or the Investor, as the case may be, to extend the Final Maturity Date. The Final Maturity Date shall only be extended upon the consent of both (i) VFCC and (ii) 100% of the Investors and upon payment to the Deal Agent of the facility renewal fee specified in the Fee Letter. Any date to which the Commitment Termination Date is extended is referred to herein as the "Extension Date."

(c) At any time after the Effective Date, the Borrower may, by written notice to the Deal Agent as agent for the Lenders delivered at least ten Business Days prior to a Funding Date, request an increase in the Maximum Facility Amount; provided that (i) any such increase must be in a minimum amount of $25,000,000 and in integral multiples of $1,000,000 in excess thereof and (ii) no Termination Event or Potential Termination Event has occurred and is continuing. VFCC and each Investor, in their sole discretion and after full credit review and subject to receipt from S&P and Moody's that such proposed increase will not cause the rating maintained by such Rating Agency with respect to any Lender's short-term Commercial Paper notes to be reduced, may approve such request for an increase in the Maximum Facility Amount, which increase shall become effective only upon receipt by the Borrower of written consent of both (i) VFCC and (ii) 100% of the Investors to such increase.

Section 2.02. Procedures for Advances. Subject to the conditions described in Section 2.01, each Advance shall be made in accordance with the procedures described in Section 2.02(b).

(a) (i) On each day of requested Advance, the Borrower shall file by 5:00 p.m. Eastern time on the day before such Advance, a Borrowing Base Certificate and copies of any Request Notices delivered under the Receivables Transfer Agreement with the Deal Agent. Availability will be calculated based on the most recent Borrowing Base Certificate delivered to the Deal Agent. The Borrower may request additional Advances up to the Advances Available, if any. If there is a Borrowing Excess, the Borrower must repay, in accordance with the procedures set forth in Sections 6.02(a)(iii) and 6.04(a)(iii)(E), Advances Outstanding to the level of the new Availability.

(ii) The Borrower shall give the Deal Agent written notice of each borrowing, repayment of each Advance, or termination or reduction of the Maximum Facility Amount and Optional Prepayments of Advances (in each case, a "Borrower Notice"). Each such Borrower Notice shall specify the amount (subject to Section 2.01 hereof) of Advances to be borrowed or repaid and the Funding Date or repayment date (which shall be a Business Day).

(iii) Each Borrower Notice requesting an Advance shall include a representation by the Borrower that the Advance requested shall not on the Funding Date exceed the Advances Available, based upon the most recent Borrowing Base Certificate.

(b) Each Advance shall be made on at least one Business Day's notice from the Borrower by 5:00 p.m. Eastern time to the Deal Agent or, if the Daily Yield to accrue with respect to such Advance is computed by reference to the Adjusted Eurodollar Rate, on at least three Business Days' notice from the Borrower to the Deal Agent. Each Borrower Notice shall specify (i) the aggregate amount of such Advance, which shall be in an amount equal to $2,000,000 or integral multiples of $100,000 in excess thereof, and (ii) the Funding Date. Following receipt of such Borrower Notice, the Deal Agent will determine whether VFCC will make the Advance. If VFCC declines to make a proposed Advance, the Advance shall be made by the Investors; the Deal Agent shall promptly notify the Liquidity Agent and the Investors in writing of any declination by VFCC to make an Advance. On the date of such Advance, VFCC or the Liquidity Agent upon receipt of funds from the Investors shall, upon satisfaction of the applicable conditions set forth in Article III, make available an amount equal to the principal amount of such Advance to the Borrower; provided, however, that such amount shall not exceed the Availability or their respective Commitments.

With respect to any Advance to be made by the Investors hereunder, each Investor shall promptly pay to the Liquidity Agent at an account designated by the Liquidity Agent, for the benefit of the Borrower, its Acquisition Amount. The Liquidity Agent shall promptly deposit the aggregate Acquisition Amounts received in the Agent's Account; provided, however, that the Borrower and each Investor agree that the Liquidity Agent shall not be required to deposit any amount in respect of the Acquisition Amounts in excess of the aggregate of the Acquisition Amounts actually received by the Liquidity Agent. All payments in respect of the principal amount of any Advance shall be made by each of the Investors to the Liquidity Agent and by the Liquidity Agent to the Deal Agent on the Business Day such Investor and the Liquidity Agent receive a notice from the Deal Agent for the funding of an Advance; provided, however, if any such notice is delivered to the Liquidity Agent or an Investor after 4:00 p.m. (New York City time) on a Business Day, payments in respect of the related Advance shall be made by 9:30 a.m. (New York City time) on the next Business Day.

Section 2.03. Reduction of the Facility Limit; Repayment.

(a) The Borrower may, upon at least five Business Days' notice to the Deal Agent, terminate in whole or reduce in part the portion of the Maximum Facility Amount that exceeds the sum of the aggregate principal amount of Advances Outstanding, and the Commitments of the Investors shall be reduced proportionately; provided, however, that each partial reduction of the Maximum Facility Amount shall be in an aggregate amount equal to $1,000,000 or an integral multiple thereof. Each notice of reduction or termination pursuant to this Section 2.03(a) shall be irrevocable.

(b) The Borrower may, at any time prior to the occurrence of the Commitment Termination Date, repay all or a portion of any Advances Outstanding at a price sufficient to repay in full (i) the amount of the outstanding principal amount to be repaid in respect of such Advances, (ii) all Daily Yield accrued thereon and (iii) any and all Breakage Costs payable under Section 2.11. In addition, on such repayment date, as a condition to such repayment, all fees, expenses and other amounts payable to any Lender or other Person under this Agreement or any other Basic Document through the latest ending Fixed Period shall be paid in full in cash.

Section 2.04. Selection of Fixed Periods.

Each Advance shall at all times have an associated amount of principal, a Yield Rate and a Fixed Period applicable to it. The Deal Agent shall, in consultation with the Borrower, select (a) each Fixed Period and (b) Yield Rates to apply to such Advance for such Fixed Periods and shall allocate a portion of the aggregate outstanding principal amount of the Advance to each selected Fixed Period, so that all of the outstanding principal amount of the Advance is at all times allocated to one or more Fixed Periods, provided that, on or after the Commitment Termination Date, the Deal Agent shall, in its sole discretion, select each such Fixed Period and such Yield Rates to apply to such Advance for such Fixed Periods. Each Fixed Period (other than the initial Fixed Period for an Advance) shall commence on the last day of the immediately preceding Fixed Period. Any Fixed Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day; provided, however, that if Daily Yield in respect of such Fixed Period is computed by reference to the Adjusted Eurodollar Rate, and such next succeeding Business Day is in the next calendar month, then such Fixed Period shall end on the next preceding Business Day. In addition, whenever any Fixed Period as to which Daily Yield accrues at the Adjusted Eurodollar Rate commences on the last Business Day in a month or on a day for which there is no numerically corresponding day in the month in which such Fixed Period ends, the last day of such Fixed Period shall occur on the last Business Day of the month in which such Fixed Period ends. Furthermore, if a CP Disruption Event shall have occurred and be continuing, the relevant Lender, or the Deal Agent on its behalf, may, upon notice to the Borrower, terminate any Fixed Period then in effect if such Lender has funded the principal amount of the Advance allocated to such Fixed Period by issuing its commercial paper notes. Any Fixed Period that commences before the Commitment Termination Date and that would otherwise end on a date occurring after the Termination Date shall end on the Commitment Termination Date.

Section 2.05. Notes.

(a) The Advances made by each Lender hereunder shall be evidenced by a duly executed promissory note of the Borrower to each applicable Lender in substantially the form of Exhibit C hereto (each, a "Note"). Each Note shall be dated the initial Funding Date, shall be payable to the applicable Lender in a principal amount equal to the Maximum Facility Amount as originally in effect, and shall otherwise be duly completed. The Advances evidenced by the Notes shall be payable as provided in Article VI hereof.

(b) The Deal Agent as agent for the Lenders shall enter on a schedule attached to each Note a notation (which may be computer generated) with respect to each Advance made hereunder of: (i) the date and principal amount thereof and (ii) each payment and repayment of principal thereof. The failure of the Deal Agent to make any such notation on the schedule to any such Note shall not limit or otherwise affect the obligation of the Borrower to repay the Advances in accordance with their respective terms as set forth herein.

Section 2.06. Principal Repayments. The Advances (a) shall be repaid as and when necessary, as set forth in Sections 2.03(b) 6.03, 6.04 and 6.05, to cause the aggregate principal amount of the Advances Outstanding not to exceed the Availability, and (b) may be repaid at any time and from time to time, in whole or in part, upon prior written notice to the Deal Agent as provided in Section 2.03(b) hereof and any amount so repaid may, subject to the terms and conditions hereof, be reborrowed hereunder during the Revolving Period; provided, however, that all repayments of Advances or any portion thereof shall be made together with

payment of (i) all interest accrued on the amount repaid to (but excluding) the date of such repayment and (ii) except in the case of an Optional Prepayment of Advances pursuant to Section 2.10(d), any and all Breakage Costs payable pursuant to Section 2.11.

Section 2.07. Interest.

(a) The Borrower shall pay to the Lender, as set forth in Sections 6.04 and 6.05, Daily Yield on the unpaid principal amount of each Advance for the period commencing on and including the Funding Date of such Advance until but excluding the date such Advance shall be paid in full.

(b) Notwithstanding the foregoing, the Borrower shall pay interest on unpaid Daily Yield, on any Advance or any installment thereof, and on any other amount payable by the Borrower hereunder (to the extent permitted by law) that shall not be paid in full when due (whether at stated maturity, by acceleration or otherwise) for the period commencing on the due date thereof to (but excluding) the date the same is paid in full at the applicable Daily Yield.

(c) Anything in the Basic Documents to the contrary notwithstanding, if at any time the rate of interest payable by any Person under the Basic Documents exceeds the highest rate of interest permissible under any applicable law (the "Maximum Lawful Rate"), then, so long as the Maximum Lawful Rate would be exceeded, the rate of interest under such Basic Document shall be equal to the Maximum Lawful Rate. If at any time thereafter the rate of interest payable under such Basic Document is less than the Maximum Lawful Rate, such Person shall continue to pay interest under such Basic Document at the Maximum Lawful Rate until such time as the total Daily Yield received from such Person is equal to the total interest that would have been received had the applicable law not limited the interest rate payable under such Basic Document. In no event shall the total interest received by any Lender and the Collateral Agent under the Basic Documents exceed the amount which the Lender and the Collateral Agent could lawfully have received, had the interest due under such Basic Documents been calculated since the Effective Date at the Maximum Lawful Rate.

Section 2.08. Fees. (a) On each Settlement Date, the Borrower shall pay to the Servicer, the Servicing Fee, or to the Successor Servicer, the Successor Servicing Fees and Expenses.

(b) On each Settlement Date, the Borrower shall pay to the Lender the Facility Fee.

Section 2.09. Time and Method of Payments. Subject to the provisions of Sections 6.03, 6.04 and 6.05, all payments of principal, Daily Yield, fees and other amounts (including indemnities) payable by the Borrower hereunder shall be made in Dollars, in immediately available funds, to the Deal Agent not later than 11:00 a.m., New York City time, on the date on which such payment shall become due. Any such payment made on such date but after such time shall, if the amount paid bears interest, be deemed to have been made on, and interest shall continue to accrue and be payable thereon until, the next succeeding Business Day. If any payment of principal or Daily Yield becomes due on a day other than a Business Day, such payment may be made on the next succeeding Business Day and such extension shall be included in computing interest in connection with such payment. All payments hereunder and under the Notes shall be made without setoff or counterclaim and in such amounts as may be necessary in order that all such payments shall not be less than the amounts otherwise specified to be paid under this Agreement and the Notes. Upon payment in full of the applicable Note, following the Commitment Termination Date, the Deal Agent as agent for the applicable Lender shall mark each Note "Paid" and return them to the Borrower.

Section 2.10. Additional Costs; Capital Requirements. (a) In the event that any existing or future law, regulation or guideline, or interpretation thereof, by any court or administrative or governmental authority charged with the administration thereof, or compliance by any Affected Party with any request or directive (whether or not having the force of law) of any such authority shall impose, modify or deem applicable or result in the application of, any capital maintenance, capital ratio or similar requirement against Loan commitments made by any Affected Party under this Agreement or a Program Document, and the result of any event referred to above is to impose upon any Affected Party or increase any capital requirement applicable as a

result of the making or maintenance of, such Affected Party's loan commitment (which imposition of capital requirements may be determined by each Affected Party's reasonable allocation of the aggregate of such capital increases or impositions), then, upon demand made by the Deal Agent on behalf of such Affected Party as promptly as practicable after it obtains knowledge that such law, regulation, guideline, interpretation, request or directive exists and determines to make such demand, the Borrower shall immediately pay to the Collateral Agent on behalf of such Affected Party from time to time as specified by the Deal Agent additional amounts which shall be sufficient to compensate such Affected Party for the Borrower's Share of such imposition of or increase in capital requirements together with interest on each such amount from the date demanded until payment in full thereof at the Daily Borrowing Rate. A certificate setting forth in reasonable detail the amount necessary to compensate such Affected Party as a result of an imposition of or increase in capital requirements submitted by the Deal Agent to the Borrower shall be conclusive, absent manifest error, as to the amount thereof.

(b) In the event that any Regulatory Change shall: (i) change the basis of taxation of any amounts payable to any Affected Party in respect of any Loans (other than taxes imposed on the overall net income of such Affected Party for any such Loans by the United States of America or the jurisdiction in which such Affected Party has its principal office); (ii) impose or modify any reserve, Federal Deposit Insurance Corporation premium or assessment, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Affected Party; or (iii) impose any other conditions affecting this Agreement in respect of Loans (or any of such extensions of credit, assets, deposits or liabilities); and the result of any event referred to in clause (i), (ii) or (iii) above shall be to increase such Affected Party's costs of making or maintaining any Loans or its commitment under a Program Document, or to reduce any amount receivable by such Affected Party hereunder in respect of any of its Loans or its commitment (such increases in costs and reductions in amounts receivable are hereinafter referred to as "Additional Costs") then, upon demand made by
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the Deal Agent on behalf of such Affected Party, as promptly as practicable after it obtains knowledge that such a Regulatory Change exists and determines to make such demand, the Borrower shall pay to the Collateral Agent on behalf of such Affected Party, from time to time as specified by the Deal Agent, additional commitment fees or other amounts which shall be sufficient to compensate such Affected Party for the Borrower's Share of such increased cost or reduction in amounts receivable by such Affected Party from the date of such change, together with interest on each such amount from the date demanded until payment in full thereof at the Daily Borrowing Rate.

(c) Determinations by any Affected Party for purposes of this Section 2.10 of the effect of any Regulatory Change on its costs of making or maintaining Loans or on amounts receivable by it in respect of Loans, and of the additional amounts required to compensate such Affected Party in respect of any Additional Costs, shall be set forth in a written notice to the Borrower in reasonable detail and shall be conclusive, absent manifest error.

(d) If the Borrower is required to pay any additional amounts pursuant to a Regulatory Change, then the Borrower may terminate the Maximum Facility Amount prior to any such Regulatory Change pursuant to Section 2.03(a) and make an Optional Prepayment of Advances without incurring any amounts payable pursuant to Section 2.11 resulting solely from such Optional Prepayment of Advances.

Section 2.11. Breakage Costs. The Borrower shall pay to the

Liquidity Agent for the account of each Lender, upon the request of the Liquidity Agent or the Deal Agent, such amount or amounts as shall compensate the Lenders for any loss (including loss of profit), cost or expense incurred by the Lenders (as reasonably determined by the Liquidity Agent or the Deal Agent) as a result of any repayment of an Advance (and interest thereon) other than on the maturity date of the Commercial Paper funding such Advance, such compensation to include, without limitation, an amount equal to any loss or expense suffered by the Lenders during the period from the date of receipt of such repayment to (but excluding) the maturity date of such Commercial Paper, if the rate of interest obtainable by the Lenders upon the redeployment of an amount of funds equal to the amount of such repayment (including for such purpose reinvestment income on such amount in the Collection Account) is less than the Daily Yield applicable to such Commercial Paper (such expense to be referred to as "Breakage Costs"). The determination by any Lender of the amount
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of any such loss or expense shall be set forth in a written notice to the Borrower in reasonable detail and shall be conclusive, absent manifest error. No

Breakage Costs will be payable by the Borrower under this Section 2.11 if (i) the Borrower gives the Deal Agent advance notice of a Securitization, including the date thereof, (ii) the Lender subsequently issues Commercial Paper with a maturity date after the date of such Securitization, and (iii) the Lender incurs Breakage Costs in connection with a repayment of an Advance funded by the issuance of such post-notice Commercial Paper.

Section 2.12. Taxes.

(a) Any and all payments by the Borrower or the Servicer hereunder shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of the Lenders and the Deal Agent, Income Taxes that are imposed on a Lender or the Deal Agent by the state or foreign jurisdiction under the laws of which such Lender or the Deal Agent (as the case may be) is organized or conducts business or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower or the Servicer shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to a Lender or the Deal Agent, (i) the Borrower shall make an additional payment to such Lender or the Deal Agent, as the case may be, in an amount sufficient so that, after making all required deductions (including deductions applicable to additional sums payable under this section), such Lender or the Deal Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower or the Servicer, as the case may be, shall make such deductions and (iii) the Borrower or the Servicer, as the case may be, shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) The Borrower will indemnify each Lender and the Deal Agent for the full amount of Taxes (including, without limitation, any Taxes imposed by any jurisdiction on amounts payable under this section) paid by such Lender or the Deal Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto; provided that such Lender or the Deal Agent, as appropriate, making a demand for indemnity payment shall provide the Borrower with a certificate from the relevant taxing authority or from a responsible officer of such Lender or the Deal Agent stating or otherwise evidencing that such Lender or the Deal Agent has made payment of such Taxes and will provide a copy of or extract from documentation, if available, furnished by such taxing authority evidencing assertion or payment of such Taxes. This indemnification shall be made within ten days from the date the Lender or the Deal Agent (as the case may be) makes written demand therefor.

(c) Within thirty (30) days after the date of any payment by the Borrower of any Taxes, the Borrower will furnish to the Deal Agent appropriate evidence of payment thereof.

(d) If a Lender is not created or organized under the laws of the United States or a political subdivision thereof, such Lender shall, to the extent that it may then do so under applicable laws and regulations, deliver to the Borrower (with, in the case of a Lender, a copy to the Deal Agent) (i) within 15 days after the date hereof, or, if later, the date on which such Lender becomes a Lender pursuant to this Agreement two (or such other number as may from time to time be prescribed by applicable laws or regulations) duly completed copies of IRS Form 4224 or Form 1001 (or any successor forms or other certificates or statements which may be required from time to time by the relevant United States taxing authorities or applicable laws or regulations), as appropriate, to permit the Borrower to make payments hereunder for the account of such Lender, as the case may be, without deduction or withholding of Income Taxes and (ii) upon the obsolescence of or after the occurrence of any event requiring a change in, any form or certificate previously delivered pursuant to this Section 2.12(d), copies (in such numbers as may from time to time be prescribed by applicable laws or regulations) of such additional, amended or successor forms, certificates or statements as may be required under applicable laws or regulations to permit the Borrower to make payments hereunder for the account of such Lender, without deduction or withholding of Income Taxes.

(e) For any period with respect to which a Lender or the Deal Agent has failed to provide the Borrower with the appropriate form, certificate or statement described in clause (d) of this section (other than if such failure is due to a change in law occurring after the date of this Agreement), the Deal Agent or such Lender, as the case may be, shall not be entitled to indemnification under clauses (a) or (b) of this section with respect to any Taxes.

(f) Within thirty (30) days of the written request of the Borrower therefor, the Deal Agent and such Lender, as appropriate, shall execute and deliver to the Borrower such certificates, forms or other documents which can be furnished consistent with the facts and which are reasonably necessary to assist the Borrower in applying for refunds of taxes remitted hereunder.

(g) If, in connection with an agreement or other document providing liquidity support, credit enhancement or other similar support to the Lenders in connection with this Agreement or the funding or maintenance of Advances hereunder, the Lenders are required to compensate a bank or other financial institution in respect of taxes under circumstances similar to those described in this section then within ten days after demand by the Lenders, the Borrower shall pay to the Lenders such additional amount or amounts as may be necessary to reimburse the Lenders for any amounts paid by them.

(h) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this section shall survive the termination of this Agreement.

ARTICLE III

CONDITIONS TO LENDING

Section 3.01. Conditions Precedent to Effectiveness of Agreement.

The effectiveness of this Agreement is subject to the condition precedent that the Deal Agent shall have received on or before the Effective Date the following, in form and substance satisfactory to the Deal Agent:

(a) An executed copy of each Basic Document, each in a form approved by the Deal Agent and evidence to the effect that all conditions precedent to the effectiveness thereof shall have been satisfied;

(b) A certificate from an officer of the Parent in the form of Exhibit D to the effect that the performance of the Receivables Transfer Agreement will not render the Borrower insolvent and the Borrower will be able to remain economically viable without further investments by the Parent for the foreseeable future;

(c) With respect to the Borrower:

(i) the certificate or articles of incorporation of the Borrower certified, as of a date no more than ten (10) days prior to the Effective Date, by the Secretary of State of its state of incorporation;

(ii) a good standing certificate, dated no more than ten (10) days prior to the Effective Date, from the respective Secretary of State of its state of incorporation and each state in which the Borrower is required to qualify, or represents that it is qualified, to do business;

(iii) a certificate of the Secretary or Assistant Secretary of the Borrower certifying as of the Effective Date: (A) the names and true signatures of the officers authorized on its behalf to sign this Agreement, (B) a copy of the Borrower's by-laws, and (C) a copy of the resolutions of the board of directors of the Borrower approving the Basic Documents to which it is a party and the transactions contemplated hereby and thereby;

(iv) an Officer's Certificate in the form of Exhibit E hereto; and

(v) the Notes shall have been duly executed and delivered by the Borrower to the Deal Agent and shall be in full force and effect.

(d) With respect to the Servicer:

(i) the certificate or articles of incorporation of the Servicer certified, as of a date no more than ten (10) days prior to the Effective Date, by the Secretary of State of its state of incorporation;

(ii) a good standing certificate, dated no more than ten (10) days prior to the Effective Date, from the respective Secretary of State of its state of incorporation and each state in which the Servicer is required to qualify, or represents that it is qualified, to do business;

(iii) a certificate of the Secretary or Assistant Secretary of the Servicer certifying as of the Effective Date: (A) the names and true signatures of the officers authorized on its behalf to sign this Agreement, (B) a copy of the Servicer's by-laws, and (C) a copy of the resolutions of the board of directors of the Servicer approving the Basic Documents to which it is a party and the transactions contemplated thereby and hereby; and

(iv) an Officer's Certificate in the form of Exhibit F hereto;

(e) Certified copies of requests for information or copies on form UCC-11 (or a similar search report certified by a party acceptable to the Deal Agent), dated a date no more than fourteen (14) days prior to the Effective Date listing all effective financing statements and other similar instruments and documents which name the Parent (under its present name and any previous name) as debtor, together with copies of such financing statements;

(f) Executed financing statements (form UCC-3), if any, necessary to release all security interests and other rights of any Person in Transferred Receivables previously granted by the Parent including, without limitation, all such releases specified by the Parent prior to the date hereof;

(g) Any necessary third party including any Governmental Authority) consents to the closing of the transactions contemplated by this Agreement on behalf of the Borrower or Servicer hereby, in form and substance satisfactory to the Deal Agent;

(h) Executed financing statements (form UCC-1), in respect of Transferred Receivables, (i) pursuant to the Receivables Transfer Agreement, naming the Parent as the assignor and the Borrower as the assignee, and (ii) pursuant to Article VIII, naming the Borrower as the debtor, the Collateral Agent on behalf of the Lenders as secured parties, or other, similar instruments or documents, as may be necessary or, in the opinion of the Deal Agent, desirable under the UCC of all appropriate jurisdictions or any other applicable law (including the Assignment of Claims Act) to perfect the Collateral Agent's interests in all Transferred Receivables in which an interest may be assigned hereunder;

(i) The opinion of counsel to the Borrower and the Parent in form and substance satisfactory to Deal Agent and the Collateral Agent;

(j) The favorable opinion of co-counsel to the Borrower and the Parent, as to the true sale of the Transferred Receivables from the Parent to the Borrower, the nonconsolidation of the Borrower's assets into the bankruptcy estate of the Parent and such other matters as the Deal Agent may require;

(k) Payment of the Lenders' estimated legal fees and other fees and costs as specified in the Fee Letter;

(l) Consolidated and consolidating balance sheets and statements of income and changes in financing position of the Parent and its Subsidiaries for each of the years in the three year period ended the Balance Sheet Date, audited by a nationally recognized accounting firm except with respect to consolidating statements;

(m) The Borrower's pro-forma balance sheet, dated as of the calendar quarter preceding the Effective Date and certified by the chief financial officer of the Parent;

(n) Confirmation of the ratings of the Commercial Paper as A-1 by S&P and P-1 by Moody's;

(o) A copy of the Parent's Credit and Collection Policies;

(p) Establishment of a cash management system acceptable to the Lender and the Deal Agent;

(q) The Borrower shall have executed an Assignment of Insurance Interests;

(r) Fully executed copies of the Lockbox Agreement; and

(s) Such other approvals, consents, opinions, documents and instruments, as the Deal Agent may reasonably request.

Section 3.02. Conditions Precedent to All Advances. Each Advance (including the initial Advance) shall be subject to the further conditions precedent that:

(a) On the related Funding Date, the Borrower shall have certified in the related Borrowing Base Certificate that, except as specifically disclosed in the related Borrower Notice (or specifically disclosed in a prior instance to the Deal Agent in writing), and specifically consented to by the Deal Agent in its sole discretion:

(i) The representations and warranties of the Borrower, the Parent and the Servicer set forth in Sections 4.01, 4.02 and 4.03 are true and correct on and as of such date, before and after giving effect to such borrowing and to the application of the proceeds therefrom, as though made on and as of such date;

(ii) No event has occurred, or would result from such Advance or from the application of the proceeds therefrom, which constitutes a Termination Event or would constitute a Termination Event but for the requirement that notice be given or time elapse or both;

(iii) The Borrower is in compliance with each of its covenants set forth herein; and

(iv) No event has occurred which constitutes an Event of Servicer Termination or would constitute an Event of Servicer Termination but for the requirement that notice be given or time elapse or both;

(b) The Commitment Termination Date shall not have occurred;

(c) Before and after giving effect to such borrowing and to the application of proceeds therefrom, there exists no Borrowing Excess;

(d) Each Transferred Receivable submitted by the Borrower for computation of the Borrowing Base is an Eligible Receivable; and

(e) No claim has been asserted or proceeding commenced challenging the Basic Documents;

(f) The Deal Agent has not obtained or been provided with material adverse credit information about the Parent, which information has not been disproved by the Parent to the satisfaction of the Deal Agent;

(g) There shall have been no material adverse change in the condition (financial or otherwise), business, operations, results of operations, or properties of the Borrower since the preceding Advance.

(h) The Deal Agent shall have received evidence that the Custodian has received the related Obligor Delivery Documents.

(i) The Parent and Borrower shall have taken such other action, including delivery of approvals, consents, opinions, documents and instruments to the Lender and the Deal Agent, as the Deal Agent may reasonably request.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01. Representations and Warranties of the Borrower. The Borrower represents and warrants to the Deal Agent and the Lenders as of the date hereof, as of the Effective Date and on each subsequent Funding Date as follows:

(a) The Borrower is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly qualified to do business, and is in good standing, in each jurisdiction in which the nature of its business requires it to be so qualified.

(b) The Borrower has the power and authority to own, pledge, mortgage, operate and convey all of its properties, to conduct its business as now or proposed to be conducted and to execute and deliver the Basic Documents and to perform the transactions contemplated hereby and thereby.

(c) The Borrower is a wholly-owned subsidiary of the Parent.

(d) The Borrower is operated in such a manner that it would not be substantively consolidated in the trust estate of the Parent (that is, such that the separate corporate existence of the Borrower and the Parent would be disregarded), in the event of a bankruptcy or insolvency of the Parent and in such regard:

(i) the Borrower is a limited purpose corporation whose activities are restricted in its certificate or articles of incorporation;

(ii) neither the Parent nor any Affiliate of the Parent is involved in the day-to-day management of the Borrower.

(iii) other than the purchase and contribution of Receivables and other transactions contemplated by the Receivables Transfer Agreement, transactions contemplated by other securitizations and the underlying facilities thereto, the payment of dividends and the return of capital, any lease or sublease of office space or equipment, and the payment of Servicing Fees to the Servicer under this Agreement, the Borrower engages in no intercorporate transactions with the Parent or any Affiliate of the Parent;

(iv) the Borrower maintains separate corporate records and books of account from the Parent, holds regular corporate meetings, and otherwise observes corporate formalities and has a separate business office from the Parent, which office may be a clearly identifiable, separately allocated space on the premises of the Parent;

(v) the financial statements and books and records of the Borrower and the Parent prepared after the Effective Date reflect the separate corporate existence of the Borrower;

(vi) the Borrower maintains its assets separately from the assets of the Parent and any other Affiliate of the Parent (including through the maintenance of separate bank accounts), the Borrower's funds and assets, and records relating thereto, have not been and are not commingled with those of the Parent or any other Affiliate of the Parent and the separate creditors of the Borrower will be entitled to be satisfied out of the Borrower's assets prior to any value in the Borrower becoming available to the Borrower's equity holders;

(vii) neither the Parent nor any Affiliate of the Parent (A) pays the Borrower's expenses; (B) guarantees the Borrower's obligations, or (C) advances funds to the Borrower for the payment of expenses or otherwise;

(viii) all business correspondence of the Borrower and other communications are conducted in the Borrower's own name, on its own stationery and through a separately-listed telephone number;

(ix) the Borrower does not act as agent for the Parent or any of its Affiliates, but instead presents itself to the public as a corporation separate from the Parent, independently engaged in the business of purchasing and financing Receivables;

(x) the Borrower maintains at least one independent director who at all times shall not be a shareholder, director, officer, employee or associate of the Parent or any Affiliate of the Parent (other than the Borrower and except that such independent director may be a director of one or more other limited purpose subsidiaries of the Parent) as provided in its certificate or articles of incorporation;

(xi) the Borrower is solvent and will not be rendered insolvent by the transactions contemplated by the Basic Documents and, after giving effect to such transactions, the Borrower will not be left with an unreasonably small amount of capital with which to engage in its business nor will the Borrower have intended to incur, or believe that it has incurred, debts beyond its ability to pay such debts as they mature, and the Borrower does not contemplate the commencement of insolvency, bankruptcy, liquidation or consolidation proceedings or the appointment of a receiver, liquidator, conservator trustee or similar official in respect of the Borrower or any of its assets; and

(xii) the bylaws or Articles of Incorporation of the Borrower require it to maintain (A) correct and complete books and records of account, and (B) minutes of the meetings and other proceedings of its shareholders and board of directors.

(e) Except as permitted by the Receivables Transfer Agreement and this Agreement, the Borrower has not engaged, and does not presently engage, in any activity other than the activities undertaken pursuant to the Basic Documents, nor has the Borrower entered into any agreement other than the Basic Documents and any agreement necessary to undertake any activity pursuant to the Basic Documents.

(f) The execution, delivery and performance by the Borrower of the Basic Documents and the transactions contemplated hereby and thereby (i) have been duly authorized by all necessary corporate or other action on the part of the Borrower, (ii) do not contravene or cause the Borrower to be in default under (A) the Borrower's certificate or articles of incorporation or by-laws, (B) any contractual restriction contained in any indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note, or other agreement or

instrument binding on or affecting the Borrower or its property or the Parent or its property, or (C) any law, rule, regulation, order, license requirement, writ, judgment, award, injunction, or decree applicable to, binding on or affecting the Borrower or its property or the Parent or its property, and (iii) do not result in or require the creation of any Adverse Claim upon or with respect to any of the property of the Borrower or the Parent (other than in favor of the Lenders and the Collateral Agent as contemplated hereunder).

(g) The Basic Documents have each been duly executed and delivered by the Borrower.

(h) No consent of, notice to, filing with or permits, qualifications or other action by any Governmental Authority or any other party is required (i) for the due execution, delivery and performance by the Borrower of the Basic Documents, (ii) for the perfection of or the exercise by each of the Lenders, the Deal Agent or the Collateral Agent of any of its rights or remedies hereunder or thereunder, (iii) for the grant by the Borrower of the security interests granted under Section 8.01 of this Agreement, (iv) for the perfection of or the exercise by each of the Lenders or the Collateral Agent of its rights and remedies provided for in this Agreement, or (v) to ensure the legality, validity, enforceability or admissibility into evidence of this Agreement in any jurisdiction in which any of the Collateral is located, in each case other than consents, notices, filings and other actions which have been obtained or made and complete copies of which have been provided to the Deal Agent.

(i) No transaction contemplated by this Agreement requires compliance with any bulk sales act or similar law.

(j) Each Basic Document is the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its respective terms. Each of the Borrower Assigned Agreements to which the Parent or the Borrower is a party constitutes the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, subject to any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and general equitable principles, whether applied in a proceeding at law or in equity.

(k) There is no pending or threatened, nor any reasonable basis for any, action, suit or proceeding against or affecting the Borrower, its officers or directors, or the property of the Borrower, in any court or tribunal, before any arbitrator of any kind or before or by any Governmental Authority.

(l) No injunction, writ, restraining order or other order of any nature adverse to the Borrower or the conduct of its business or which is inconsistent with the due consummation of the transactions contemplated by the Basic Documents has been issued by a Governmental Authority nor been sought by any Person.

(m) The principal place of business and chief executive office of the Borrower, and the office where the Borrower keeps its Records and the original copies of the Borrower Assigned Agreements are located at the address of the Borrower for notices under Section 14.01 and as set forth on Schedule 1, and there are currently no, and during the past four months (or such shorter time as the Borrower has been in existence) there have not been any, other locations where the Borrower is located (as that term is used in the UCC of the jurisdiction where such principal place of business is located) or keeps Records.

(n) The Borrower does not have and has never conducted business using tradenames, fictitious names, assumed names or "doing business as" names.

(o) The Borrower does not have any Subsidiaries.

(p) The Borrower is solvent and will not become insolvent after giving effect to the transactions contemplated by the Basic Documents. The Borrower has no Debts to any Person other than pursuant to the Basic Documents. The Borrower, after giving effect to the transactions contemplated by the Basic Documents, will have an adequate amount of capital to conduct its business in the foreseeable future.

(q) For federal income tax, reporting and accounting purposes, the Borrower will treat the purchase or absolute assignment of each Transferred Receivable pursuant to the Receivables Transfer Agreement as a purchase or absolute assignment of the Parent's full right, title, and ownership interest in such Transferred Receivable to the Borrower (and those Receivables contributed to the Borrower by the Parent pursuant to the Receivables Transfer Agreement shall be accounted for as an increase in the stated capital of the Borrower) and the Borrower has not in any other manner accounted for or treated the transfers of Transferred Receivables contemplated in this Agreement or the other Basic Documents.

(r) The Borrower has complied and will comply in all respects with all applicable laws, rules, regulations, judgments, agreements, decrees and orders with respect to its business and properties and all Collateral.

(s) The Borrower has filed on a timely basis all tax returns (including, without limitation, foreign, federal, state, local and otherwise) required to be filed, is not liable for taxes payable by any other Person and has paid or made adequate provisions for the payment of all taxes, assessments and other governmental charges due from the Borrower. No tax lien or similar Adverse Claim has been filed, and no claim is being asserted, with respect to any such tax, assessment or other governmental charge. Any taxes, fees and other governmental charges payable by the Parent in connection with the execution and delivery of the Basic Documents and the transactions contemplated hereby or thereby have been paid or shall have been paid if and when due at or prior to such Sale Date.

(t) Each Borrowing Base Certificate and Request Notice is accurate in all material respects.

(u) The Collateral and each part thereof is owned by the Borrower free and clear of any Adverse Claim or Restrictions on Transferability and the Borrower has the full right, corporate power and lawful authority to assign, transfer and pledge the same and interests therein and all substitutions therefor and additions thereto pursuant to Section 8.01, and upon making each Advance, the Collateral Agent on behalf of the Secured Parties will have acquired a perfected, first priority and valid security interest in such Collateral, free and clear of any Adverse Claim or Restrictions on Transferability. No effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Collateral Agent as "Secured Party" pursuant to Article VIII of this Agreement or, with respect to the Transferred Receivables, in favor of the Borrower pursuant to the Receivables Transfer Agreement.

(v) Each Transferred Receivable was purchased by or contributed to the Borrower on the relevant Sale Date pursuant to the Receivables Transfer Agreement.

(w) Each purchase of Receivables under the Receivables Transfer Agreement will constitute (i) a "current transaction" within the meaning of Section 3(a)(3) of the Securities Act of 1933, as amended, and (ii) a purchase or other acquisition of notes, drafts, acceptances, open accounts receivable or other obligations representing part or all of the sales price of merchandise, insurance or services within the meaning of Section 3(c)(5) of the Investment Company Act of 1940, as amended.

(x) All information heretofore or hereafter furnished by or on behalf of the Borrower to the Collateral Agent, the Deal Agent or any Lender in connection with this Agreement or any transaction contemplated hereby is and will be true and complete in all material respects and does not and will not omit to state a material fact necessary to make the statements contained therein not misleading.

(y) The Borrower is in compliance with ERISA and has not incurred and does not expect to incur any liabilities (except for premium payments arising in the ordinary course of business) to the Pension Benefit Guaranty Corporation ("PBGC") (or any successor thereto) under ERISA.

(z) (i) The Borrower is not a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any charter or corporation restriction that could have, and no provision of applicable law or governmental regulation is reasonably likely to have, a material adverse effect on the condition (financial or otherwise), business, operations, results of operations or properties of the Borrower, or could have such an effect on the ability of the Borrower to carry out its obligations under the Basic Documents to which the Borrower is a party and (ii) the Borrower is not in default under or with respect to any contract, agreement, lease or other instrument to which the Borrower is a party and which is material to the Borrower's condition (financial or otherwise), business, operations or properties, and the Borrower has not delivered or received any notice of default thereunder.

(aa) There has been no material adverse change in the condition (financial or otherwise), business, operations, results of operations, or properties of the Borrower.

(bb) The Borrower is not an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended. The making of the Advances by the Lenders, the application of the proceeds and repayment thereof by the Borrower and the consummation of the transactions contemplated by the Basic Documents to which the Borrower is a party will not violate any provision of such Act or any rule, regulation or order issued by the Securities and Exchange Commission thereunder.

(cc) There is not now, nor will there be at any time in the future, any agreement or understanding between the Parent and the Borrower (other than as expressly set forth herein) providing for the allocation or sharing of obligations to make payments or otherwise in respect of any taxes, fees, assessments or other governmental charges.

(dd) Each of the representations and warranties of the Borrower contained in the Basic Documents is true and correct in all material respects and the Borrower hereby makes each such representation and warranty to, and for the benefit of, the Collateral Agent, the Deal Agent and the Lenders as if the same were set forth in full herein.

(ee) Schedule 2 lists all Lockboxes and the Lockbox Account maintained by the Borrower or otherwise in respect of the Transferred Receivables.

Section 4.02. Representations and Warranties of the Borrower With Respect to the Parent and the Transferred Receivables. The Borrower represents and warrants to the Lender, the Deal Agent and the Collateral Agent that on the Effective Date it has entered into the Receivables Transfer Agreement with the Parent and that, as of each Funding Date, the Parent has made the following representations and warranties pursuant to such Receivables Transfer Agreement as of each Sale Date, which representations and warranties are or will be true and correct as of such Sale Date:

(a) With respect to the Parent:

(i) the Parent is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly qualified to do business and is in good standing in every jurisdiction in which the nature of its business requires it to be so qualified;

(ii) the Parent has the power and authority to own, pledge, mortgage, operate and convey all of its properties and assets, to execute and deliver the Basic Documents and to perform the transactions contemplated hereby and thereby;

(iii) the Parent is operated in such a manner that the Borrower would not be substantively consolidated in the trust estate of the Parent (that is, such that the separate corporate existence of the Borrower and the Parent would be disregarded in the event of a bankruptcy or insolvency of the Parent);

(iv) the execution, delivery and performance by the Parent of the Basic Documents and the transactions contemplated hereby and thereby (A) have been duly authorized by all necessary corporate or other action on the part of the Parent, (B) do not contravene or cause the Parent to be in default under (1) the Parent's certificate or articles of incorporation or by-laws, (2) any contractual restriction with respect to any Debt of the Parent or its Affiliates, contained in any indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note, or other agreement or instrument binding on or affecting the Parent or its property, or (3) any law, rule, regulation, order, writ, judgment, award, injunction or decree applicable to, binding on or affecting the Parent or its property, and (C) do not result in or require the creation of any Adverse Claim or Restrictions on Transferability upon or with respect to any of its properties (other than in favor of the Borrower with respect to the Receivables Transfer Agreement and the Lender and the Collateral Agent under Article VIII of this Agreement);

(v) the Basic Documents have each been duly executed and delivered by the Parent;

(vi) no approval or consent of, notice to, filing with or licenses, permits, qualifications or other action by any Governmental Authority or any other party, is required or necessary for the conduct of the Parent's business as currently conducted and for the due execution, delivery and performance by the Parent of the Basic Documents or for the perfection of or the exercise by the Borrower, the Lenders, the Deal Agent or the Collateral Agent of any of their rights or remedies hereunder or thereunder, other than consents, notices, filings and other actions which have been obtained or made and complete copies of which have been provided to the Lenders, the Deal Agent and the Collateral Agent;

(vii) each Basic Document delivered by the Parent is (or upon execution and delivery will be if not executed and delivered as of the date hereof) the legal, valid and binding obligation of the Parent enforceable against the Parent in accordance with its respective terms subject to (i) any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and (ii) general equitable principles, whether applied in a proceeding at law or in equity;

(viii) there is no pending or threatened, nor any reasonable basis for any, action, suit or proceeding, against or affecting the Parent, its officers or directors, or the property of the Parent, in any court or tribunal, before any arbitrator of any kind or before or by any Governmental Authority (A) asserting the invalidity of the Basic Documents, (B) seeking to prevent the transfer, sale, contribution, or pledge of any Receivable or the consummation of any of the transactions contemplated hereby or thereby, (C) seeking any determination or ruling that might materially and adversely affect (1) the performance by the Borrower or the Parent of its obligations under the Basic Documents, (2) the validity or enforceability of the Basic Documents, (3) the Transferred Receivables, the Contracts or the interests or the Borrower or the Lender therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables, or (D) asserting a claim for payment of money in excess of $500,000 (other than such judgments or orders in respect of which adequate insurance is maintained by the Parent for the payment thereof);

(ix) no injunction, writ, restraining order or other order of any nature adverse to the Parent or the conduct of its business or which is inconsistent with the due consummation of the transactions contemplated by the Basic Documents has been issued by a Governmental Authority nor been sought by any Person;

(x) the principal place of business and chief executive office of the Parent are located at the address of the Parent referred to in the Receivables Transfer Agreement and there are now no, and during the past four months there have not been any, other locations where the Parent is located (as that term is used in the UCC of the jurisdiction where such principal place of business is located) or keeps Records;

(xi) the legal name of the Parent is as set forth at the beginning of this Agreement and the Parent has not changed its name in the last six (6) years, and during such period the Parent did not use, nor does the Parent now use, any tradenames, fictitious names, assumed names or "doing business as" names;

(xii) the Parent is solvent and will not become insolvent after giving effect to the transactions contemplated by the Basic Documents, the Parent is paying its Debts as they mature; the Parent has not incurred Debts beyond its ability to pay as they mature; and the Parent, after giving effect to the transactions contemplated by the Basic Documents, will have an adequate amount of capital to conduct its business in the foreseeable future;

(xiii) for federal income tax, reporting and accounting purposes, the Parent will treat the sale of each Receivable sold or assigned pursuant to the Receivables Transfer Agreement as a sale of, or absolute assignment of, its full right title and ownership interest in such Receivable to the Borrower (and those Receivables contributed to the Borrower by the Parent pursuant to the Receivables Transfer Agreement shall be accounted for as an increase in the stated capital of the Borrower), and the Parent has not in any other respect accounted for or treated the transactions contemplated by the Basic Documents;

(xiv) the Parent has complied in all material respects with all applicable laws, rules, regulations and orders with respect to it, its business and properties and all Receivables and related Contracts (including, without limitation, all applicable environmental, health and safety requirements) and all restrictions contained in any indenture, loan or credit agreement, mortgage, security agreement, bond, note or other agreement or instrument binding on or affecting the Parent or its property, and has and maintains all permits, licenses, authorizations, registrations, approvals and consents of Governmental Authorities for (A) the activities and business of the Parent and each of its Subsidiaries as currently conducted and as proposed to be conducted, (B) the ownership, use, operation and maintenance by each of them of its properties, facilities and assets, and (C) the performance by the Parent and the Borrower of the Basic Documents (hereinafter referred to collectively as "Governmental Consents"), with respect to which any noncompliance or failure to maintain such items would, separately or in the aggregate, have a material adverse effect;

(xv) no practice, procedure or policy employed or proposed to be employed by the Parent in the conduct of its business violates any law, regulation, Judgment, agreement, order or decree applicable to the Parent which, if enforced, would have a material adverse effect on (1) the performance by the Borrower or the Parent of its obligations under the Basic Documents to which it is a party, (2) the validity or enforceability of the Basic Documents, (3) the Transferred Receivables or the Contracts or the interests of the Borrower or the Lender therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables;

(xvi) without limiting the generality of the prior representation, no condition exists or event has occurred which, in itself or with the giving of notice or lapse of time or both, would result in the suspension, revocation, impairment, forfeiture or non-renewal of any Governmental Consent applicable to the Parent or any Subsidiary except where such events or conditions would not, separately or in the aggregate, have a material adverse effect on (1) the performance by the Borrower or the Parent of its obligations under the Basic Documents to which it is a party, (2) the validity or enforceability of the Basic Documents, (3) the Transferred Receivables or the Contracts or the interests of the Borrower or Lenders therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables;

(xvii) the Parent has filed on a timely basis all tax returns, (including, without limitation, foreign, federal, state, local and otherwise) required to be filed and has paid or made adequate provisions for the payment of all taxes, fees, assessments and other governmental charges due from the Parent; no tax lien or similar Adverse Claim has been filed, and no claim is being asserted, with respect to any such tax, fees, assessment or other governmental charge. Any taxes, fees, assessments and other

governmental charges payable by the Parent in connection with the execution and delivery of the Basic Documents and the transactions contemplated hereby or thereby have been paid or shall have been paid if and when due at or prior to such Sale Date;

(xviii) with respect to the Parent or any of its Subsidiaries, there has occurred no event which has or is reasonably likely to have a material adverse affect on the Parent's operations, including its ability to perform its obligations under the Basic Documents as Parent, Servicer or otherwise;

(xix) the Parent is licensed or otherwise has the lawful right to use all patents, trademarks, servicemarks, tradenames, copyrights, technology, know-how and processes used in or necessary for the conduct of its business as currently conducted that are material to its financial condition, business, operations, results of operations and assets, individually or taken as a whole;

(xx) (i) (A) the consolidated balance sheets of the Parent and its consolidated Subsidiaries for each of the last three fiscal years in the period ending prior to the Balance Sheet Date as delivered prior to such Sale Date and the related statements of income and shareholders' equity of the Parent and its consolidated Subsidiaries for such fiscal years then ended, certified without qualification by independent certified public accountants, copies of which have been furnished to the Deal Agent, are complete and correct, fairly present the consolidated financial condition, business, operations and results of operations of the Parent and its consolidated Subsidiaries as at such date and the consolidated results of the operations of the Parent and its consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP and (B) the unaudited consolidated balance sheets and the related statements of income and shareholders' equity of the Parent and its consolidated Subsidiaries for each fiscal quarter in the period since the most recent consolidated balance sheet and related statement of income and shareholders' equity referred to in clause (A) above and ended at least 45 days prior to such Sale Date, copies of which have been furnished to the Deal Agent are complete and correct and fairly present the consolidated financial condition, business and operations of the Parent and its consolidated Subsidiaries as of the last day of such fiscal quarters and the consolidated results of the operations of the Parent and its consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP, and (ii) since the last date for which a balance sheet of the Parent and its consolidated Subsidiaries has been delivered to the Lender and the Deal Agent, except as disclosed to the Deal Agent, there has been no material adverse change in any such condition, business, operations or results of operations;

(xxi) since the last unaudited quarterly financial statements of the Company, except as otherwise disclosed to the Deal Agent, there have been no material adverse changes in the financial condition or results of operation and there have been no material increases in the liabilities (liquidated or contingent) and no material decreases in the assets of the Parent or the Borrower other than normal recurring seasonal changes consistent with prior years' experience;

(xxii) each Request Notice contains a complete and accurate list of all Transferred Receivables sold or contributed by the Parent to the Borrower as of its date;

(xxiii) there has been no material adverse change in the condition (financial or otherwise), business, operations, results of operations or properties of the Parent since the Balance Sheet Date;

(xxiv) no Obligor of an Eligible Receivable being sold on any Sale Date has any claim of a material nature against or affecting the Parent or the property of the Parent;

(xxv) each pension plan or profit sharing plan to which the Parent or any Affiliate is a party has been administered and fully funded in accordance with the obligations of the Parent under law

and as set forth in such plan, and the Parent has complied with the applicable provisions of ERISA in effect as of such Sale Date;

(xxvi) each Obligor of a Transferred Receivable (excluding Allotment Obligors) has been directed, and is required to, remit or wire all payments with respect to such Receivable for deposit in a Lockbox or the Lockbox Account;

(xxvii) the Parent has valid business reasons for selling or contributing its interests in the Transferred Receivables rather than obtaining a loan with the Transferred Receivables as collateral;

(xxviii) the Parent has not agreed to pay any fee or commission to any agent, broker, finder or other person for or on account of services rendered as a broker or finder in connection with the Basic Documents or the transactions contemplated hereby or thereby which would give rise to any valid claim against the Borrower for any brokerage commission, finder's fee or like payment;

(xxix) all information heretofore or hereafter furnished by the Parent or any Affiliate of the Parent with respect to the Parent to the Borrower, Lenders, Deal Agent or Collateral Agent in connection with any transaction contemplated by the Basic Documents is and will be true and complete in all material respects and does not and will not omit to state a material fact necessary to make the statements contained herein or therein not misleading. With respect to the Parent, there has occurred no event which has or is reasonably likely to have a material adverse effect thereon;

(xxx) no part of the proceeds received by the Parent or any Affiliate from the Sale Price will be used directly or indirectly for the purpose of purchasing or carrying, or for payment in full or in part of, Debt that was incurred for the purposes of purchasing or carrying, any "margin stock," as such term is defined in (S) 221.3 of Regulation U of the Board of Governors of the Federal Reserve System;

(xxxi) there is not now, nor will there be at any time in the future, any agreement or understanding between the Parent and the Borrower (other than as expressly set forth herein) providing for the allocation or sharing of obligations to make payments or otherwise in respect of any taxes, fees, assessments or other governmental charges;

(xxxii) no transaction contemplated by the Basic Documents requires compliance with any bulk sales act or similar law;

(xxxiii) each purchase of Receivables under the Receivables Transfer Agreement will constitute (A) a "current transaction" within the meaning of Section 3(a)(3) of the Securities Act of 1933, as amended, and (B) a purchase or other acquisition of notes, drafts, acceptances, open accounts receivable or other obligations representing part or all of the sales price of merchandise, insurance or services within the meaning of Section 3(c)(5) of the Investment Company Act of 1940, as amended;

(xxxiv) (A) the Parent is not a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any charter or corporation restriction that is reasonably likely to have, and no provision of applicable law or governmental regulation is reasonably likely to have, a material adverse effect on the condition (financial or otherwise), business, operations, results of operations, or properties of the Parent, or could, have such an effect on the ability of the Parent to carry out its obligations under the Basic Documents to which the Parent is a party and (B) the Parent is not in default under or with respect to any contract, agreement, lease or other instrument to which the Parent is a party and which is material to the Parent's condition (financial or otherwise), business, operations, results of operations, or properties, and the Parent has not delivered or received any notice of default thereunder;

(xxxv) the Parent is not an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the investment Company Act of 1940 as amended. The purchase or acquisition of the Transferred Receivables by the Borrower, the application of the proceeds and the consummation of the transactions contemplated by the Basic Documents to which the Parent is a party will not violate any provision of such Act or any rule, regulation or order issued by the Securities and Exchange Commission thereunder;

(xxxvi) the bylaws or the articles of incorporation of the Parent require it to maintain (A) books and records of account, and (B) minutes of the meetings and other proceedings of its shareholders and board of directors; and

(xxxvii) each of the representations and warranties of the Parent contained in the Basic Documents is true and correct in all material respects and the Parent hereby makes each such representation and warranty to, and for the benefit of, the Collateral Agent, the Deal Agent and the Lenders as if the same were set forth in full herein.

(b) With respect to each Transferred Receivable:

(i) the Required Information contained in the Request Notice and the Sale Assignment is true and correct;

(ii) such Receivable is an Eligible Receivable, and is a receivable arising in connection with a Contract in the ordinary course of the Parent's business in a current transaction;

(iii) such Receivable was created in accordance with the requirements of (A) a Contract and (B) the Credit and Collection Policies;

(iv) a copy of any related Contract to which the Parent is a party has been delivered to the Deal Agent and the Collateral Agent;

(v) such Receivable represents the genuine, legal, valid and binding obligation in writing of the Obligor enforceable by the holder thereof in accordance with its terms subject to (A) any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and (B) general equitable principles, whether applied in a proceeding at law or in equity, and neither the Receivable nor the related Contract has been satisfied, subordinated, rescinded or amended in any manner;

(vi) neither the Receivable nor the related Contract is or will be subject to any exercise of any right of rescission, set-off, recoupment, counterclaim or defense, whether arising out of transactions concerning the Contract or otherwise;

(vii) prior to its sale or contribution to the Borrower such Receivable was owned by the Parent free and clear of any Adverse Claim or Restrictions on Transferability, and the Parent had the right to contribute, sell, assign and transfer the same and interests therein as contemplated under the Receivables Transfer Agreement and, upon such sale or contribution, the Borrower acquired a valid ownership interest in such Receivable, free and clear of any Adverse Claim and any other Restriction on Transferability;

(viii) this Agreement and the Sale Assignment related to such Receivable constitute a valid sale, contribution, transfer, assignment, set-over and conveyance to the Borrower of all right, title and interest of the Parent in and to such Receivable;

(ix) such Receivable was purchased or contributed under the Receivables Transfer Agreement, and the Receivables Transfer Agreement and the related Sale Assignment constitutes a valid

transfer, assignment, set-over and conveyance to the Borrower of all right, title and interest of the Parent in and to such Receivable sold or contributed thereunder;

(x) such Receivable is entitled to be paid pursuant to the terms of the related Contract, has not been paid in full or been compromised, adjusted, extended, satisfied, subordinated, rescinded or modified, and is not subject to compromise, adjustment, extension, satisfaction, subordination, rescission or modification by the Parent;

(xi) the Parent has submitted to the Obligor all necessary documentation (including an invoice) for payment of such Receivable and has fulfilled all its other obligations in respect thereof;

(xii) any stated term of such Receivable is not greater than 60 months;

(xiii) such Receivable is an "account" or "chattel paper" within the meaning of the UCC of the jurisdiction where the Parent's chief executive office is located;

(xiv) neither such Receivable nor the related Contract contravenes in any material respect any laws, rules or regulations applicable thereto (including, without limitations, laws, rules and regulations relating to usury, consumer protection, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and no party to such related Contract is in violation of any such law, rule or regulation in any material respect;

(xv) such Receivable does not arise from a transaction for which any additional performance by Borrower or acceptance or other act of the Obligor remains to be performed as a condition to payments on such Receivable;

(xvi) there are no proceedings or investigations pending or threatened before any Governmental Authority (A) asserting the invalidity of such Receivable or such Contract, (B) asserting the bankruptcy or insolvency of the related Obligor, (C) seeking the payment of such Receivable or payment and performance of such Contract, or (D) seeking any determination or ruling that might materially and adversely affect the validity or enforceability of such Receivable or such Contract;

(xvii) as of the applicable date of transfer thereunder, no Obligor on such Receivable is bankrupt, is insolvent, is unable to make payment of its obligations when due, is the debtor in a voluntary or involuntary bankruptcy proceeding, or is the subject of a comparable receivership or insolvency proceeding, other than Obligors under the protection of a bankruptcy court or receivership which has approved payment by any such Obligor of such Receivable; and

(xviii) the Parent has no knowledge of any fact (including any defaults by the Obligor on any other accounts) which should have led it to expect at the time of transfer of such Receivable that any Scheduled Payment of such Receivable would not be paid in full when due or to expect any other material adverse effect on (A) the performance by the Parent or the Borrower of its obligations under the Basic Documents, (B) the validity or enforceability of any of the Basic Documents to which it is a party, (C) the Transferred Receivables or the Contracts or the interests of the Borrower or Lender therein or (D) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables; and

(xix) the Military Assistance Command or, if applicable, each financial institution making payments on behalf of any Allotment Obligor has been directed, and is required to, remit all payments with respect to the Transferred Receivables for deposit in the lockbox account maintained by the Servicer for receipt of such funds;

The Borrower hereby certifies that (A) the benefits of such representations and warranties of the Parent have been assigned to the Lenders and the Collateral Agent; (B) the rights of the Borrower under the Receivables Transfer

Agreement to require a capital contribution or payment of a Rejected Amount from its Parent may be enforced by the Lenders and the Collateral Agent; and (C) the Receivables Transfer Agreement provides that the representations, warranties and covenants described in Sections 4.01, 4.02 and 4.03 shall survive the sale of the Transferred Receivables and the termination of the Receivables Transfer Agreement and this Agreement.

Section 4.03. Representations and Warranties of the Servicer. The Servicer represents and warrants to the Lenders, the Deal Agent and the Collateral Agent as follows as of the date hereof:

(a) The Servicer is a corporation duty organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly qualified to do business, and is in good standing, in every jurisdiction in which the nature of its business requires it to be so qualified.

(b) The Servicer has the power and authority to execute and deliver this Agreement and the transactions contemplated hereby.

(c) The execution, delivery and performance by the Servicer of each Basic Document to which it is a party and all other agreements, instruments and documents which may be delivered by it pursuant hereto and thereto and the transactions contemplated hereby and thereby (i) have been duly authorized by all necessary corporate or other action on the part of the Servicer, (ii) do not contravene or cause the Servicer to be in default under (A) its charter or by-laws, (B) any contractual restriction with respect to any Debt of the Servicer or contained in any indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note or other agreement or instrument binding on or affecting it or its property, or (C) any law, rule, regulation, order, writ, judgment, award, injunction or decree binding on or affecting it or its property, and (iii) do not result in or require the creation of any Adverse Claim upon or with respect to any of its properties.

(d) Each Basic Document to which it is a party has been duly executed and delivered by the Servicer.

(e) No consent of, notice to, filing with or permits, qualifications or other action by any Governmental Authority or any other party is required for the due execution, delivery and performance by the Servicer of any Basic Document to which it is a party or any other agreement, document or instrument to be delivered hereunder other than any consents, notices, permits, qualifications, filings or other actions which have been obtained or made and complete copies of which have been provided to the Deal Agent and the Collateral Agent.

(f) Each Basic Document to which it is a party is the legal, valid and binding obligation of the Servicer enforceable against the Servicer in accordance with its terms subject to any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and general equitable principles, whether applied in a proceeding at law or in equity.

(g) There is no pending or threatened, nor any reasonable basis for any, action, suit, investigation or proceeding of a material nature against or affecting the Servicer, its officers or directors, or the property of the Servicer, in any court or tribunal, before any arbitrator of any kind or before or by any Governmental Authority (i) asserting the invalidity of any Basic Document or any document to be delivered by the Servicer hereunder or thereunder, or (ii) seeking any determination or ruling that might materially and adversely affect (A) the performance by the Servicer of its obligations under any Basic Document, or (B) the validity or enforceability of any Basic Document or any document to be delivered by the Servicer hereunder or thereunder.

(h) No injunction, writ, restraining order or other order of any material nature adverse to the Servicer or the conduct of its business or which is inconsistent with the due consummation of the transactions contemplated by the Basic Documents has been issued by a Governmental Authority or, to the knowledge of the Servicer, has been sought by any other Person.

(i) The Servicer has filed all tax returns (including, without limitation, foreign, federal, state, local and otherwise) required to be filed by it and has paid or has made adequate provision for the payment of all taxes, fees, assessments and other governmental charges due from the Servicer, no tax lien or other similar Adverse Claim has been filed, and no claim has been filed, and no claim is being asserted, with respect to any such tax, fee, assessment or other governmental charge. Any taxes, fees and other governmental charges payable by the Servicer in connection with the transactions contemplated by the Basic Documents and the execution and delivery of the Basic Documents have been paid or shall have been paid at or prior to the earlier of the Effective Date and the date the Policy is issued as specified therein.

(j) The Servicer is not required to be registered as an "investment company" under the Investment Company Act.

(k) Each of the representations and warranties of the Servicer contained in the Basic Documents is true and correct in all material respects and the Servicer hereby makes each such representation and warranty contained in the Basic Documents to, and for the benefit of, the Lenders, the Deal Agent and the Collateral Agent.

(l) The Servicer is in compliance with ERISA and has not incurred and does not expect to incur any liabilities (except for premium payments arising in the ordinary course of business) to the PBGC (or any successor thereof) under ERISA.

(m) There has been no material adverse change in the condition (financial or otherwise), business, operations, results of operations or properties of the Servicer since the Balance Sheet Date.

ARTICLE V

GENERAL COVENANTS OF THE BORROWER

Section 5.01. Affirmative Covenants of the Borrower. The Borrower shall, unless the Deal Agent shall otherwise consent in writing:

(a) perform each of its obligations under the Basic Documents and comply in all respects with all of its obligations under the Basic Documents and comply with all applicable laws, rules, regulations and orders with respect to the Basic Documents, to its business and properties and all Transferred Receivables, related Contracts and Collections with respect thereto;

(b) preserve and maintain its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation and shall conduct its business in accordance with the terms of its certificate of incorporation and bylaws;

(c) engage exclusively in the activities contemplated by the Basic Documents;

(d) continue to operate its business in the manner set forth in Sections 4.01 (d) and (e);

(e) cause to be delivered to Deal Agent and the Collateral Agent on or before 90 days after the end of each year,(i) an Officer's Certificate of the Borrower, dated the date of such delivery, bringing down to such date the matters set forth in the Officer's Certificate in the form of Exhibit E delivered pursuant to Section 3.01(c)(iv), and (ii) an Officer's Certificate of the Servicer, dated the date of such delivery, bringing down to such date the matters set forth in the Officer's Certificate in the form of Exhibit F delivered pursuant to Section 3.01(d)(iv);

(f) deposit all Collections it may receive (i) in respect of Transferred Receivables into the Lockbox Account within one Business Day of receipt and (ii) in respect of Receivables transferred or sold to a third party in connection with any securitization into the Collection Account within two Business Days of receipt;

(g) use the proceeds of the Advances made hereunder solely for (i) the purchase of Receivables from the Parent, (ii) payment of dividends to its shareholder, and (iii) payment of administrative fees or Servicing Fees or expenses to the Parent or routine administrative expenses;

(h) have or maintain a positive Consolidated Net Worth Percentage;

(i) cooperate fully with all requests of the Deal Agent and the Collateral Agent regarding the information any documents necessary or desirable to allow each of the Lenders, the Deal Agent and the Collateral Agent to carry out its responsibilities hereunder;

(j) permit the Lender, the Deal Agent and the Collateral Agent to make or cause to be made (and, after the occurrence of and during the continuance of a Termination Event, at the Borrower's expense) inspections and audits of any books, records and papers of the Borrower and the Servicer and to make extracts therefrom and copies thereof, or to make inspections and examinations of any properties and facilities of the Borrower and the Servicer, on reasonable notice, at all such reasonable times and as often as required in order to assure that the Borrower is and will be in compliance with its obligations under the Basic Documents or to evaluate the Lenders' investment in the then outstanding Notes;

(k) pay, perform and discharge all of its obligations and liabilities, including, without limitation, all taxes, assessments and governmental charges upon its income and properties when due, unless and to the extent only that such obligations, liabilities, taxes, assessments and governmental charges shall be contested in good faith and by appropriate proceedings and that, to the extent required by GAAP, proper and adequate book reserves relating thereto are established by the Borrower and then only to the extent that a bond is filed in cases where the filing of a bond is necessary to avoid the creation of an Adverse Claim against any of its properties;

(l) upon request of the Collateral Agent or the Deal Agent, mark all of its Records to show the interests of the Lenders and Collateral Agent;

(m) promptly notify the Deal Agent in writing of any litigation, legal proceeding or dispute, whether or not in the ordinary course of business, adversely affecting the Borrower, whether or not fully covered by insurance, and regardless of the subject matter thereof; and

Section 5.02. Reporting Requirements of the Borrower. The Borrower
shall furnish, or cause to be furnished, to the Deal Agent and the Collateral Agent:

(a) (i) before 5:00 p.m. Eastern time on the date of each Requested Advance, a Borrowing Base Certificate; and (ii) monthly, as soon as available, and in any event, not later than the Report Date, a Monthly Report in the form of Exhibit G;

(b) as soon as available and in any event within 90 days (or the next succeeding Business Day if the last day of such period is not a Business Day) after the end of each fiscal year, a copy of the annual 10-K report and audited consolidated financial statements for such year for the Parent and its consolidated Subsidiaries, certified, in a manner acceptable to the Deal Agent and the Collateral Agent, by independent public accountants acceptable to the Deal Agent and the Collateral Agent and each other report or statement sent to shareholders or publicly filed by the Parent or the Borrower;

(c) as soon as available and in any event within 45 days (or next succeeding Business Day if the last day of such period is not a Business Day) after the end of each of the first three quarters of each fiscal year of the Parent, a consolidated balance sheet of the Parent and its consolidated Subsidiaries as of the end of such quarter and including the prior comparable period, and consolidated statements of income and retained

earnings, and of cash flow, of the Parent and its consolidated Subsidiaries for such quarter and for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief financial officer or chief accounting officer of the Parent identifying such documents as being the documents described in this paragraph (c) and stating the information set forth therein fairly presents the financial condition of the Parent and its consolidated Subsidiaries as of and for the periods then ended, subject to year-end adjustments consisting only of normal, recurring accruals and confirming that the Parent is in compliance with all financial covenants in this Agreement;

(d) as soon as possible and in any event within five days after the occurrence of a Termination Event (including without limitation a material adverse change in the financial condition of the Borrower as determined by the Deal Agent and notified in writing to the Borrower) or a Potential Termination Event, the statement of the chief executive officer of the Borrower setting forth complete details of such Termination Event or Potential Termination Event and the action which the Borrower has taken, is taking and proposes to take with respect thereto;

(e) as soon as available and in any event within 90 days after the end of each fiscal year, a letter from a firm of independent public accountants acceptable to the Deal Agent (and upon which the Deal Agent and the Collateral Agent may rely) to the effect that such firm has examined the Monthly Reports and issued its report therefor and that such examination (1) was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as such firm consisted necessary in the circumstances; (2) included tests relating to auto loans serviced for others in accordance with the requirements of the Uniform Single Audit Program for Mortgage Bankers (the "Program"), to the extent
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the procedures in the Program are applicable to the servicing obligations set forth in this Agreement; (3) included an examination of the delinquency and loss statistics relating to the Borrower's portfolio of automobile and light truck installment sales contracts; and (4) except as described in the report, disclosed no exceptions or errors in the records relating to automobile and light truck loans serviced for others that, in the firm's opinion, paragraph four of the Program requires such firm to report. The accountant's report shall further state that (1) a review in accordance with agreed upon procedures was made of three randomly selected Borrower certificates; (2) except as disclosed in the report, no exceptions or errors in the Borrower certificates were found; (3) the delinquency and loss information, relating to the Receivables contained in the Borrower certificates were found to be accurate and (4) except for (i) such exceptions as such firm shall believe to be immaterial, and (ii) such other exceptions as shall be set forth in such statement; such firm has examined the Monthly Reports delivered during the previous calendar year (including the Borrowing Base Certificates attached thereto) and such Records relating to the Transferred Receivables as such firm deems necessary as a basis for the report contemplated by this Section 5.02(e);

(f) not later than each Report Date, such reports determined by the Deal Agent to be necessary for the Parent to track and monitor the Contracts, Collections, Financed Vehicles and insurance, which reports shall include, without limitation, the reports set out in Exhibit H accompanied by such other information and certifications as set out in Exhibit H; and

(g) promptly, from time to time, such other information, documents, records or reports respecting the Transferred Receivables or the Contracts or the condition or operations, financial or otherwise, of the Borrower, or the Parent or any of its Subsidiaries, as the Deal Agent or the Collateral Agent may, from time to time, reasonably request.

Section 5.03. Negative Covenants of the Borrower. The Borrower shall
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not, without the written consent of the Required Investors, the Deal Agent and the Collateral Agent:

(a) sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist or consent to, cause or permit in the future (upon the happening of a contingency or otherwise) the creation, incurrence or existence of, any Adverse Claim or Restriction on Transferability (and any such purported disposition shall be null and void), upon or with respect to any Transferred Receivable or related Contract with respect thereto, or upon or with respect to the Lockbox Account, the Lockboxes, the Collection Account, the

Successor Servicer Reserve Account or any other account to which any Collections of any Receivable are deposited or any other Collateral or any of the Borrower's property, or assign any right to receive income, in respect thereof;

(b) extend, amend, forgive, discharge, compromise, waive, cancel or otherwise modify the terms of the any Basic Document, the Credit and Collection Policies or of any Transferred Receivable, or amend, modify or waive any term or condition of any Contract related thereto;

(c) make any change in its instructions (i) to Obligors regarding payments to the Lockbox Account or Lockboxes (other than to a new Lockbox Account pursuant to Section 6.01(a)(iii)) or (ii) with respect to Allotment Obligors regarding payments to be made to the Borrower or to be deposited to the lockbox account maintained by the Servicer for the receipt of such funds;

(d) amend its articles or certificate of incorporation, its by-laws or any Basic Document;

(e) except as otherwise provided herein or in the Receivables Transfer Agreement, merge with or into, consolidate with or into, convey, transfer, lease or otherwise dispose of all or substantially all of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets or capital stock or other ownership interest of, any Person (whether in one transaction or in a series of transactions), or own any Subsidiary;

(f) prepare any financial statements which shall account for the transactions contemplated by the Receivables Transfer Agreement in any manner other than as a purchase or absolute assignment of the Transferred Receivables to the Borrower from the Parent, or in any other respect account for or treat the transactions contemplated hereby (including but not limited to, for accounting, tax and reporting purposes) in any manner other than as a purchase or absolute assignment of the Transferred Receivables to the Borrower from the Parent;

(g) at any time (i) advance credit to any Person, or (ii) declare any dividends, or return any capital, if after giving effect to such distribution, there would be a Borrowing Excess;

(h) create, incur, permit to exist or have outstanding any Debt, except:

(i) Debt of the Borrower to the Lenders, any Affected Party or any Indemnified Party under this Agreement and the Notes;

(ii) taxes, assessments and governmental charges, non-interest bearing accounts payable and accrued liabilities, in any case not more than 90 days past due from the original due date thereof, and non-interest bearing deferred liabilities other than for borrowed money (e.g., deferred taxes), in each case incurred and continuing in the ordinary course of business; and

(iii) the endorsement of negotiable instruments for deposit or collection in the ordinary course of business;

(i) issue any additional shares or any right or option to acquire any shares, or any security convertible into any shares, of the capital stock of the Borrower;

(j) except as otherwise provided herein or in the Receivables Transfer Agreement, enter into, or be a party to, any transaction with any Person, other than pursuant to this Agreement or the Receivables Transfer Agreement; or

(k) make or suffer to exist any purchases of assets or investments in any Person, including, without limitation, any shareholder, director, officer or employee of the Borrower or any of the Parent's other Subsidiaries, except Transferred Receivables and Permitted Investments.

Section 5.04. Borrower Hedging Instruments.

(a) If, as of any date of determination greater than six (6) months after the Effective Date of this Agreement, the Parent or its Affiliates have not entered into a Securitization within the past six (6) months, the Borrower shall obtain a Hedging Instrument in form and substance satisfactory to the Deal Agent with a Hedging Counterparty with an aggregate notional amount equal to 60% or more of the aggregate Contract Principal Balance of Transferred Receivables; provided, however, if the Termination Event described Section 9.01(r) hereof has previously occurred, such aggregate notional amount shall equal 80% of the aggregate Contract Principal Balance of Transferred Receivables.

(b) All Hedging Instruments shall be obligations of VFCC, provided, that in the event of a purchase under the Liquidity Purchase Agreement, a pro-rata interest of the related obligations of VFCC shall be assumed (and a corresponding pro-rata interest of VFCC's rights shall be taken) by the related Investor on and after the date of such purchase.

(c) Each Hedging Instrument that provides for any payment obligation of the VFCC must (i) be nonrecourse to VFCC, (ii) contain a non-petition covenant provision in the form of Section 14.05 hereof, (iii) contain a provision limiting any payments due under the Hedging Instrument solely to funds available therefor pursuant to Article VI hereof, and (iv) provide for the termination or assumption of the Hedging Instrument upon the transfer of the Receivables from VFCC.

ARTICLE VI

COLLECTIONS AND DISBURSEMENTS; FEES

Section 6.01. Establishment of Accounts.

(a) Lockbox Account.

(i) The Deal Agent and Servicer have jointly established and shall maintain in the name of the Borrower in trust for the Collateral Agent a segregated account with a Lockbox Account Bank and controlled by the Collateral Agent titled "CPS Warehouse Corp. in trust for First Union National Bank, secured party--Lockbox Account". The Borrower agrees that the Collateral Agent shall have exclusive dominion and control of the Lockbox Account and all monies, instruments and other property from time to time in the Lockbox Account.

(ii) The Borrower and the Servicer and the Parent, as the case may be, shall instruct all Obligors (other than Allotment Obligors) to make or wire all payments on the Receivables to the Lockbox Account or Lockbox, as the case may be, and all Collections on Receivables, will, pending remittance to the Collection Account, be held for the benefit of the Collateral Agent and immediately after such proceeds have cleared and become available in accordance with the policies of the Lockbox Account Bank, shall be deposited directly into the Collection Account.

(iii) in the event that the Lockbox Agreement terminates for any reason or the Lockbox Account Bank fails to comply with its obligations under the Lockbox Agreement for any reason, then the Borrower shall promptly notify all Obligors to make all future payments to a new Lockbox Account established in accordance with the next succeeding sentence with the Lockbox Account Bank or another depositary institution. The Borrower shall not close such existing Lockbox Account unless it shall have (1) received the prior written consent of the Deal Agent and the Collateral Agent, (2) established a new account with the Lockbox Account Bank or with a new depositary institution satisfactory to the Deal Agent and the Collateral Agent, (3) entered into an agreement covering such new account with the Lockbox Account Bank or with such new depositary institution substantially in the form of such Lockbox Agreement which is satisfactory in all respects to the Deal Agent and the Collateral

Agent (whereupon, for all purposes of the Basic Documents, such new account shall become such Lockbox Account, such new agreement shall become such Lockbox Agreement and any new depositary institution shall become the Lockbox Account Bank), and (4) taken all such action as the Collateral Agent shall require to grant and perfect a first priority security interest in such new Lockbox Account to the Collateral Agent under Section 8.01 of this Agreement.

(b) Collection Account. (i) The Deal Agent, as agent for the Collateral Agent, has established and shall maintain a segregated deposit account with the Depositary titled "Variable Funding Capital Corporation--Collection Account (CPS Warehouse Corp.)". The Borrower agrees that the Deal Agent shall have exclusive dominion and control of the Collection Account and all monies, instruments and other property from time to time in the Collection Account.

(ii) Pursuant to Section 6.02, the Collateral Agent shall instruct the Lockbox Account Bank to transfer, on each Business Day in same day funds, all available funds deposited in the Lockbox Account before such Business Day to the Collection Account. In addition to the amount deposited into the Lockbox Account, the Borrower and Servicer will deposit or cause to be deposited in the Collection Account all cash, checks, money orders, wire transfers or moneygrams or other Proceeds received in respect of Transferred Receivables immediately upon the receipt thereof in the original form received (if other than cash). Moreover, the Servicer shall, within one Business Day of receipt, transfer all Collections on behalf of Allotment Obligors, in respect of Transferred Receivables directly to the Collection Account. Until so deposited, all such Proceeds shall be held in trust for the Collateral Agent by the Borrower or Servicer, as the case may be. The Lenders, the Deal Agent and the Collateral Agent may deposit into the Collection Account from time to time all monies, instruments and other property received by any of them as Proceeds of the Transferred Receivables. On each Settlement Date before the Commitment Termination Date, so long as no Termination Event shall have occurred and be continuing, the Deal Agent shall (or shall permit the Servicer to) instruct and cause the Depositary to release funds on deposit in the Collection Account in the order of priority set forth in Section 6.04. On each Business Day on and after the Commitment Termination Date and on each Business Day during any period while a Termination Event has occurred and is continuing, the Collateral Agent may and the Deal Agent shall apply all amounts when received in the Collection Account in the order of priority set forth in Section 6.05.

(iii) In the event that the Depositary wishes to resign as depositary of the Collection Account for any reason or fails to carry out the instructions of the Deal Agent or the Collateral Agent for any reason, then VFCC or the Deal Agent shall promptly notify all Secured Parties. The Deal Agent shall not close the Collection Account unless it shall have (A) received the prior written consent of the Deal Agent and the Collateral Agent, (B) established a new account with the Depositary or with a new depositary institution satisfactory to the Deal Agent and the Collateral Agent, (C) entered into an agreement covering such new account with such new depositary institution satisfactory in all respects to the Deal Agent and the Collateral Agent (whereupon such new account shall become the Collection Account for all purposes of the Basic Documents), and (D) taken all such action as the Collateral Agent shall require to grant and perfect a first priority security interest in such new Collection Account to the Collateral Agent under this Agreement.

(c) Successor Servicer Reserve Account. If at any time the financial covenants in Section 7.06 are not met, the Borrower, for the benefit of the Collateral Agent, shall cause to be established and maintained a deposit account with the Depositary (the "Successor Servicer Reserve Account") which shall be identified as the "Successor Servicer Reserve Account in trust for First Union National Bank, as Collateral Agent" and shall bear a designation clearly indicating that the funds deposited therein are held for the benefit of the Lenders.

(d) Application of Successor Servicer Reserve Account.

(i) If the fees and expenses payable in connection with setting up the Successor Servicer remain unpaid on any Settlement Date, such unpaid amount shall be withdrawn from the Successor Servicer Reserve Account on such Settlement Date and deposited into the Collection Account for application under Section 6.04(a)(ii) and Section 6.05(b).

(ii) If, after giving effect to the allocations of, distributions from, and deposits in, the Successor Servicer Reserve Account on any Settlement Date, the amount in the Successor Servicer Reserve Account is greater than the Required Reserve Account Amount for such Settlement Date, the Deal Agent may withdraw from the Successor Servicer Reserve Account such excess amount and deposit such amounts into the Collection Account. On the first Business Day after the Commitment Termination Date, following the payment in full of all amounts owing to the Lenders, the Deal Agent and the Liquidity Agent, any funds remaining on deposit in the Successor Servicer Reserve Account shall be paid to the Borrower.

Section 6.02. Funding of Collection Account.

(a) No later than 11:30 a.m. Pacific time on each Business Day:

(i) The Borrower shall instruct each Lockbox Account Bank to transfer all Collections deposited in the Lockbox Account prior to such Business Day to the Collection Account immediately after such funds have cleared and become available in accordance with the policies of the Lockbox Account Bank;

(ii) the Servicer shall transfer all Collections received by it or on its behalf with respect to Transferred Receivables prior to such Business Day to the Collection Account;

(iii) if, on the prior Business Day, the Deal Agent has notified the Borrower of any Borrowing Excess pursuant to Section 6.03, the Borrower shall deposit cash in the amount of such Borrowing Excess in the Collection Account;

(iv) if, pursuant to a Borrower Notice, the Borrower has requested to make an Optional Prepayment of Advances on such Business Day, the Borrower shall deposit cash into the Collection Account in an amount equal to such Optional Repayment Amount;

(v) if on such Business Day the Borrower is required to make other payments under this Agreement not previously retained out of Collections (including Indemnified Amounts not previously paid), the Borrower shall deposit an amount equal to such payments in the Collection Account;

(vi) if, on the prior Business Day, the Parent made a capital contribution or payment of a Rejected Amount, repurchased Ineligible Receivables, or substituted Ineligible Receivables with Eligible Receivables pursuant to the Receivables Transfer Agreement, the Borrower shall deposit cash in the amount received from the Parent for such repurchase in the Collection Account;

(vii) the Servicer shall deposit into the Collection Account the Gross Contract Balance of any Transferred Receivable it elects to pay pursuant to Section 7.03; and

(viii) pursuant to Section 8.07, the Borrower shall deposit, or shall cause to be deposited, all proceeds in connection with any securitization with a third party trustee, conduit or similar entity in the Collection Account.

(b) If, two Business Days prior to any Settlement Date, the Deal Agent notifies the Borrower of any Collection Account Deficiency pursuant to Section 6.04(b), the Borrower shall deposit cash in the amount of such deficiency into the Collection Account no later than 11:30 a.m. on such Settlement Date.

Section 6.03. Borrowing Excess--Revolving Period.

If on any Business Day, the Deal Agent shall notify the Borrower of any Borrowing Excess, the Borrower shall deposit the amount of such Borrowing Excess in the Collection Account by 11:30 a.m. on the following Business Day.

Section 6.04. Disbursements From the Collection Account-Settlement Date Procedures-Revolving Period

(a) No later than 11:00 a.m. on each Settlement Date during the Revolving Period, the amounts held in the Collection Account shall be disbursed by the Servicer acting under a revocable power of attorney from the Deal Agent, or otherwise the Deal Agent in the following priority:

(i) to each Hedging Counterparty, if there are any amounts owing to such Hedging Counterparty under the related Hedging Instruments;

(ii) if an Event of Servicer Termination has occurred and a Successor Servicer has been appointed, to the Successor Servicer in an amount equal to its accrued and unpaid Servicing Fees and any other amounts owed to the Successor Servicer (including unpaid costs associated with the transfer of servicing to such Successor Servicer);

(iii) to the Deal Agent for distribution to the Lenders (or, if applicable, any Indemnified Party), the following amounts in the following priority:

(A) an amount equal to the accrued and unpaid Daily Yield to the end of the preceding Settlement Period;

(B) all Facility Fees accrued and unpaid to the end of the preceding Settlement Period;

(C) all Additional Amounts incurred and payable to any Affected Party through the end of the preceding Settlement Period;

(D) all other amounts accrued and payable under this Agreement other than principal payments on Advances (including Indemnified Amounts incurred and payable to any Indemnified Party) through the end of the preceding Settlement Period;

(E) if there is a Borrowing Excess, an amount equal to such excess, in reduction of Advances Outstanding; and

(F) if a Successor Servicer Reserve Account is required to be established pursuant to Section 7.06, to the Successor Servicer Reserve Account until the Required Reserve Account Amount is met;

(iv) to the Servicer on behalf of the Borrower, in an amount equal to its accrued and unpaid Servicing Fee to the end of the preceding Settlement Period;

(v) retained in the Collection Account, the Accrued Monthly Yield and Accrued Servicing Fee as of that date;

(vi) to the extent that the balance in the Collection Account exceeds the amount to be retained or disbursed under Sections 6.04(a)(v), that excess to an account previously designated by the Borrower.

(b) Two Business Days prior to each Settlement Date, the Deal Agent shall determine and notify the Borrower of any Collection Account Deficiency for the preceding Settlement Period, and the Borrower shall deposit cash in the amount of such Collection Account Deficiency to the Collection Account pursuant to Section 6.02(b).

Section 6.05. Liquidation Settlement Procedures. On each Business Day on and after the Commitment Termination Date, the Deal Agent shall transfer all amounts from the Collection Account in the following priority:

(a) other than from amounts on deposit in the Collection Account representing payments under any Hedging Instrument, to the related Hedging Counterparty, if there are any amounts owing to such Hedging Counterparty under the related Hedging Instrument, such amounts;

(b) if an Event of Servicer Termination has occurred and a Successor Servicer has been appointed, to the Successor Servicer in an amount equal to its accrued and unpaid Servicing Fees and any other amounts owed to the Successor Servicer (including unpaid costs associated with the transfer of servicing to such Successor Servicer);

(c) to the Deal Agent for distribution to the Lenders, in an amount equal to:

(i) on any such Business Day on which there are Advances Outstanding, accrued and unpaid Daily Yield and Daily Facility Fees through and including such date;

(ii) on any such Business Day on which there are Advances Outstanding, the principal of all Advances Outstanding;

(d) to the Deal Agent for distribution to the Lenders or Indemnified Parties, as the case may be:

(i) all Additional Amounts Incurred and payable to any Affected Party; and

(ii) all Indemnified Amounts incurred and payable to any Indemnified Party.

(e) if a Successor Servicer Reserve Account is required to be established pursuant to Section 7.06, to the Successor Servicer Reserve Account until the Required Reserve Account Amount is met;

(f) if an Event of Servicer Termination has not occurred, to the Servicer in an amount equal to its accrued and unpaid Servicing Fee; and

(g) to an account previously designated by the Borrower, the balance, if any.

Section 6.06. Notification by Servicer. The Servicer shall notify the Borrower, the Deal Agent and the Liquidity Agent of the determinations and disbursements made pursuant to Sections 6.04, 6.05 and 6.08.

Section 6.07. Investment of Accounts. During the Revolving Period, to the extent there are uninvested amounts deposited in the Collection Account or the Successor Servicer Reserve Account, the Deal Agent shall invest all such amounts in Permitted Investments selected by the Deal Agent that mature no later than the immediately succeeding Business Day the immediately succeeding Settlement Date. Any earnings thereon

shall be deposited into the related account on or after the Commitment Termination Date, any investment of such amounts shall be solely at the discretion of the Deal Agent subject to the restrictions described above.

Section 6.08. Termination Procedure.

(a) On the earlier of (i) the first Business Day after the Commitment Termination Date on which current Advances Outstanding have been reduced to zero or (ii) the Final Maturity Date, if the payments required to be made pursuant to Sections 6.05(a) and (b) have not been made in full, the Borrower shall immediately deposit into the Collection Account an amount sufficient to make such payments in full.

(b) On the first Business Day after the Commitment Termination Date on which the payments required pursuant to Subsections 6.05(a) and (b) and (c) have been made in full, all amounts held in the Collection Account or the Successor Servicer Reserve Account, if any, shall be disbursed to the Borrower and all security interests of the Lender and the Collateral Agent in all Transferred Receivables owned by the Borrower shall be released by the Lender and the Collateral Agent. Such disbursement shall constitute the final payment to which the Borrower is entitled pursuant to the terms of this Agreement.

ARTICLE VII

APPOINTMENT OF THE SERVICER

Section 7.01. Appointment of the Servicer. The Borrower hereby appoints the Servicer as its agent to service the Transferred Receivables and enforce its respective rights and interests in and under each Transferred Receivable and each related Contract and to serve in such capacity until the termination of its responsibilities pursuant to Sections 7.10, 9.02 or 11.01. The Servicer hereby agrees to perform the duties and obligations with respect thereto set forth herein. The Servicer may, with the prior consent of the Borrower, the Lender, the Deal Agent, and the Collateral Agent subcontract with a Sub-Servicer for collection, servicing or administration of the Transferred Receivables, provided, that (a) the Servicer shall remain liable for the performance of the duties and obligations of the Sub-Servicer pursuant to the terms hereof, and (b) any Sub-Servicing Agreement that may be entered into and any other transactions or services relating to the Transferred Receivables involving a Sub-Servicer shall be deemed to be between the Sub-Servicer and the Servicer alone and the Borrower, the Lender, Deal Agent and the Collateral Agent shall not be deemed parties thereto and shall have no obligations, duties or liabilities with respect to the Sub-Servicer.

Section 7.02. Duties and Responsibilities of the Servicer.

(a) The Servicer shall conduct the servicing, administration and collection of the Transferred Receivables and shall take, or cause to be taken, all such actions as may be necessary or advisable to service, administer and collect Transferred Receivable from firms to time.

(b) The duties of the Servicer shall include, without limitation:

(i) preparing and submitting of claims to, and post-billing liaison with, Obligors on Transferred Receivables;

(ii) arranging for the direct remittance of all Collections with respect to each Allotment Obligor to the Collection Account;

(iii) using its best efforts, consistent with its customary servicing procedures, to repossess or otherwise convert the ownership of the Financed Vehicle securing any Receivable as to which the Servicer shall have determined eventual payment in full is unlikely. The Servicer shall follow such customary and usual practices and procedures as it shall become necessary or advisable in its servicing of automotive receivables, which may include reasonable efforts to realize upon any recourse to

Vehicle Dealers and selling the Financed Vehicle at public or private sale. The foregoing shall be subject to the provision that, in any case in which the Financed Vehicle shall have suffered damage, the Servicer shall not expend funds in connection with the repair or the repossession of such Financed Vehicle unless it shall determine in its discretion that such repair and/or repossession will increase the Proceeds by an amount greater than the amount of such expenses;

(iv) maintaining all necessary Servicing Records with respect to the Transferred Receivables and providing such reports to the Liquidity Agent and the Deal Agent in respect of the servicing of the Transferred Receivables (including information relating to its performance under this Agreement) as may be required hereunder or as the Liquidity Agent or the Deal Agent may reasonably request;

(v) maintaining and implementing administrative and operating procedures (including, without limitation, an ability to recreate Servicing Records evidencing the Transferred Receivables in the event of the destruction of the originals thereof) and keeping and maintaining all documents, books, records and other information reasonably necessary or advisable for the collection of the Transferred Receivables (including, without limitation, records adequate to permit the identification of each new Transferred Receivable and all Collections of and adjustments to each existing Transferred Receivable);

(vi) promptly delivering to the Deal Agent or the Collateral Agent, from time to time, such information and Servicing Records (including information relating to its performance under this Agreement) as the Deal Agent or the Collateral Agent may from time to time reasonably request;

(vii) identifying each Transferred Receivable clearly and unambiguously in its Servicing Records to reflect that such Transferred Receivable is owned by the Borrower and pledged to the Collateral Agent;

(viii) complying in all material respects with the Credit and Collection Policies in regard to each Transferred Receivable and the related Contracts;

(ix) complying in all material respects with all applicable laws, rules, regulations and orders with respect to it, its business and properties and all Transferred Receivables, related Contracts and Collections with respect thereto;

(x) preserving and maintaining its corporate existence, rights, franchises and privileges in the jurisdiction of its incorporation, and qualifying and remaining qualified in good standing as a foreign corporation and qualifying to and remaining authorized to perform obligations as Servicer (including enforcement of collection of Transferred Receivables on behalf of the Lenders and the Collateral Agent) in each jurisdiction where the failure to preserve and maintain such existence, rights, franchises, privileges and qualification would materially adversely affect (A) the rights or interests of the Lenders and the Collateral Agent in the Transferred Receivables, (B) the collectibility of any Transferred Receivable, (C) the ability of the Servicer to perform its obligations hereunder, or (D) the ability of the Parent to perform its obligations under this Agreement or under the Contracts;

(xi) immediately notifying the Liquidity Agent and the Deal Agent of the occurrence of a Termination Event (including, without limitation, a material adverse change in the financial condition of the Parent) or a Potential Termination Event;

(xii) notifying the Liquidity Agent and the Deal Agent of any material action, suit, proceeding, dispute, offset deduction, defense or counterclaim that is or may be (1) asserted by an Obligor with respect to any Transferred Receivable; or (2) reasonably expected to have a material adverse effect on the Contracts as a whole or on the ability of the Servicer or the Originator to perform

its obligations under the Basic Documents or on the Servicer or the Borrower or any of their respective property;

(xiii) arranging for the direct remittance of all Collections with respect to each Transferred Receivable to the Lockbox Account or Lockbox, as the case may be; and

(xiv) immediately notifying the Deal Agent and the Collateral Agent of (A) any proposed change in the Credit and Collection Policies or (B) any change in procedures in connection with the Collections with respect to Allotment Obligors which would permit the Servicer to cause such financial institutions making payments on behalf of the Allotment Obligors to make payments in respect of Transferred Receivables directly to the Collection Account.

(c) The Lenders, the Deal Agent and the Collateral Agent shall not have any obligation or liability with respect to any Transferred Receivables or related Contracts, nor shall any of them be obligated to perform any of the obligations of the Servicer hereunder.

Section 7.03. Authorization of the Servicer. Each of the Borrower and the Deal Agent on behalf of the Lenders hereby authorizes the Servicer (including any successor thereto) to take any and all reasonable steps in its name and on its behalf necessary or desirable and not inconsistent with the pledge of the Transferred Receivables to the Lender and the Collateral Agent, in the determination of the Servicer, to collect all amounts due under any and all Transferred Receivables, including, without limitation, endorsing any of their names on checks and other instruments representing Collections, executing and delivering any and all instruments of satisfaction or cancellation, or of partial or full release or discharge, and all other comparable instruments, with respect to the Transferred Receivables and, after the delinquency of any Transferred Receivable and to the extent permitted under and in compliance with applicable law and regulations, to commence proceedings with respect to enforcing payment of such Transferred Receivables and the related Contracts, and adjusting, settling or compromising the account or payment thereof, to the same extent as the Parent could have done if it had continued to own such Receivable. The Parent, the Borrower and the Deal Agent on behalf of the Lenders shall furnish the Servicer (and any successors thereto) with any powers of attorney and other documents necessary or appropriate to enable the Servicer to carry out its servicing and administrative duties hereunder, and shall cooperate with the Servicer to the fullest extent in order to ensure the collectibility of the Transferred Receivables. Notwithstanding anything to the contrary contained herein, Deal Agent on behalf of the Lenders shall have the absolute and unlimited right to direct the Servicer (whether the Servicer is the Parent or otherwise) to commence or settle any legal action to enforce collection of any Transferred Receivable or to foreclose upon, repossess or take any other action which the Collateral Agent or the Deal Agent deems necessary or advisable with respect thereto; provided, that the Servicer may, rather than commencing such action or taking other enforcement action, at its option elect to pay the Borrower the Contract Principal Balance of such Transferred Receivable. In no event shall the Servicer be entitled to make any Lender, the Collateral Agent or the Deal Agent a party to any litigation without such party's express prior written consent, or to make the Borrower a party to any litigation without the Deal Agent's consent.

Section 7.04. Servicing Fees. As compensation for its servicing activities and as reimbursement for its expenses in connection therewith, the Servicer shall be entitled to receive the Servicing Fees in the manner set forth in Sections 6.04 and 6.05, payable monthly in arrears on each Settlement Date with respect to the preceding Settlement Period. The Servicer shall be required to pay for all expenses incurred by the Servicer in connection with its activities hereunder (including any payments to accountants, counsel or any other Person) and shall not be entitled to any payment therefor other than the Servicing Fees.

Section 7.05. Negative Covenants of the Servicer. The Servicer shall not, without the prior written consent of the Deal Agent and the Collateral Agent:

(a) sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon or with respect to (and any such purported disposition shall be null and void) any Transferred Receivable or related Contract with respect thereto, or upon or with respect to the

Collection Account or any other account to which any Collections of any Receivable are deposited, or assign any right to receive income in respect thereof;

(b) extend, amend or otherwise modify the terms of any Transferred Receivable (other than adjusting, settling or compromising the account or payment of a Transferred Receivable pursuant to Section 7.03 and except for deferments in the ordinary course of business which are consistent with the Credit and Collection Policies), or amend, modify or waive any term or condition of any Contract related thereto;

(c) make any material change in the character of its business;

(d) merge with or into, consolidate with or into, or convey, transfer, lease or otherwise dispose of all or substantially all of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets or capital stock or other ownership interest of, any Person (whether in one transaction or in a series of transactions), provided, however, that the Servicer may, without the consent of the Deal Agent, invest not more than 25% of its Net Worth to acquire all or substantially all of the assets or capital stock or other ownership interest of another Person;

(e) make any change to its corporate name or use any trade names, fictitious names, assumed names or "doing business as" names;

(f) make any change in its instructions to Allotment Obligors to make payments to the Collection Account;

(g) assign or otherwise dispose of any shares of the Borrower; or

(h) agree or consent to or otherwise permit to occur any amendment, modification, change, supplement, or rescission of the Credit and Collection Policies in whole or in part in any manner that could have a material adverse effect upon the Receivables or interests of the Lenders or the Deal Agent.

Section 7.06. Financial Covenants. The Servicer shall have or maintain:

(a) Net Worth of not less than the sum of (i) $55 million and (ii) one half of the net income of the Servicer and its consolidated subsidiaries as set forth in its most recent annual consolidated financial statement;

(b) Interest Coverage Ratio equal to or greater than 1.5 to 1; and

(c) a Debt Ratio of less than 5.0 to 1.0.

If at any time the financial covenants set forth in this Section 7.06 are not met, in addition to, and without limiting, any other right or remedy contained herein, the Deal Agent may require the Borrower to establish a Successor Servicer Reserve Account pursuant to Section 6.01(c) hereof.

Section 7.07. Reporting . During the term of this Agreement, the Servicer shall keep or cause to be kept in reasonable detail books and records of the account of the Servicer's assets and business, including, but not limited to, books and records relating to the transactions contemplated in the Basic Documents, which shall be furnished to the Deal Agent upon request. The books of the Servicer shall be kept on an accrual basis and the Servicer shall report its operations for tax purposes on an accrual basis. The fiscal year of the Servicer shall end on March 31 of each year. The Servicer shall furnish to the Liquidity Agent and the Deal Agent:

(a) as soon as available and in any event within ninety (90) days (or the next succeeding Business Day if the last day of such period is not a Business Day) after the and of each fiscal year of the Servicer a copy of the consolidated financial statement of the Servicer and its consolidated Subsidiaries as of the end of

such year and the related consolidated statements of income and retained earnings, and of cash flow, of the Servicer and its consolidated Subsidiaries for such year, in each case reported on by a firm of nationally recognized independent public accountants;

(b) on or before the 45th day (or next succeeding Business Day if the last day of such period is not a Business Day) after each fiscal quarter, an Officer's Certificate stating, as to each signer thereof, that (i) a review of the activities of the Servicer during the preceding fiscal quarter and of its performance under this Agreement has been made under such officer's supervision, (ii) to the best of such officer's knowledge, based on such review, the Servicer has fulfilled all its obligations under this Agreement throughout such quarter, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to such officer and the nature and status thereof; (iii) the Servicer has complied with the covenants set forth in Sections 7.05 and 7.06 and (iv) the representations and warranties of the Servicer in Section 4.03 are true and correct as if made on the date of such Officer's Certificate;

(c) promptly after the sending or filing thereof, copies of all reports which the Servicer sends to its security holders, public filings with any Governmental Authority and the annual report of the Servicer; and

(d) such other periodic, special or other reports or information as the Liquidity Agent and the Deal Agent may reasonably require.

Section 7.08. Annual Statement as to Compliance. The Servicer
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shall deliver to the Liquidity Agent and the Deal Agent on or before July 15 of each year an Officer's Certificate stating, as to each signer thereof, that (a) a review of the activities of the Servicer during the preceding fiscal year and of its performance under this Agreement has been made under such officer's supervision, (b) to the best of such officer's knowledge, based on such review, the Servicer has fulfilled all its obligations under this Agreement throughout such year or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to such officer and the nature and status thereof, (c) the Servicer has complied with the covenants set forth in Sections 7.05 and 7.06, and (d) the representations and warranties of the Servicer in Section 4.03 are true and correct as if made on the date of such Officer's Certificate.

Section 7.09. Annual Independent Public Accountants' Servicing and
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Compliance Report. On or before June 15 of each year, the Servicer at its
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expense shall cause a firm of nationally recognized independent public accountants to furnish a statement to the Collateral Agent and the Deal Agent to the effect that such firm has examined such Servicing Records relating to the Transferred Receivables as such firm deems necessary as a basis for the report contemplated by this Section 7.09 and has issued its report therefor and that such examination (1) was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other audit procedures as such firm considered necessary in the circumstances; (2) included tests relating to auto loans serviced for others in accordance with the requirements of the Uniform Single Audit Program for Mortgage Bankers (the "Program"), to the extent the procedures in the Program
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are applicable to the servicing obligations set forth in this Agreement (3) included an examination of the delinquency and loss statistics relating to the Servicer's portfolio of automobile and light truck installment sales contracts; and (4) except as described in the report, disclosed no exceptions or errors in the records relating to automobile and light truck loans serviced for others that, in the firm's opinion, paragraph four of the Program requires such firm to report. The accountants' report shall further state that (1) a review in accordance with agreed upon procedures was made of three randomly selected Servicer certificates; (2) except as disclosed in the report, no exceptions or errors in the Servicer certificates were found; (3) the delinquency and loss information, relating to the Receivables contained in the Servicer certificates were found to be accurate and (4) except for (i) such exceptions as such firm shall believe to be immaterial, and (ii) such other exceptions as shall be set forth in such statement, such firm has examined the financial statements for the preceding year of the Servicer and the Servicer's financial covenants in this Agreement and, on the basis of such examination, the Servicer has complied during such year with such covenants, and (c) that the Lenders, the Deal Agent and the Collateral Agent may rely on such report.

Section 7.10. Termination of Servicer. With the prior written consent of the Required Investors, the Deal Agent and the Collateral Agent, the Borrower may terminate the Servicer.

Section 7.11. Corporate Existence. The Servicer shall maintain its corporate existence and shall at all times continue to be duly organized under the laws of the State of California and duly qualified and duly authorized and shall conduct its business in accordance with the terms of its certificate of incorporation and bylaws.

Section 7.12. Cooperation With Requests for Information or Documents. The Servicer will cooperate fully with all reasonable requests of the Borrower, the Deal Agent and the Collateral Agent regarding the provision of any information or documents, necessary, including the provision of such information or documents in electronic or machine-readable format, or desirable to allow each of the Borrower, the Deal Agent and the Collateral Agent to carry out its responsibilities under the Basic Documents.

ARTICLE VIII

GRANT OF SECURITY INTERESTS

Section 8.01. Borrower's Grant of Security Interest. As security for the prompt payment or performance in full when due, whether at stated maturity, by acceleration or otherwise, of all Borrower Secured Obligations, the Borrower hereby assigns and pledges to the Collateral Agent, as agent for the Lenders, and grants to the Collateral Agent, as agent for the Lenders, a security interest in and lien upon, all of the Borrower's right, title and Interest in and to the following, in each case whether now or hereafter existing or in which Borrower now has or hereafter acquires an interest and wherever the same may be located (collectively, the "Collateral"):

(a) all Transferred Receivables, Contracts and Collections;

(b) each Lockbox Agreement and all Basic Documents now or hereafter in effect relating to the purchase, servicing or processing of Transferred Receivables (the "Borrower Assigned Agreements"), including (i) all rights of
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the Borrower to receive moneys due and to become due under or pursuant to the Borrower Assigned Agreements, (ii) all rights of the Borrower to receive proceeds of any insurance, indemnity, warranty or guaranty with respect to the Borrower Assigned Agreements, (iii) the Borrower's right of foreclosure as lienholder of the vehicles underlying the Receivables; (iv) claims of the Borrower for damages arising out of or for breach of or default under the Borrower Assigned Agreements, and (v) the right of the Borrower to amend, waive or terminate the Borrower Assigned Agreements, to perform under the Borrower Assigned Agreements and to compel performance and otherwise exercise all remedies and rights under the Borrower Assigned Agreements;

(c) all of the following (the "Borrower Account Collateral"):

(i) each Lockbox Account, the Lockboxes and all funds held in each Lockbox Account and the Lockboxes and all certificates and instruments, if any, from time to time representing or evidencing each Lockbox Account, the Lockboxes or such funds,

(ii) the Collection Account and the Successor Servicer Reserve Account, all funds held in the Collection Account and the Successor Servicer Reserve Account, and all certificates and instruments, if any, from time to time representing or evidencing the Collection Account or such funds,

(iii) all Investments from time to time of amounts in each Lockbox Account, the Collection Account and the Successor Servicer Reserve Account, and all certificates and instruments, if any, from time to time representing or evidencing such Investments,

(iv) all notes, certificates of deposit and other instruments from time to time delivered to or otherwise possessed by any Lender or any assignee or agent on behalf of each Lender in substitution for or in addition to any of the then existing Borrower Account Collateral, and

(v) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any and all of the then existing Borrower Account Collateral;

(d) all additional property that may from time to time hereafter be granted and pledged by the Borrower or by anyone on its behalf under this Agreement, including the deposit with any Lender, the Deal Agent or the Collateral Agent of additional moneys by the Borrower; and

(e) all Proceeds, accessions, substitutions, rents and profits of any and all of the foregoing Collateral (including Proceeds that constitute property of the types described in Sections 8.01 (a) through (d) above) and, to the extent not otherwise included, all payments under insurance (whether or not any Lender or any assignee or agent on behalf of the Lender is the loss payee thereof) or any indemnity, warranty or guaranty payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral.

Section 8.02. Reserved.

Section 8.03. Reserved.

Section 8.04. Delivery of Collateral. All certificates or instruments representing or evidencing Collateral shall be delivered to and held by or on behalf of the Collateral Agent pursuant to this Agreement, and shall be in suitable form for transfer by delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Collateral Agent and to the extent not constituting an assignment shall be irrevocable powers of attorney coupled with an interest. The Collateral Agent shall have the right, at any time in its discretion and without notice to the Borrower or the Lender, to transfer to or to register in the name of the Collateral Agent or any of its nominees any or all of the Collateral. In addition, the Collateral Agent shall have the right at any time to exchange certificates or instruments representing or evidencing Collateral for certificates or instruments of smaller or larger denominations.

Section 8.05. Borrower Remains Liable. Notwithstanding anything in this Agreement, (a) each of the Borrower and the Parent shall remain liable under the Transferred Receivables, Contracts, Borrower Assigned Agreements and other agreements included in the Collateral to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Deal Agent as agent of the Lenders or the Collateral Agent of any of its rights under this Agreement shall not release the Borrower or the Servicer from any of their respective duties or obligations under the Transferred Receivables, Contracts, Borrower Assigned Agreements or other agreements included in the Collateral, (c) the Deal Agent as agent of the Lenders and the Collateral Agent shall not have any obligation or liability under the Transferred Receivables, Contracts, Borrower Assigned Agreements or other agreements included in the Collateral by reason of this Agreement, and (d) neither the Collateral Agent nor any of the other Secured Parties shall be obligated to perform any of the obligations or duties of the Borrower or the Servicer under the Transferred Receivables, Contracts, Borrower Assigned Agreements or other agreements included in the Collateral or to take any action to collect or enforce any claim for payment assigned under this Agreement.

Section 8.06. Covenants of the Borrower and Servicer Regarding the Collateral.

(a) Offices and Records. The Borrower shall keep its chief place of business and chief executive offices and the office where it keeps its Records at the respective locations specified in Schedule 1 or, upon thirty (30) days prior written notice to the Collateral Agent, at such other location in a jurisdiction where all action required by Section 8.06(f) shall have been taken with respect to the Collateral. The Borrower and the Servicer shall, for not less than three years or for such longer period as may be required by law, from the date on

which any Transferred Receivable arose, maintain the Records with respect to each Transferred Receivable, including records of all payments received, credits granted and merchandise returned. The Borrower and the Servicer will permit representatives of the Deal Agent and the Collateral Agent at any time and from time to time during normal business hours, and at such times outside of normal business hours as the Deal Agent and the Collateral Agent shall reasonably request, (i) to inspect and make copies of and abstracts from such records, and (ii) to visit the properties of the Borrower or the Servicer utilized in connection with the collection, processing or servicing of the Transferred Receivables for the purpose of examining such Records, and to discuss matters relating to the Receivables or the Borrower's or Servicer's performance under this Agreement with any officer or employee of !he Borrower or Servicer having knowledge of such matters. In connection therewith, the Deal Agent or the Collateral Agent may institute procedures to permit it to confirm the Obligor balances in respect of any Transferred Receivables. Each of the Borrower and the Servicer agrees to render to the Deal Agent and the Collateral Agent such clerical and other assistance as may be reasonably requested with regard to the foregoing. If a Termination Event shall have Occurred and be continuing, promptly upon request therefor, the Borrower or the Servicer shall deliver to the Collateral Agent records reflecting activity through the close of business on the immediately preceding Business Day.

(b) Collection of Transferred Receivables. Except as otherwise provided in this Section 8.06(b), the Borrower shall continue to collect or cause to be collected, at its own expense, all amounts due or to become due to the Borrower under the Transferred Receivables, the Borrower Assigned Agreements and any other Collateral. In connection with such collections, the Borrower may take (and at the Collateral Agent's direction after a Termination Event has occurred and is continuing, shall take) such action as the Borrower or the Collateral Agent may deem necessary or advisable to enforce collection of the Transferred Receivables and the Borrower Assigned Agreements; provided, however, that the Collateral Agent may, at any time that a Termination Event has occurred and is continuing, notify any Obligor with respect to any Transferred Receivables or obligors under the Borrower Assigned Agreements of the assignment of such Transferred Receivables or Borrower Assigned Agreements, as the case may be, to the Collateral Agent and direct that payments of all amounts due or to become due to the Borrower thereunder be made directly to the Collateral Agent or any servicer, collection agent or lockbox or other account designated by the Collateral Agent and, upon such notification and at the expense of the Borrower, the Collateral Agent may enforce collection of any such Transferred Receivables or the Borrower Assigned Agreements and adjust, settle or compromise the amount or payment thereof.

(c) Maintain Records of Transferred Receivables. The Borrower and the Servicer shall, at their own cost and expense, maintain satisfactory and complete records of the Collateral, including a record of all payments received and all credits granted with respect to the Collateral and all other dealings with the Collateral. Each of the Borrower and the Servicer will mark conspicuously with a legend, in form and substance satisfactory to the Collateral Agent, its records, computer tapes, computer disks and credit files pertaining to the Collateral and the Related Contracts, and its file cabinets or other storage facilities where it maintains information pertaining to the Collateral, to evidence this Agreement and the assignment and security interest granted by this Article VIII. Upon the occurrence and during the continuation of a Termination Event, the Borrower and Servicer shall (1) deliver and turn over to the Collateral Agent or to its representatives, or at the option of the Collateral Agent shall provide the Collateral Agent or its representatives with access to, after the occurrence of a Termination Event, at any time, and during all other times, during ordinary business hours, on demand of the Collateral Agent, all of the Borrower's and Servicer's facilities, personnel, books and records pertaining to the Collateral, including all Records, and (ii) allow the Collateral Agent to occupy the premises of the Borrower and the Servicer where such books, records and Records are maintained, and utilize such premises, the equipment thereon and any personnel of the Borrower or the Servicer that the Collateral Agent may wish to employ to administer, service and collect the Transferred Receivables.

(d) Performance of Borrower Assigned Agreements. The Borrower shall (i) perform and observe all the terms and pro visions of the Borrower Assigned Agreements to be performed or observed by it, maintain the Borrower Assigned Agreements in full force and effect, enforce the Borrower Assigned Agreements in accordance with their terms and take all such action to such end as may be from time to time requested by the Collateral Agent, and (ii) upon request of the Deal Agent or the Collateral Agent, make to any other party to the

Borrower Assigned Agreements such demands and requests for information and reports or for action as the Borrower is entitled to make under the Borrower Assigned Agreements.

(e) Notice of Adverse Claim. Each of the Borrower and the Servicer shall advise the Deal Agent and the Collateral Agent promptly, in reasonable detail, (i) of any Adverse Claim known to it made or asserted against any of the Collateral, and (ii) of the occurrence of any event which would have a material adverse effect on the aggregate value of the Collateral or on the assignments and security interests granted by the Borrower in this Agreement.

(f) Further Assurances; Financing Statements.

(i) Each of the Borrower and the Servicer severally agrees that at any time and from time to time, at its expense, it shall promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable or that the Deal Agent or the Collateral Agent may request to perfect and protect the assignments and security interests granted or purported to be granted by this Article VIII or to enable the Lenders, the Deal Agent or the Collateral Agent to exercise and enforce its rights and remedies under this Agreement with respect to any Collateral. Without limiting the generality of the foregoing, the Borrower shall execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices as may be necessary or desirable or that the Deal Agent of the Collateral Agent may request to protect and preserve the assignments and security interests granted by this Agreement.

(ii) The Borrower and the Lenders hereby severally authorize the Collateral Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of the Borrower or the Lender where permitted by law. A photographic or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. The Collateral Agent will promptly send to the Borrower any financing or continuation statements thereto which it files without the signature of the Borrower and will promptly send to the Lenders any financing or continuation statements thereto which it files without the signature of the Lenders except in the case of filings of copies of this Agreement as financing statements, the Collateral Agent will promptly send the Borrower or the Lenders, as the case may be, the filing or recordation information with respect thereto.

(iii) Each of the Borrower and the Servicer shall furnish to the Collateral Agent from time to time such statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Collateral Agent may reasonably request, all in reasonable detail.

Section 8.07. Release of Collateral.

(a) Generally. For purposes of effecting Dispositions or if the Borrowing Base is in excess of Advances Outstanding, so long as there is no Potential Termination Event or Termination Event hereunder, the Borrower may obtain releases of a Lender's security interest in all or any part of the Collateral and from time to time, to the extent that (immediately after giving effect to any requested release) there exists no Borrowing Excess and there is no Potential Termination Event or Termination Event. Each request for a partial release of Collateral (a "Transfer Request") shall be addressed to the Deal Agent, demonstrating compliance with the immediately preceding sentence and, if applicable, acknowledging that the receipt of proceeds from such sale or transfer to third parties shall be deposited into the Collection Account in accordance with Section 6.02(a).

(b) Transfers. With respect to each Transfer Request that is received by the Deal Agent by 9:00 a.m. (Los Angeles, California time) on a Business Day, the Deal Agent shall use due diligence and reasonable efforts to review such Transfer Requests and prepare the files, identified in each Transfer Request, for shipment by 9:00 a.m. on the second succeeding Business Day. However, requested transfers will not be made if the relevant conditions set forth in Section 8.07(a) are not met.

(c) Continuation of Lien. Unless released in writing by the Lenders, as herein provided, the security interest in favor of the Collateral Agent, in all Collateral transmitted pursuant to Section 3.4(b), shall continue in effect until such time as the Lenders shall have received payment in full of the proceeds from the sale or transfer of such Collateral to third parties in accordance with this Section 8.07.

(d) Application of Proceeds; No Duty. Neither of the Deal Agent, nor the Collateral Agent, nor any Lender shall be under any duty at any time to credit Borrower for any amount due from any third party in respect of any purchase of any Collateral contemplated above, until the Collateral Agent has actually received such amount in immediately available funds for deposit to the Collection Account. Neither the Collateral Agent nor the Lenders, nor Deal Agent shall be under any duty at any time to collect any amounts or otherwise enforce any obligations due from any third party in respect of any such purchase of Receivables covered by the release of such portion of Collateral or in respect of a securitization thereof with a third party.

(e) Representation in Connection with Releases, Sales and Transfers. The Borrower represents and warrants that each request for any release or transfer pursuant to Section 8.07(a) shall automatically constitute a representation and warranty to the Lenders, the Deal Agent and the Collateral Agent to the effect that immediately before and after giving effect to such release or Transfer Request, there is no Potential Termination Event or Termination Event or Borrowing Excess.

(f) Release of Security Interest. Upon the Deal Agent's request, the Collateral Agent shall promptly release, at the Borrower's expense, all UCC Financing Statements in connection with the release of such part of Collateral covered in connection with the Transfer Request and shall deliver, at the Borrower's expense, the documents and certificates (including the applicable Obligor Delivery Documents) on the released portion of Collateral to the trustee or such similar entity in connection with the third party securitization; provided that the trustee or such similar entity in connection with the third party securitization acknowledges and agrees (i) that all proceeds thereof that it receives, are held in trust for the Lenders and (ii) at such time that the Lenders shall instruct such trustee to transfer such proceeds, the trustee shall transfer such funds pursuant to such instructions.

ARTICLE IX

TERMINATION EVENTS

Section 9.01. Termination Events. If any of the following events (each, a "Termination Event") shall occur and be continuing:

(a) (i) the Borrower shall default in the payment of any amount owed by it hereunder and such failure shall remain unremedied for three Business Days, or (ii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement and such failure shall remain unremedied for five Business Days, in each case after written notice thereof shall have been given by the Deal Agent or the Collateral Agent to the Borrower; or

(b) (i) a default (in the case of the Borrower only) or a material default (in the case of the Parent only), has occurred and is continuing under any instrument or agreement to which First Union or any of its Affiliates is a party, evidencing, securing or providing for the issuance of Debt of the Parent or the Borrower, or (ii) a default has occurred and is continuing entitling any other party to accelerate any payment of Debt in excess of $500,000, in the aggregate, under any Instrument or agreement evidencing, securing or providing for the issuance of Debt of the Parent or the Borrower; or

(c) the Parent or the Borrower shall generally not pay any of its respective Debts as such Debts become due, or shall admit in writing its inability to pay its Debts generally, or shall make a general assignment for the benefit of creditors, or any-proceeding shall be instituted by or against the Parent or the Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or any of its Debts under any law relating to

bankruptcy, insolvency, reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur and, solely with respect to the Parent, any such proceeding remains unremedied for 60 days, or the Parent or the Borrower shall take any corporate action to authorize any of the actions set forth in this subsection; or

(d) judgments or orders for the payment of money (other than such judgments or orders in respect of which adequate insurance is maintained for the payment thereof) in excess of $500,000 in the aggregate against the Parent or any of its Affiliates shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of thirty (30) days or more; or

(e) a judgment or order for the payment of money in excess of $5,000 is rendered against the Borrower; or

(f) there is a material breach of any of the representations and warranties of the Borrower set forth in Section 4.01 or 4.02; or

(g) any Governmental Authority (including the Internal Revenue Service or the Pension Benefit Guaranty Corporation), shall file notice of a lien with regard to any assets of the Parent (other than a lien (i) limited by its terms to assets other than Receivables and (ii) not materially adversely affecting the financial condition at the Parent or the Parent's ability to perform as Servicer hereunder); or

(h) any Governmental Authority (including the Internal Revenue Service or the Pension Benefit Guaranty Corporation) shall file notice of a lien with regard to any of the assets of the Borrower; or

(i) as of any Settlement Date, the Default Rate has been greater than 9.5% for each of the three (3) preceding Settlement Periods; or

(j) as of any Settlement Date the Delinquency Rate has been greater than 4.25% for each of the three (3) preceding Settlement Periods; or

(k) the Deal Agent or the Collateral Agent has determined that any event which materially adversely affects the collectibility of the Receivables has occurred, or that any other event which materially adversely affects the financial condition of the Parent or the Borrower, the ability of the Parent or the Borrower to collect Receivables or the ability of the Borrower to perform hereunder has occurred and such material adverse effect has not been eliminated within thirty (30) days of Collateral Agent's written notice to Borrower and Parent of such change; or

(l) a material deterioration has taken place in the quality of the Transferred Receivables or in the collectibility thereof which either the Deal Agent or the Collateral Agent, in each of its sole discretion, determines to be material and such material deterioration has not been eliminated within thirty (30) days of Collateral Agent's written notice to Borrower and Parent of such deterioration; or

(m) there shall occur a failure of the Parent to make any payment, repurchase Ineligible Receivables or substitute Ineligible Receivables with Eligible Receivables as required under the Receivables Transfer Agreement and such failure shall continue for three Business Days, or if the Receivables Transfer Agreement shall for any reason cease to evidence the transfer to the Borrower (or its assignees or transferees) of the legal and equitable title to, and ownership of, the Transferred Receivables; or

(n) the Receivables Transfer Agreement has been amended or terminated without the written consent of the Lenders, the Deal Agent and the Collateral Agent; or

(o) an Event of Servicer Termination has occurred; or

(p) the Deal Agent has determined that the funding of Receivables hereunder is impracticable due to a drop in or withdrawal of any of the ratings assigned to a Lender's Commercial Paper, the imposition of Additional Amounts, restrictions on the amount of Transferred Receivables it may finance, the inability of the Lender to issue Commercial Paper or for any other reason whatsoever; or

(q) the Lenders and the Collateral Agent cease to hold a first priority, perfected security interest in the Transferred Receivables; or

(r) the Net Portfolio Yield for the Settlement Period in which such date of determination occurs shall not equal or exceed 10.5%, where the "Net Portfolio Yield" is the weighted average of the Receivable Yields with respect to all Transferred Receivables (weighted on the basis of the outstanding principal balance of each Receivable as of the end of such Settlement Period) less the Cost of Funds; or

(s) the obligations of the Investors to purchase Pro Rata Shares of Purchased Interests under the Liquidity Purchase Agreement (as defined therein) or to make Advances under this Agreement have terminated; or

(t) a breach of the covenants in Section 7.06 has occurred; or

(u) a breach of a provision of any Basic Documents has occurred; or

(v) the Eligible Receivables fail to meet the Portfolio Requirements for a period of 30 days; or

(w) any letter of credit, liquidity facility or similar facility with respect to a Lender shall either (i) cease to be in full force and effect; or (ii) the related provider shall have terminated its commitment thereunder; or

(x) as of any Settlement Date, the weighted average (weighted by the average aggregate Contract Principal Balance of each Subgroup of Receivables) of the Net Loss Rates (computed separately for each Subgroup of Receivables) has been greater than 3.25% for each of the three (3) preceding Settlement Periods;

then, and in any such event, the Deal Agent shall, at the request, or may with the consent, of the Required Investors, by notice to the Borrower declare the Commitment Termination Date to have occurred, whereupon the Commitment Termination Date shall forthwith occur, without demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower, provided, that in the event that any of the Termination Events described in subsections (c), (i), (j), (r), (v) or (x) herein have occurred or the Termination Event described in subsection (a)(i) has occurred and remained unremedied for thirty days, the Commitment Termination Date shall automatically occur, without demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

Section 9.02. Events of Servicer Termination . If any of the following events (each, an "Event of Servicer Termination") shall occur and be continuing:

(a) the Servicer shall fall to perform or observe any term, covenant or agreement contained in this Agreement and such failure shall remain unremedied for three (3) Business Days after written notice thereof shall have been given by the Liquidity Agent, the Collateral Agent or the Deal Agent to the Servicer; or

(b) (i) a default has occurred and is continuing under any instrument or agreement to which First Union or any of its Affiliates is a party, evidencing, securing or providing for the Issuance of Debt of the Servicer, or (ii) a default has occurred and is continuing entitling a party to accelerate any payment of Debt under any instrument or agreement evidencing, securing or providing for the issuance of Debt of the Servicer; or

(c) the Servicer shall generally not pay any of its Debts as such Debts become due, or shall admit in writing its inability to pay its Debts generally, or shall make a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against the Servicer seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or any of its Debts under any law relating to bankruptcy, insolvency, reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur and any such proceeding remains undismissed for 60 days, or the Servicer shall take any corporate action to authorize any of the actions set forth in this subsection; or

(d) judgments or orders for the payment of money (other than such judgments or orders in respect of which adequate insurance is maintained for the payment thereof) in excess of $500,000 in the aggregate against the Servicer or any of its Affiliates shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 30 days or more; or

(e) there is a material breach of any of the representations and warranties of the Servicer set forth in Section 4.03; or

(f) the Deal Agent or the Collateral Agent shall have determined that any event which materially adversely affects the ability of the Servicer to collect Receivables or to otherwise perform hereunder has occurred, and such material adverse effect has not been eliminated within thirty (30) days of the Collateral Agent's written notice to Servicer of such event; or

(g) a Termination Event shall have occurred or this agreement shall have been terminated; or

(h) the Servicer shall assign or purport to assign any of its obligations hereunder or under the Receivables Transfer Agreement without the prior written consent of the Deal Agent and the Collateral Agent; or

(i) a Change In Control has occurred;

then, and in any such event, the Deal Agent shall (on behalf of the Borrower), at the request, or may with the consent, of the Required Investors or the Collateral Agent, by delivery of a Servicer Termination Notice to the Borrower and the Servicer, terminate the servicing responsibilities of the Servicer hereunder, without demand, protest or further notice of any kind, all of which are hereby waived by the Servicer. Upon any such declaration, all authority and power of the Servicer under this Agreement and the Receivables Transfer Agreement shall pass to and be vested in the Successor Servicer appointed pursuant to Section 11.02; provided, that notwithstanding anything to
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the contrary herein, the Borrower agrees that it will continue to follow the procedures set forth in Section 7.02(b)(ii) with respect to Collections on Transferred Receivables from Allotment Obligors.

All related costs of replacing the Servicer and transferring the servicing of the Receivables to a Successor Servicer, including but not limited to all internal and external costs and reimbursable expenses of the Servicer, shall be borne by the Servicer.

ARTICLE X

REMEDIES

Section 10.01. Actions Upon Termination Event. If any Termination Event shall have occurred and be continuing and the Deal Agent shall have declared the Commitment Termination Date to have occurred or the Commitment Termination Date shall have been deemed to have occurred pursuant to Section 9.01, then the Collateral Agent may exercise in respect of the Collateral, in addition to any and all other rights and remedies otherwise available to it all of the rights and remedies of a secured party upon default under the UCC (such rights and remedies to be cumulative and nonexclusive), and, in addition, may take the following remedial actions:

(a) The Collateral Agent may, without notice to the Borrower except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Borrower Secured Obligations against amounts payable to the Borrower from the Lockbox Account, the Lockboxes, the Collection Account, the Successor Servicer Reserve Account or any part of such accounts in accordance with the priorities required by Section 10.03.

(b) The Collateral Agent may, without notice except as specified below, solicit and accept bids for and sell the Collateral or any part of the Collateral in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Lenders', Deal Agent's or Collateral Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Collateral Agent may deem commercially reasonable. The Borrower agrees that, to the extent notice of sale shall be required by law, at least ten Business Days' notice to the Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Collateral Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Collateral Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed for such sale, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Every such sale shall operate to divest all right, title, interest, claim and demand whatsoever of the Borrower in and to the Collateral so sold, and shall be a perpetual bar, both at law and in equity, against the Borrower, the Parent, any Person claiming the Collateral sold through the Borrower, the Parent and their respective successors or assigns.

(c) Upon the completion of any sale under Section 10.01 (b), the Borrower or the Servicer will deliver or cause to be delivered all of the Collateral sold to the purchaser or purchasers at such sale on the date of sale, or within a reasonable time thereafter if it shall be impractical to make immediate delivery, but in any event full title and right of possession to such property shall pass to such purchaser or purchasers forthwith upon the completion of such sale. Nevertheless, if so requested by the Collateral Agent or by any purchaser, the Borrower shall confirm any such sale or transfer by executing and delivering to such purchaser all proper instruments of conveyance and transfer and releases as may be designated in any such request.

(d) At any sale under Section 10.01 (b), the Lenders, any holder of a Note (the identity of which, if other than the Collateral Agent, shall be disclosed by the Borrower to each Rating Agency), the Collateral Agent or any Secured Party may bid for and purchase the property offered for sale and, upon compliance with the terms of sale, may hold, retain and dispose of such property without further accountability therefor. Any holder of a Note purchasing property at a sale under Section 10.01 (b) may set off the purchase price of such property against amounts outstanding under such Note in full payment of such purchase price.

(e) The Collateral Agent may exercise at the Borrower's expense any and all rights and remedies of the Borrower under or in connection with the Borrower Assigned Agreements or the other Collateral,

including any and all rights of the Borrower to demand or otherwise require payment of any amount under, or performance of any provisions of, the Borrower Assigned Agreements.

Section 10.02. Receipt of Payments in Trust. All payments received by the Borrower, the Parent, the Servicer, the Lenders or the Deal Agent under or in connection with the Collateral shall be received in trust for the benefit of the Collateral Agent, shall be segregated from other funds of such party and shall be forthwith paid over to the Collateral Agent in the same form as so received (with any necessary endorsement).

Section 10.03. Application of Proceeds. Any cash held by or on behalf or the Collateral Agent as Collateral, whether from Transferred Receivables or otherwise, and all cash proceeds received by the Collateral Agent in respect of any of, sale of, collection from or other realization upon all or any part of the Collateral, shall be applied as set forth in Section 6.05. Any surplus of such cash or cash proceeds held by or on behalf of the Collateral Agent shall be disposed of in accordance with Section 6.08.

Section 10.04. Exercise of Remedies. No failure or delay on the part of the Collateral Agent to exercise any right, power or privilege under this Agreement and no course of dealing between the Borrower, the Servicer, the Lenders, the Liquidity Agent or the Deal Agent, on the one hand, and the Collateral Agent, on the other hand, shall operate as a waiver of such right, power or privilege, nor shall any single or partial exercise of any right, power or privilege under this Agreement preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. The rights and remedies expressly provided in this Agreement are cumulative and not exclusive of any rights or remedies which the Collateral Agent or the Secured Parties would otherwise have pursuant to law or equity. No notice to or demand on any party in any case shall entitle such party to any other or further notice or demand in similar or other circumstances, or constitute a waiver of the right of the other party to any other or further action in any circumstances without notice or demand.

Section 10.05. Severability of Remedies. The invalidity of any remedy in any jurisdiction shall not invalidate such remedy in any other jurisdiction. The invalidity or unenforceability of the remedies herein provided in any jurisdiction shall not in any way affect the right of the enforcement in such jurisdiction or elsewhere of any of the other remedies herein provided.

Section 10.06. Waiver of Agreement. Each of the Borrower and the Servicer agrees, to the full extent that it may lawfully so agree, that neither it nor anyone claiming through or under it will set up, claim or seek to take advantage of any appraisement, valuation, stay, extension or redemption law now or hereafter in force in any locality where any Collateral may be situated in order to prevent hinder or delay the enforcement or foreclosure of this Agreement, or the absolute sale of any of the Collateral or any part thereof, or the final and absolute putting into possession thereof, immediately after such sale, of the purchasers thereof, and each of the Borrower and the Servicer, for itself and all who may at any time claim through or under it, hereby waives, to the full extent that it may be lawful so to do, the benefit of all such laws, and any and all right to have any of the properties or assets constituting the Collateral marshalled upon any such sale, and agrees that the Collateral Agent or any court having jurisdiction to foreclose the security interests granted in this Agreement may sell the Collateral as an entirety or in such parcels as the Collateral Agent or such court may determine.

Section 10.07. Power of Attorney. Each of the Borrower and the Servicer hereby irrevocably appoints the Collateral Agent its true and lawful attorney (with full power of substitution) in its name, place and stead and at its expense, in connection with the enforcement of the rights and remedies provided for in this Article X, including with the following powers: (a) to give any necessary receipts or acquittance for amounts collected or received hereunder, (b) to make all necessary transfers of the Collateral in connection with any sale or other disposition made pursuant hereto, (c) to execute and deliver for value all necessary or appropriate bills of sale, assignments and other instruments in connection with any such sale or other disposition, the Borrower and the Servicer hereby ratifying and confirming all that such attorney (or any substitute) shall lawfully do hereunder and pursuant hereto, and (d) to sign any agreements, orders or other documents in connection with or pursuant to any Basic Document. Nevertheless, if so requested by the Collateral Agent or a purchaser of Collateral, the Borrower shall ratify and confirm any such sale or other disposition by executing and delivering to the Collateral Agent or

such purchaser all proper bills of sale, assignments, releases and other instruments as may be designated in any such request.

Section 10.08. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral until the satisfaction of Section 6.08 of this Agreement.

ARTICLE XI

SUCCESSOR SERVICER

Section 11.01. Servicer Not to Resign. The Servicer shall not resign from the obligations and duties hereby imposed on it except upon determination that (a) the performance of its duties hereunder has become impermissible under applicable law, and (b) there is no reasonable action which the Servicer could take to make the performance of its duties hereunder permissible under applicable law. Any such determination permitting the resignation of the Servicer shall be evidenced as to clause (a) above by an opinion of counsel to such effect delivered to the Collateral Agent and the Deal Agent. No such resignation shall become effective until a successor servicer shall have assumed the responsibilities and obligations of the Servicer in accordance with Section 11.02.

Section 11.02. Appointment of the Successor Servicer. In connection with the termination of the Servicer's responsibilities under this Agreement pursuant to Section 9.02 or 11.01, the Deal Agent shall appoint a successor Servicer to the Servicer which shall succeed to all rights and assume all of the responsibilities, duties and liabilities of the Servicer under this Agreement (such successor Servicer being referred to as the "Successor Servicer"); provided, that the Successor Servicer shall have no responsibility for any actions of the Servicer prior to the date of its appointment as Successor Servicer. In selecting a Successor Servicer, the Deal Agent may obtain bids from any potential Successor Servicer and may agree to any bid it deems appropriate. The Successor Servicer shall accept its appointment by executing, acknowledging and delivering to the Deal Agent and the Collateral Agent an instrument in form and substance acceptable to the Deal Agent and the Collateral Agent.

Section 11.03. Duties of the Servicer. At any time following the appointment of a Successor Servicer:

(a) The Servicer agrees that it will terminate its activities as Servicer hereunder in a manner acceptable to the Collateral Agent so as to facilitate the transfer of servicing to the Successor Servicer including, without limitation, timely delivery (i) to the Collateral Agent of any funds that were required to be remitted to the Collateral Agent for deposit in the Collection Account, and (ii) to the Successor Servicer, at a place selected by the Successor Servicer, of all Servicing Records and other information with respect to the Transferred Receivables. The Servicer shall account for all funds and shall execute and deliver such instruments and do such other things as may reasonably be required to more fully and definitely vest and confirm in the Successor Servicer all rights, powers, duties, responsibilities, obligations and liabilities of the Servicer.

(b) The Servicer shall terminate each Sub-Servicing Agreement that may have been entered into and the Successor Servicer shall not be deemed to have assumed any of the Servicer's interest therein or to have replaced the Servicer as a party to any such Sub-Servicing Agreement.

Section 11.04. Effect of Termination or Resignation. Any termination or resignation of the Servicer under this Agreement shall not affect any claims that the Borrower, the Collateral Agent, any Lender, the Liquidity Agent or the Deal Agent may have against the Servicer for events or actions taken or not taken by the Servicer arising prior to any such termination or resignation.

ARTICLE XII

INDEMNIFICATION

Section 12.01. Indemnities by the Borrower. (a) Without limiting any other rights that the Collateral Agent, the Lenders, the Deal Agent, the Liquidity Agent, or any director, officer, employee or agent or incorporator of such party (each an "Indemnified Party") may have hereunder or under applicable law, the Borrower hereby agrees to indemnify each Indemnified Party from and against any and all claims, losses, liabilities, obligations, damages, penalties, actions, judgments, suits, and related costs and expenses of any nature whatsoever, including reasonable attorneys' fees and disbursements (all of the foregoing being collectively referred to as "Indemnified Amounts"), which may be imposed on, incurred by or asserted against an Indemnified Party in any way arising out of or relating to (i) any breach of the Borrower's obligations under any Basic Document, (ii) the financing or the pledge of the Transferred Receivables, or (iii) any Receivable or any Contract, excluding, however, Indemnified Amounts to the extent resulting solely from gross negligence or willful misconduct on the part of such Indemnified Party. Without limiting or being limited by the foregoing, the Borrower shall pay on demand to each Indemnified Party any and all amounts necessary to indemnify such Indemnified Party from and against any and all Indemnified Amounts relating to or resulting from:

(A) reliance on any representation or warranty made or deemed made by the Borrower (or any of its officers) under or in connection with any Basic Document or any report or other information delivered by the Borrower pursuant hereto which shall have been incorrect in any material respect when made or deemed made or delivered;

(B) the failure by the Borrower to comply with any term, provision or covenant contained in any Basic Document or any agreement executed by it in connection with this Agreement or with any applicable law, rule or regulation with respect to any Transferred Receivable or its related Contract, or the nonconformity of any Transferred Receivable or its related Contract with any such applicable law, rule or regulation; or

(C) the failure to vest and maintain vested in the Borrower legal and equitable title to and ownership of the Receivables that are, or are purported to be, Transferred Receivables, together with all Collections in respect thereof, free and clear of any Adverse Claim or Restrictions on Transferability (except as permitted hereunder) whether existing at the time of the purchase of such Receivable or at any time thereafter, and to maintain or transfer to the Collateral Agent a first priority, perfected security interest therein.

(b) Any Indemnified Amounts subject to the indemnification provisions of this Section 12.01 not paid in accordance with Article VI, to the extent that funds are available therefor in accordance with the provisions of Article VI, shall be paid to the Indemnified Party within five Business Days following demand therefor.

Section 12.02. Indemnities by the Servicer. (a) Without limiting any other rights that an Indemnified Party may have hereunder or under applicable low, the Servicer hereby agrees to indemnify each Indemnified Party from and against any and all Indemnified Amounts that may be imposed on, incurred by or asserted against an Indemnified Party in any way arising out of or relating to any breach of the Servicer's obligations under this Agreement excluding, however, Indemnified Amounts to the extent resulting from gross negligence or willful misconduct on the part of such Indemnified Party. Without limiting or being limited by the foregoing, the Servicer shall pay on demand to each Indemnified Party any and all amounts necessary to indemnify such Indemnified Party from and against any and all Indemnified Amounts relating to or resulting from:

(i) reliance on any representation or warranty made or deemed made by the Servicer (or any of its officers) under or in connection with any Basic Document or any report or other information delivered by the Servicer pursuant hereto which shall have been incorrect in any material respect when made or deemed made or delivered; or

(ii) the failure by the Servicer to comply with any term, provision or covenant contained in any Basic Document or any agreement executed by it in connection with this Agreement or with any applicable law, rule or regulation with respect to any Transferred Receivable or its related Contract, or the imposition of any Adverse Claim (except as permitted hereunder) with respect to a Transferred Receivable as a result of the Servicer's actions hereunder.

(b) Any Indemnified Amounts subject to the indemnification provisions of this Section shall be paid to the Indemnified Party within five Business Days following demand therefor.

ARTICLE VIII

THE DEAL AGENT AND THE LIQUIDITY AGENT

Section 13.01. Authorization and Action.

(a) Each Lender hereby designates and appoints FCMC as Deal Agent hereunder, and authorizes the Deal Agent to take such actions as agent on its behalf and to exercise such powers as are delegated to the Deal Agent by the terms of this Agreement together with such powers as are reasonably incidental thereto. The Deal Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities on the part of the Deal Agent shall be read into this Agreement or otherwise exist for the Deal Agent. In performing its functions and duties hereunder, the Deal Agent shall act solely as agent for the Lenders and does not assume nor shall be deemed to have assumed any obligation or relationship of trust or agency with or for the Borrower or any of its successors or assigns. The Deal Agent shall not be required to take any action that exposes the Deal Agent to personal liability or that is contrary to this Agreement or applicable law. The appointment and authority of the Deal Agent hereunder shall terminate at the indefeasible payment in full of the Aggregate Unpaids or under any the Fee Letter.

(b) Each Investor hereby designates and appoints First Union as Liquidity Agent hereunder, and authorizes the Liquidity Agent to take such actions as agent on its behalf and to exercise such powers as are delegated to the Liquidity Agent by the terms of this Agreement together with such powers as are reasonably incidental thereto. The Liquidity Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Investor, and no implied covenants, functions, responsibilities, duties, obligations or liabilities on the part of the Liquidity Agent shall be read into this Agreement or otherwise exist for the Liquidity Agent. In performing its functions and duties hereunder, the Liquidity Agent shall act solely as agent for the Investors and does not assume nor shall be deemed to have assumed any obligation or relationship of trust or agency with or for the Borrower or any of its successors or assigns. The Liquidity Agent shall not be required to take any action which exposes the Liquidity Agent to personal liability or which is contrary to this Agreement or applicable law. The appointment and authority of the Liquidity Agent hereunder shall terminate at the indefeasible payment in full of all outstanding principal amounts of Advances, Daily Yield and any amount at any time due hereunder or under the Fee Letter.

Section 13.02. Delegation of Duties.

(a) The Deal Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Deal Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

(b) The Liquidity Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Liquidity Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

Section 13.03. Exculpatory Provisions.

(a) Neither the Deal Agent nor any of its directors, officers, agents or employees shall be (i) liable for any action lawfully taken or omitted to be taken by it or them under or in connection with this Agreement (except for its, their or such Person's own gross negligence or willful misconduct), or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other document furnished in connection herewith, or for any failure of the Borrower to perform its obligations hereunder, or for the satisfaction of any condition specified in Article III. The Deal Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements or covenants contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Borrower. The Deal Agent shall not be deemed to have knowledge of any Termination Event unless the Deal Agent has received notice from the Borrower or a Lender.

(b) Neither the Liquidity Agent nor any of its directors, officers, agents or employees shall be (i) liable for any action lawfully taken or omitted to be taken by it or them under or in connection with this Agreement (except for its, their or such Person's own gross negligence or willful misconduct), or (ii) responsible in any manner to the Deal Agent or any of the Lenders for any recitals, statements, representations or warranties made by the Borrower contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other document furnished in connection herewith, or for any failure of the Borrower to perform its obligations hereunder, or for the satisfaction of any condition specified in Article III. The Liquidity Agent shall not be under any obligation to the Deal Agent or any Lender to ascertain or to inquire as to the observance or performance of any of the agreements or covenants contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Borrower. The Liquidity Agent shall not be deemed to have knowledge of any Termination Event unless the Liquidity Agent has received notice from the Borrower, the Deal Agent or a Lender.

Section 13.04. Reliance.

(a) The Deal Agent shall in all cases be entitled to rely, and shall be fully protected in relying, upon any document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Deal Agent. The Deal Agent shall in all cases be fully justified in failing or refusing to take any action under this Agreement or any other document furnished in connection herewith unless it shall first receive such advice or concurrence of VFCC or the Required Investors or all of the Lenders, as applicable, as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders, provided that unless and until the Deal Agent shall have received such advice, the Deal Agent may take or refrain from taking any action, as the Deal Agent shall deem advisable and in the best interests of the Lenders. The Deal Agent shall in all cases be fully protected in acting, or in refraining from acting, in accordance with a request of VFCC or the Required Investors or all of the Lenders, as applicable, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders.

(b) The Liquidity Agent shall in all cases be entitled to rely, and shall be fully protected in relying, upon any document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Liquidity Agent. The Liquidity Agent shall in all cases be fully justified in failing or refusing to take any action under this Agreement or any other document furnished in connection herewith unless it shall first receive such advice or concurrence of Required Investors as it deems appropriate or it shall first be indemnified to its satisfaction by the

Investors, provided that unless and until the Liquidity Agent shall have
received such advice, the Liquidity Agent may take or refrain from taking any action, as the Liquidity Agent shall deem advisable and in the best interests of the Investors. The Liquidity Agent shall in all cases be fully protected in acting, or in refraining from acting, in accordance with a request of the Required Investors and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Investors.

Section 13.05. Non-Reliance on Deal Agent, Liquidity Agent and Other Lenders.

Each Lender expressly acknowledges that neither the Deal Agent, the Liquidity Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to it and that no act by the Deal Agent hereafter taken, including, without limitation, any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Deal Agent or the Liquidity Agent. Each Lender represents and warrants to the Deal Agent and to the Liquidity Agent that it has and will, independently and without reliance upon the Deal Agent, the Liquidity Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, prospects, financial and other conditions and creditworthiness of the Borrower and made its own decision to enter into this Agreement.

Section 13.06. Reimbursement and Indemnification.

The Investors agree to reimburse and indemnify VFCC, the Deal Agent, the Liquidity Agent and each of their respective officers, directors, employees, representatives and agents ratably according to their Pro-Rata Shares, to the extent not paid or reimbursed by the Borrower (i) for any amounts for which VFCC, the Liquidity Agent, acting in its capacity as Liquidity Agent, or the Deal Agent, acting in its capacity as Deal Agent, is entitled to reimbursement by the Borrower hereunder and (ii) for any other expenses incurred by VFCC, the Liquidity Agent, acting in its capacity as Liquidity Agent, or the Deal Agent, in its capacity as Deal Agent and acting on behalf of the Lenders, in connection with the administration and enforcement of this Agreement.

Section 13.07. Deal Agent and Liquidity Agent in their Individual Capacities.

The Deal Agent, the Liquidity Agent and each of their respective Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower or any Affiliate of the Borrower as though the Deal Agent or the Liquidity Agent, as the case may be, were not the Deal Agent or the Liquidity Agent, as the case may be, hereunder. With respect to the making of Advances pursuant to this Agreement, the Deal Agent, the Liquidity Agent and each of their respective Affiliates shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not the Deal Agent or the Liquidity Agent, as the case may be, and the terms "Investor," "Lender," "Investors" and "Lenders" shall include the Deal Agent or the Liquidity Agent, as the case may be, in its individual capacity.

Section 13.08. Successor Deal Agent or Liquidity Agent.

(a) The Deal Agent may, upon five (5) days' notice to the Borrower and the Lenders, and the Deal Agent will, upon the direction of all of the Lenders (other than the Deal Agent, in its individual capacity) resign as Deal Agent. If the Deal Agent shall resign, then the Required Investors during such 5-day period shall appoint from among the Lenders a successor agent. If for any reason no successor Deal Agent is appointed by the Required Investors during such 5-day period, then effective upon the termination of such five day period, the Lenders shall perform all of the duties of the Deal Agent hereunder and the Borrower shall make all payments in respect of the Aggregate Unpaids or under the Fee Letter directly to the applicable Lender and for all purposes shall deal directly with the Lenders. After any retiring Deal Agent's resignation hereunder as Deal Agent, the provisions of Articles VII and VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Deal Agent under this Agreement.

(b) The Liquidity Agent may, upon five (5) days' notice to the Borrower, the Deal Agent and the Investors, and the Liquidity Agent will, upon the direction of all of the Investors (other than the Liquidity Agent, in its individual capacity) resign as Liquidity Agent. If the Liquidity Agent shall resign, then the Required Investors during such 5-day period shall appoint from among the Investors a successor Liquidity Agent. If for any reason no successor Liquidity Agent is appointed by the Required Investors during such 5-day period, then effective upon the termination of such five day period, the Investors shall perform all of the duties of the Liquidity Agent hereunder and the Borrower shall make all payments in respect of principal amounts of Advances Outstanding, Daily Yield and any amount due at any time hereunder or under the Fee Letter directly to the applicable Investor and for all purposes shall deal directly with the Investors. After any retiring Liquidity Agent's resignation hereunder as Liquidity Agent, the provisions of Articles VII and VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Liquidity Agent under this Agreement.

ARTICLE XIVA

ASSIGNMENTS; PARTICIPATIONS

Section 14.01A. Assignments and Participations.

(a) Each Investor may upon at least thirty (30) days' written notice to VFCC, the Deal Agent, the Liquidity Agent and S&P and Moody's, assign to one or more banks or other entities all or a portion of its rights and obligations under this Agreement; provided however, that (i) each such assignment shall be
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of a constant, and not a varying percentage of all of the assigning Investor's rights and obligations under this Agreement, (ii) the amount of the Commitment of the assigning Investor being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than the lesser of (A) $10,000,000 or an integral multiple of $1,000,000 in excess of that amount and (B) the full amount of the assigning Investor's Commitment, (iii) each such assignment shall be to an Eligible Assignee, (iv) the parties to each such assignment shall execute and deliver to the Deal Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of $5,000 or such lesser amount as shall be approved by the Deal Agent, (v) the parties to each such assignment shall have agreed to reimburse the Deal Agent, the Liquidity Agent and VFCC for all fees, costs and expenses (including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for each of the Deal Agent, the Liquidity Agent and VFCC) incurred by the Deal Agent, the Liquidity Agent and VFCC, respectively, in connection with such assignment and (vi) the Borrower shall have consented to such assignment, which consent shall not be unreasonably withheld, and provided further that upon the
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effective date of such assignment the provisions of Section 3.03(f) of the Administration Agreement shall be satisfied. Upon such execution, delivery and acceptance by the Deal Agent and the Liquidity Agent and the recording by the Deal Agent, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be the date of acceptance thereof by the Deal Agent and the Liquidity Agent, unless a later date is specified therein, (i) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of an Investor hereunder and (ii) the Investor assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Investor's rights and obligations under this Agreement, such Investor shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Investor assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Investor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Investor makes no representation or warranty and assumes no responsibility with

respect to the financial condition of VFCC or the performance or observance by VFCC of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of such financial statements and other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Deal Agent or the Liquidity Agent, such assigning Investor or any other Investor and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assigning Investor and such assignee confirm that such assignee is an Eligible Assignee; (vi) such assignee appoints and authorizes each of the Deal Agent and the Liquidity Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to such agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as an Investor.

(c) The Deal Agent shall maintain at its address referred to herein a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Investors and the Commitment of, and the principal amount of, each Advance by each Investor from time to time (the "Register"). The entries in the Register shall be conclusive
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and binding for all purposes, absent manifest error, and VFCC, the Borrower and the Investors may treat each Person whose name is recorded in the Register as an Investor hereunder for all purposes of this Agreement. The Register shall be available for inspection by VFCC, the Liquidity Agent or any Investor at any reasonable time and from time to time upon reasonable prior notice.

(d) Subject to the provisions of Section 14.01(a), upon its receipt of an Assignment and Acceptance executed by an assigning Investor and an assignee, the Deal Agent and the Liquidity Agent shall each, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit A to
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the Liquidity Purchase Agreement, accept such Assignment and Acceptance, and the Deal Agent shall then (i) record the information contained therein in the Register and (ii) give prompt notice thereof to VFCC.

(e) Each Investor may sell participations to one or more banks or other entities in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and each Advance made by it); provided, however, that (i) such
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Investor's obligations under this Agreement (including, without limitation, its Commitment hereunder) shall remain unchanged, (ii) such Investor shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Deal Agent and the other Investors shall continue to deal solely and directly with such Investor in connection with such Investor's rights and obligations under this Agreement, and provided further that the Deal
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Agent shall have confirmed that upon the effective date of such participation the provisions of Section 3.3(f) of the Administration Agreement shall be satisfied. Notwithstanding anything herein to the contrary, each participant shall have the rights of an Investor (including any right to receive payment) under Sections 2.10 and 2.12; provided, however, that no participant shall be
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entitled to receive payment under either such Section in excess of the amount that would have been payable under such Section by the Borrower to the Investor granting its participation had such participation not been granted, and no Investor granting a participation shall be entitled to receive payment under either such Section in an amount which exceeds the sum of (i) the amount to which such Investor is entitled under such Section with respect to any portion of any Advance made by such Investor which is not subject to any participation plus (ii) the aggregate amount to which its participants are entitled under such
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Sections with respect to the amounts of their respective participations. With respect to any participation described in this Section 14.01A(e), the participant's rights as set forth in the agreement between such participant and the applicable Investor to agree to or to restrict such Investor's ability to agree to any modification, waiver or release of any of the terms of this Agreement or any other Deal Document or to exercise or refrain from exercising any powers or rights which such Investor may have under or in respect of this Agreement or any other Deal Document shall be limited to the right to consent to any of the matters set forth in Section 2.01 of this Agreement.

(f) Each Investor may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.1, disclose to the assignee or participant or proposed

assignee or participant any information relating to the Borrower or VFCC furnished to such Investor by or on behalf of the Borrower or VFCC.

(g) In the event (i) an Investor ceases to qualify as an Eligible Assignee, or (ii) an Investor makes demand for compensation pursuant to Section 2.10 or Section 2.12, VFCC may, and, upon the direction of the Borrower and prior to the occurrence of a Termination Event, shall, in any such case, notwithstanding any provision to the contrary herein, replace such Investor with an Eligible Assignee by giving three Business Days' prior written notice to the such Investor. In the event of the replacement of an Investor, such Investor agrees (i) to assign all of its rights and obligations hereunder to an Eligible Assignee selected by VFCC upon payment to such Investor of the amount of such Investor's Advances together with any accrued and unpaid Daily Yield thereon, all accrued and unpaid commitment fees owing to such Investor and all other amounts owing to such Investor hereunder and (ii) to execute and deliver an Assignment and Acceptance and such other documents evidencing such assignment as shall be necessary or reasonably requested by VFCC or the Deal Agent. In the event that any Investor ceases to qualify as an Eligible Assignee, such affected Investor agrees (1) to give the Deal Agent, the Borrower and VFCC prompt written notice thereof and (2) subject to the following proviso, to reimburse the Deal Agent, the Liquidity Agent, the Borrower, VFCC and the relevant assignee for all fees, costs and expenses (including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for each of the Deal Agent, the Liquidity Agent, the Borrower and VFCC and such assignee) incurred by the Deal Agent, the Liquidity Agent, the Borrower, VFCC and such assignee, respectively, in connection with any assignment made pursuant to this Section 14.01(g) by such affected Investor; provided, however, that such affected Investor's liability
for such costs, fees and expenses shall be limited to the amount of any up-front fees paid to such affected Investor at the time that it became a party to this Agreement.

(h) Nothing herein shall prohibit any Investor from pledging or assigning as collateral any of its rights under this Agreement to any Federal Reserve Bank in accordance with applicable law and any such pledge or collateral assignment may be made without compliance with this Section.

ARTICLE XIV

MISCELLANEOUS

Section 14.01. Notices, etc.

All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including telex communication and communication by facsimile copy) and mailed, telexed, transmitted or delivered, as to each party hereto, at its address set forth on Schedule 1 hereto or specified in such party's Assignment and Acceptance or at such other address as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be effective upon receipt, or in the case of (a) notice by mail, five days after being deposited in the United States mails, first class postage prepaid, (b) notice by telex, when telexed against receipt of answer back, or (c) notice by facsimile copy, when verbal communication of receipt is obtained, provided, however, that no notice or
communication sent pursuant to Article II shall be effective until received.

Section 14.02. Binding Effect; Assignability. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Servicer, the Lenders, the Deal Agent, the Liquidity Agent and their respective permitted successors and assigns. Neither the Borrower nor the Servicer may assign any of their rights and obligations hereunder or any interest herein without the prior written consent of the Collateral Agent and the Deal Agent, which consent shall not be unreasonably withheld, and unless each Rating Agency shall have confirmed in writing to the Deal Agent that such assignment would not result in a withdrawal or reduction of the then current rating by such Rating Agency of the Commercial Paper. The Lenders, the Collateral Agent, the Liquidity Agent and the Deal Agent may, at any time, with the consent of the Borrower, which consent shall not be unreasonably withheld, assign any of their respective rights and obligations hereunder or interest herein to any Person. Any such assignee may further assign at any time its rights and obligations hereunder or interests herein without the

consent of the Borrower, the Parent or the Servicer. This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until its termination; provided, that the rights and remedies with respect to any breach of any representation and warranty made by the Borrower or the Servicer pursuant to Article IV and the indemnification and payment provisions of Article XII shall be continuing and shall survive any termination of this Agreement.

Section 14.03. Costs, Expenses and Taxes. (a) In addition to the rights of Indemnification under Article XII hereof, the Borrower agrees to pay upon demand all reasonable costs and expenses and taxes (excluding Income Taxes) incurred by the Lenders, the Deal Agents or the Collateral Agent ("Other Costs") in connection with the administration (including periodic auditing, Rating Agency requirements, modification and amendment) of the Basic Documents and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Lender, the Deal Agent and the Collateral Agent with respect thereto and with respect to advising the Lenders, the Deal Agent or the Collateral Agent as to its rights and remedies under the Basic Documents and the other agreements executed pursuant hereto. The Borrower further agrees to pay within five Business Days after demand all reasonable costs, counsel fees and expenses in connection with the enforcement (whether through negotiation, legal proceedings or otherwise) of the Basic Documents and the other agreements and documents to be delivered hereunder, including, without limitation, reasonable counsel fees and expenses in connection with the enforcement of rights under this Section 14.03 in accordance with the provisions of Article VI to the extent that funds are available therefor in accordance therewith.

(b) In addition, the Borrower shall pay on demand any and all stamp, sales, excise and other taxes and fees (subject to Section 3.01(k)) payable or determined to be payable in connection with the execution, delivery, filing or recording of the Basic Documents or the other agreements and documents to be delivered hereunder, and agrees to indemnify and save each Indemnified Party from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

(c) In the event that the Deal Agent determines that any of the costs referred to in paragraphs (a) or (b) above were in any part incurred on behalf of, or are attributable to the actions of, borrowers or sellers under Other Funding Agreements, the Borrower shall have no liability hereunder in excess of the Borrower's Share of such costs.

(d) If the Borrower or the Servicer fails to perform any agreement or obligation contained herein, any Lender, the Collateral Agent or the Deal Agent may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the expenses of such party incurred in connection therewith shall be payable by the party which has failed to so perform upon such party's demand therefor.

Section 14.04. Confidentiality. Except to the extent otherwise required by applicable law or as required to be filed with the Securities and Exchange Commission or unless the Deal Agent shall otherwise consent in writing, the Borrower and the Servicer agree to maintain the confidentiality of this Agreement (and all drafts hereof and documents ancillary thereto) in its communications with third parties and otherwise and not to disclose, deliver or otherwise make available to any third party (other than its directors, officers, employees, accountants or counsel) the original or any copy of all or any part of this Agreement (or any draft hereof and documents ancillary thereto).

Section 14.05. No Proceedings. Each of the Borrower, the Deal Agent, the Liquidity Agent, the Servicer and the Lenders hereby agrees that it will not institute against, or join any other Person in instituting against VFCC or the Borrower any proceedings of the type referred to in the definition of "Event of Bankruptcy" hereunder until one year and one day shall have elapsed since the last day on which any Commercial Paper remained outstanding.

Section 14.06. Amendments; Waivers; Consents. No modification, amendment or waiver of or with respect to any provision of the Basic Documents or any other agreements, instruments and documents delivered pursuant hereto, nor consent to any departure by the Borrower or the Servicer from any of the terms or

conditions thereof, shall be effective unless it shall be in writing and signed by each of the parties hereto. Any waiver or consent shall be effective only in the specific instance and for the purpose for which given. No consent to or demand on the Borrower, the Parent or the Servicer in any case shall, in itself, entitle it to any other consent or further notice or demand in similar or other circumstances. The Basic Documents and the documents referred to therein embody the entire agreement among the Borrower, the Lenders, the Deal Agent, the Liquidity Agent, the Collateral Agent and the Servicer and supersede all prior agreements and understandings relating to the subject hereof.

Section 14.07. GOVERNING LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL. (a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK (WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF).

(b) EACH OF THE PARTIES TO THIS AGREEMENT HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES DISTRICT COURT LOCATED IN THE BOROUGH OF MANHATTAN IN NEW YORK CITY, AND EACH WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE BY REGISTERED MAIL, AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED FIVE DAYS AFTER THE SAME SHALL HAVE BEEN DEPOSITED IN THE U.S. MAILS, POSTAGE PREPAID. EACH OF THE PARTIES TO THIS AGREEMENT HEREBY WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS AND ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER, AND CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY THE COURT. NOTHING IN THIS SECTION 14.07(b) SHALL AFFECT THE RIGHT OF ANY PARTY TO THIS AGREEMENT TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR AFFECT ANY PARTY'S RIGHT TO BRING ANY ACTION OR PROCEEDING IN THE COURTS OF ANY OTHER JURISDICTION.

(c) EACH OF THE PARTIES TO THIS AGREEMENT HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE ARISING OUT OF, CONNECTED WITH, RELATED TO OR IN CONNECTION WITH THIS AGREEMENT. INSTEAD, ANY DISPUTE RESOLVED IN COURT WILL BE RESOLVED IN A BENCH TRIAL WITHOUT A JURY.

Section 14.08. Execution in Counterparts; Severability. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation shall not in any way be affected or impaired thereby in such jurisdiction and the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation shall not be impaired thereby in any other jurisdiction.

Section 14.09. Descriptive Headings. The descriptive headings of the various sections of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

Section 14.10. Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it with respect to any portion of the Aggregate Unpaids owing to such Lender (other than payments received pursuant to Sections 2.10, 12.01 or 12.02) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase for cash without recourse or warranty a portion of the Aggregate Unpaids held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of the Aggregate Unpaids; provided that if all or any portion of such excess amount is thereafter

recovered from such Lender, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

Section 14.11. Recourse Against Certain Parties.

No recourse under or with respect to any obligation, covenant or agreement (including, without limitation, the payment of any fees or any other obligations) of any Lender as contained in this Agreement or any other agreement, instrument or document entered into by it pursuant hereto or in connection herewith shall be had against any administrator of such Lender or any incorporator, affiliate, stockholder, officer, employee or director of such Lender or of any such administrator, as such, by the enforcement of any assessment or by any legal or equitable proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that the agreements of such Lender contained in this Agreement and all of the other agreements, instruments and documents entered into by it pursuant hereto or in connection herewith are, in each case, solely the corporate obligations of such Lender, provided that, in the case of VFCC, such liabilities shall be paid only after the repayment in full of all Commercial Paper and all other liabilities contemplated in the program documents with respect to VFCC, and that no personal liability whatsoever shall attach to or be incurred by any administrator of such Lender or any incorporator, stockholder, affiliate, officer, employee or director of such Lender or of any such administrator, as such, or any other them, under or by reason of any of the obligations, covenants or agreements of such Lender contained in this Agreement or in any other such instruments, documents or agreements, or which are implied therefrom, and that any and all personal liability of every such administrator of such Lender and each incorporator, stockholder, affiliate, officer, employee or director of such Lender or of any such administrator, or any of them, for breaches by such Lender of any such obligations, covenants or agreements, which liability may arise either at common law or at equity, by statute or constitution, or otherwise, is hereby expressly waived as a condition of and in consideration for the execution of this Agreement. The provisions of this Section 14.11 shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Receivables Funding and Servicing Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE SERVICER: CONSUMER PORTFOLIO SERVICES, INC., as Servicer

By _____
Name:
Title:

THE BORROWER: CPS WAREHOUSE CORP., as Borrower

By _____
Name:
Title:

VFCC: VARIABLE FUNDING CAPITAL CORPORATION, as a Lender

By: First Union Capital Markets Corp., as attorney-in-fact

By _____
Name:
Title:

THE DEAL AGENT: FIRST UNION CAPITAL MARKETS CORP.

By _____
Name:
Title:

THE LIQUIDITY AGENT: FIRST UNION NATIONAL BANK

By _____
Name:
Title:

THE COLLATERAL AGENT: FIRST UNION NATIONAL BANK

By _____
Name:
Title:

THE INVESTORS: FIRST UNION NATIONAL BANK

By _____
Name:
Title:

Commitment: $150,000,000

SCHEDULE 1 TO THE FUNDING AGREEMENT

ADDRESSES FOR NOTICE

CONSUMER PORTFOLIO SERVICES INC.
2 Ada, Suite 100
Irvine, California 92618
Attention: Chief Financial Officer
Facsimile No.: (714) 450-3951
Telephone No.: (714) 753-6816

CPS WAREHOUSE CORP.
2 Ada, Suite 252
Irvine, California 92618
Attention: James L. Stock
Facsimile No.: (714) 450-3972
Telephone No.: (714) 753-6935

VARIABLE FUNDING CAPITAL CORPORATION
c/o First Union Capital Markets Corp.
One First Union Center, TW-6
Charlotte, North Carolina 28288
Attention: Mr. Darrell Baber
Facsimile No.: (704) 383-6036
Confirmation No.: (704) 383-9343

With a copy to:
Lord Securities Corp.
2 Wall Street, 19th Floor
New York, New York 10005
Attention: Richard Taiano
Facsimile No.: (212) 346-9012
Confirmation No.:(212) 346-9006

FIRST UNION NATIONAL BANK
One First Union Center, TW-6
Charlotte, North Carolina 28288
Attention: Mr. Bill A. Shirley, Jr.
Facsimile No.: (704) 374-6249
Confirmation No.: (704) 374-4001

FIRST UNION CAPITAL MARKETS CORP.
One First Union Center, TW-6
Charlotte, North Carolina 28288
Attention: Mr. Darrell Baber
Facsimile No.: (704) 383-6036
Telephone No.: (704) 383-9343

LINC ACCEPTANCE COMPANY LLC
One Selleck Street
Norwalk, Connecticut 06855
Attention:
Facsimile No.:

Telephone No.:

SAMCO ACCEPTANCE CORP.
8150 North Central Expressway
Suite 600
Dallas, Texas 75206
Attention:
Facsimile No.:
Telephone No.

EXHIBIT A TO THE FUNDING AGREEMENT

FORM OF BORROWER NOTICE - REQUEST FOR ADVANCE

[Insert Date]

Variable Funding Capital Corporation
Attention:

First Union Capital Markets Corp.,
as Deal Agent
Attention:

Re: Receivables Funding and Servicing Agreement,
dated as of November 24, 1997

Ladies and Gentlemen:

This notice is given pursuant to Section 2.02(a) of the Receivables Funding and Servicing Agreement, dated as of November 24, 1997 (the "Funding Agreement"), among CPS Warehouse Corp. (the "Borrower"), Variable Funding Capital Corporation (the "Lender"), Consumer Portfolio Services, Inc. (the "Parent"), First Union Capital Markets Corp., First Union National Bank and the investors party thereto. Capitalized terms used but not defined in this notice have the meanings ascribed to such terms in the Funding Agreement.

The Borrower hereby requests that the Lender make an Advance to the Borrower on _____, 199__ pursuant to Section 2.02(b) of the Funding Agreement in the amount of $_____ to be disbursed to the Borrower in accordance with Section 2.02(b) of the Funding Agreement. The Parent and the Borrower hereby confirm that the conditions set forth in Section 3.02 of the Funding Agreement for the making of such Advance have been met.

Very truly yours,

Consumer Portfolio Services, Inc.

By:_____
Name:
Title:

CPS Warehouse Corp.

By:_____
Name:
Title:

FORM OF BORROWER NOTICE - REPAYMENT OF ADVANCE

[Insert Date]

Variable Funding Capital Corporation
Attention:

First Union Capital Markets Corp.,
as Deal Agent
Attention:

Re: Receivables Funding and Servicing Agreement,
dated as of November 24, 1997

Ladies and Gentlemen:

This notice is given pursuant to Section 2.02(a) of the Receivables Funding and Servicing Agreement, dated as of November 24, 1997 (the "Funding Agreement"), among CPS Warehouse Corp. (the "Borrower"), Variable Funding Capital Corporation (the "Lender"), Consumer Portfolio Services, Inc. (the "Parent"), First Union Capital Markets Corp. (the "Deal Agent"), First Union National Bank and the investors party thereto. Capitalized terms used but not defined in this notice have the meanings ascribed to such terms in the Funding Agreement.

The Borrower hereby notifies the Lender and the Deal Agent that on _____, 19__ (which is a Business Day) the Borrower intends to repay $_____ of Advances currently outstanding to the Borrower pursuant to Section 2.03 of the Funding Agreement, including (i) all Yield accrued on the principal amount of Advances being repaid through the date of repayment, and (ii) any and all Breakage Costs payable under Section 2.11 of the Funding Agreement.

Very truly yours,

CPS Warehouse Corp.

By:_____
Name:
Title:

FORM OF BORROWER NOTICE - REDUCTION OF COMMITMENT

[Insert Date]

Variable Funding Capital Corporation
Attention:

First Union Capital Markets Corp.,
as Deal Agent
Attention:

Re: Receivables Funding and Servicing Agreement,
dated as of November 24, 1997

Ladies and Gentlemen:

This notice is given pursuant to Section 2.02(a) of the Receivables Funding and Servicing Agreement, dated as of November 24, 1997 (the "Funding Agreement"), among CPS Warehouse Corp. (the "Borrower"), Variable Funding Capital Corporation (the "Lender"), Consumer Portfolio Services, Inc. (the "Parent"), First Union Capital Markets Corp. (the "Deal Agent"), First Union National Bank and the investors party thereto. Capitalized terms used but not defined in this notice have the meanings ascribed to such terms in the Funding Agreement.

The Borrower hereby irrevocably notifies the Lender and the Deal Agent pursuant to Section 2.03(a) of the Funding Agreement that on _____, 199_ (which is a Business Day at least five (5) days after the date this notice is given) the Maximum Facility Commitment shall be reduced to $_____. After such reduction, the Maximum Facility Commitment will not be less than the Advances Outstanding after giving effect to, and conditioned upon, the repayment of Advances set forth in the attached notice.

Very truly yours,

CPS Warehouse Corp.

By:_____
Name:
Title:

FORM OF BORROWER NOTICE - TERMINATION OF COMMITMENT

[Insert Date]

Variable Funding Capital Corporation
Attention:

First Union Capital Markets Corp.,
as Deal Agent
Attention:

Re: Receivables Funding and Servicing Agreement,
dated as of November 24, 1997

Ladies and Gentlemen:

This notice is given pursuant to Section 2.02(a) of the Receivables Funding and Servicing Agreement, dated as of November 24, 1997 (the "Funding Agreement"), among CPS Warehouse Corp. (the "Borrower"), Variable Funding Capital Corporation (the "Lender"), Consumer Portfolio Services, Inc. (the "Parent"), First Union Capital Markets Corp. (the "Deal Agent"), First Union National Bank and the investors party thereto. Capitalized terms used but not defined in this notice have the meanings ascribed to such terms in the Funding Agreement.

The Borrower hereby irrevocably notifies the Lender and the Deal Agent pursuant to Section 2.03(a) of the Funding Agreement that on _____, 199_ (which is a Business Day at least five (5) days after the date this notice is given) the Maximum Facility Commitment shall be terminated.

Very truly yours,

CPS Warehouse Corp.

By:_____
Name:
Title:

EXHIBIT B TO FUNDING AGREEMENT

FORM OF BORROWING BASE CERTIFICATE

EXHIBIT C TO FUNDING AGREEMENT

FORM OF NOTE

$[Insert Amount] [Insert Date]

FOR VALUE RECEIVED, CPS Warehouse Corp., a Delaware corporation (the "Borrower"), promises to pay to [Variable Funding Capital Corporation] (the "Lender"), or registered assigns, the principal sum of _____ DOLLARS ($_____) or, if less, the unpaid principal amount of the aggregate loans ("Advances") made by the Lender to the Borrower pursuant to the Funding Agreement (as defined below), as set forth on the attached Schedule, on the dates specified in Section 2.06 of the Funding Agreement, and to pay the Daily Yield (as defined in the Funding Agreement) on the unpaid principal amount of this Note on each day that such unpaid principal amount is outstanding on the dates specified in Section 2.07 of the Funding Agreement.

This Note is issued pursuant to Section 2.05 of the Receivables Funding and Servicing Agreement, dated as of November 24, 1997 (the "Funding Agreement"), among the Borrower, Consumer Portfolio Services, Inc., Variable Funding Capital Corporation, First Union Capital Markets Corp., First Union National Bank, and as collateral agent for the Secured Parties (as defined in the Funding Agreement) and the Investors. Capitalized terms used but not defined in this Note are used with the meanings ascribed to them in the Funding Agreement.

Notwithstanding any other provisions contained in this Note, if at any time the Daily Yield payable by the Borrower under this Note, when combined with any and all other charges provided for in this Note, in the Funding Agreement or in any other document (to the extent such other charges would constitute interest for the purpose of any applicable law limiting interest that may be charged on this Note), exceeds the highest rate of interest permissible under applicable law (the "Maximum Lawful Rate"), then so long as the Maximum Lawful Rate would be exceeded the rate of interest under this Note shall be equal to the Maximum Lawful Rate. If at any time thereafter the rate of interest payable under this Note is less than the Maximum Lawful Rate, the Borrower shall continue to pay interest under this Note at the Maximum Lawful Rate until such time as the total interest paid by the Borrower is equal to the total interest that would have been paid had applicable law not limited the interest rate payable under this Note. In no event shall the total interest received by the Lender under this Note exceed the amount which the Lender could lawfully have received had the interest due under this Note been calculated since the date of this Note at the Maximum Lawful Rate.

Payments of the principal of, premium, if any, and Daily Yield on this Note shall be made by the Borrower to the holder hereof by wire transfer of immediately available funds by 11:00 a.m. New York City time, in the manner and at the address specified for such purpose as provided in Section 2.09 of the Funding Agreement, or in such manner or at such other address as the holder of this Note shall have specified in writing by the Borrower for such purpose, without the presentation or surrender of this Note or the making of any notation on this Note.

If any payment under this Note falls due on a day which is not a Business Day, then such due date shall be extended to the next succeeding Business Day and Daily Yield shall be payable on any principal so extended.

and all notices of any kind whatsoever with respect to this Note.

The holder hereof may, as provided in Sections 14.01A and 14.02 of the Funding Agreement, sell, assign, transfer, negotiate, grant participations in or otherwise dispose of all or any portion of this Note and the indebtedness evidenced by the Note.

This Note is secured by the security interests granted to the Lender pursuant to Section 8.01 of the Funding Agreement, the holder of this Note is entitled to the benefits of the Funding Agreement and may enforce the agreements of the Borrower contained in the Funding Agreement and exercise the remedies provided for by, or otherwise available in respect of, the Funding Agreement, all in accordance with the terms of the Funding Agreement. If a Termination Event shall occur and be continuing, the unpaid balance of the principal of this Note, together with accrued Daily Yield, may be declared and become due and payable in the manner and with the effect provided in the Funding Agreement.

THIS NOTE IS MADE AND DELIVERED IN NEW YORK, NEW YORK AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS (WITHOUT APPLICATION OF ITS CONFLICT OF LAWS PROVISIONS) OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the Borrower has caused this Note to be signed and delivered by its duly authorized officer as of the date set forth above.

CPS Warehouse Corp.

By:_____
Name:
Title:

Form of Schedule to Note

Date of Advance or Repayment	Principal Amount of Advance*	Principal Amount of Repayment	Outstanding Principal Amount

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* The aggregate principal amount of all Advances among all Lenders may not exceed the Maximum Facility Amount.

EXHIBIT D TO FUNDING AGREEMENT

FORM OF OFFICER'S CERTIFICATE AS TO INSOLVENCY

EXHIBIT E TO FUNDING AGREEMENT

FORM OF OFFICER'S CERTIFICATE OF BORROWER

EXHIBIT F TO FUNDING AGREEMENT

FORM OF OFFICER'S CERTIFICATE OF SERVICER

EXHIBIT G TO FUNDING AGREEMENT

FORM OF MONTHLY REPORT

FINANCIAL COVENANTS/TERMINATION EVENTS

CONSUMER PORTFOLIO SERVICES, INC.

For the Month of _____.

		Document Reference	Covenant	Covenant Level	Actual Amount
I.	Servicer	7.06(a)	Net Worth		_____
		7.06(b)	Interest Coverage Ratio		_____
		7.06(c)	Debt Ratio		_____
II.	Borrower	5.01(h)	Consolidated Net Worth Percentage		_____
		9.01(i)	Default Rate		_____
		9.01(j)	Delinquency Rate		_____
		9.01(x)	Weighted average Net Loss Rate		_____

EXHIBIT H TO FUNDING AGREEMENT

TRACKING REPORTS

Report	Frequency
Borrowing Base Certificate	Each Advance Date
Discount Report Summary	Monthly
Trial Balance of Contracts	Monthly
Gross Delinquency Summary Report	Monthly
Loans Paid Off During Month	Monthly
Loans Charged-Off During Month	Monthly
Monthly Transaction Report	Monthly
Delinquency Detail Report	Monthly

Borrowing Base Certificate shall be provided to the Deal Agent in accordance with the terms of the Funding Agreement Within ____ Business Days after the end of each month, the Borrower shall deliver to the Deal Agent the Monthly Report and the above monthly reports together with a certificate of the chief executive officer, the chief financial officer or the chief accounting officer of the Servicer, certifying as to the completeness and accuracy of the above reports. The Borrower shall deliver to the Deal Agent, no later than the ____ Business Day following each month an up-to-date master file back-up tape in a form usable by Deal Agent's computer, which contains original Contract information and current Contract status information mutually determined by the Collateral Agent and the Borrower.

EXHIBIT I TO FUNDING AGREEMENT

FORM OF LIST OF CONTRACTS

[To be provided by Consumer Portfolio Services, Inc.]

EXHIBIT 10.15

Receivables Transfer Agreement, dated as of November 24, 1997 (this "Agreement"), between CONSUMER PORTFOLIO SERVICES, INC. (the "Company"), a California corporation, and CPS WAREHOUSE CORP., a Delaware corporation ("CWC").

W I T N E S S E T H:

WHEREAS, CWC is an Affiliate of the Company;

WHEREAS, CWC has been formed for the sole purpose of purchasing, and acquiring by capital contribution, and financing such purchases by borrowing funds from Variable Funding Capital Corporation ("VFCC") and granting to the Lenders (as defined in the within-mentioned Funding Agreement) a security interest in, certain Receivables originated by the Company; and

WHEREAS, the Company intends to sell, or otherwise contribute, and CWC intends to purchase, or otherwise have contributed to it, such Receivables, from time to time, as described herein;

NOW, THEREFORE, the parties agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions and Conventions. Unless otherwise defined herein, all capitalized terms shall have the meanings set forth in the Funding Agreement. In addition, the following terms shall have the following meanings:

"Accumulated Funding Deficiency" shall have the meaning provided in Section 412 of the Code and Section 302 of ERISA, whether or not waived.

"Agreement" means this Receivables Transfer Agreement between the Company and CWC.

"Allocation Formula" has the meaning set forth the Consent of General Electric Capital Corporation and Redwood Receivables Corporation dated as of November 24, 1997.

"Annual Percentage Rate" The annual rate of interest applicable to each Contract, as disclosed therein.

"Assignment" has the meaning specified in Section 2.01(a).

"Code" means the Internal Revenue Code of 1986, including, unless the context otherwise requires, the rules and regulations thereunder, as amended from time to time.

"Commonly Controlled Entity" means the Company and any entity, whether or not incorporated, affiliated with the Company pursuant to Section 414(b), (c), (m) or (o) of the Code.

"Company" means Consumer Portfolio Services, Inc., as the transferor and seller of Receivables under this Agreement.

"Contributed Receivable" has the meaning specified in Section 2.01(b).

"CWC" means CPS Warehouse Corp., as the purchaser and transferee of Receivables under this Agreement.

"CWC Secured Obligations" means all obligations of every nature of CWC
(other than to the Company or Servicer), now or hereafter existing, under the Funding Agreement and any promissory note or other document or instrument delivered pursuant to such documents, and all amendments, extensions or renewals thereof, whether for principal, interest, fees, expenses or otherwise, whether now existing or hereafter arising, voluntary or involuntary, whether or not jointly owed with others, direct or indirect, absolute or contingent, liquidated or unliquidated, and whether or not from time to time decreased or extinguished and later increased, created or incurred and all or any portion of such obligations that are paid, to the extent all or any part of such payment is avoided or recovered directly or indirectly from VFCC, the Deal Agent or the Collateral Agent as a preference, fraudulent transfer or otherwise.

"Disposition Participant" means with respect to a Disposition, the trustee, custodian, the rating agencies, the underwriter, the placement agent, the credit enhancer, whole-loan purchaser, purchaser of securities and/or any other party necessary or, in the good faith belief of any of the foregoing, desirable to effect a Disposition.

"Eligible Originator" has the meaning set forth in the Funding Agreement.

"Eligible Receivable" means each Receivable pursuant to a Contract delivered by the Company to or at the direction of CWC which is listed on a Request Notice delivered to CWC at the same time, and which satisfies each of the following requirements:

(a) All of the representations and warranties in Section 4.01 are true with respect to, and all conditions precedent in Section 3.02 have been and continue to be met with respect to, the Contract, Financed Vehicle, Obligor, Required Obligor Insurance, and Optional Obligor Insurance.

(b) The first Scheduled Payment is due within forty-five (45) days after the date of the Contract and the Contract Date is within five (5) days of the delivery of the Financed Vehicle.

(c) The Contract has a fixed APR and the Finance Charge was computed using a fixed rate.

(d) The initial term of the Contract does not exceed sixty (60) months and the Schedule of Payments has equal monthly payments except for the final payment which must be within 5% of the other equal payments, the payment obligation is in Dollars, and at the time the Contract as delivered to the Custodian, there were at least twenty (20) remaining Scheduled Payments.

(e) The Contract is for the absolute sale of the Financed Vehicle to the Obligor, and the Financed Vehicle is not on approval or subject to any agreement between the Obligor and the Dealer for the repurchase or return of the Financed Vehicle.

(f) The Contract was selected in accordance with the Allocation Formula from new or used automobile or light truck installment sale contracts or promissory notes in the Company's portfolio utilizing no selection procedures adverse to CWC relative to similar new or used automobile or light truck installment sale contracts or promissory notes in the Company's Portfolio taken as a whole.

(g) The Dealer has been paid all amounts due for the purchase of the Contract from the Dealer.

(h) The Obligor is an Eligible Obligor.

(i) The Contract contains the original signature of the Obligor and the Dealer.

(j) The Contract is the only unsatisfied original executed Contract for the purchase of the Financed Vehicle and accurately reflects all of the actual terms and conditions of the Obligor's purchase of the Financed Vehicle.

(k) Neither the Company's nor an Affiliate has made any agreement with the Obligor to reduce the amount owed on the Contract.

(1) Neither the Company nor an Affiliate is required to perform any additional service for, or perform or incur any additional obligation to, the Obligor in order for the Company or CWC to enforce the Contract.

(m) The Contract, at the time the Company purchased it, materially complied with the Credit and Collection Policies; or the Deal Agent approved any material deviation from the Credit and Collection Policies for that Contract in writing.

(n) The Obligor's obligations under the Contract are secured by a validly perfected first priority security interest in the Financed Vehicle in favor of the Servicer as secured party and such security interest has been validly assigned to CWC under this Agreement.

(o) The Contract has not been, nor is it designated to be, terminated, satisfied, canceled, subordinated or rescinded in whole or in part; nor has the Financed Vehicle been released, or designated for release, from the security interest granted by the Contract; and all of the holder's obligations under the Contract have been performed except those which arise subsequent to the delivery to the Deal Agent.

(p) No provision of the Contract has been waived, extended, altered or modified in any respect except in accordance with the Credit and Collection Policies.

(q) The day of the month that Scheduled Payments are due has not been changed from the original Schedule of Payments except for no more than one change which did not change the due date in a manner such that there was more than a thirty (30) day period for which no Scheduled Payment was due.

(r) No claims of rescission, setoff, counterclaim, defense or other material disputes have been asserted with respect to the Contract or Financed Vehicle.

(s) There are no unsatisfied liens or claims for taxes, labor, materials, fines, confiscation, or replevin relating to the Contract or Financed Vehicle. There is no unsatisfied claim against the Obligor based on the operation or use of the Financed Vehicle. All taxes due for the purchase, use and ownership of the Financed Vehicle have been paid. All taxes due on the transfer of the Contract to CWC have been paid.

(t) The Contract requires Required Obligor Insurance and the Servicer is a loss payee or insured under the Required Obligor Insurance.

(u) The Company has not repossessed the Vehicle or commenced a replevin action or other lawsuit against the Obligor or Financed Vehicle.

(v) The model year of the Financed Vehicle is in accordance with the Credit and Collection Policies at the time the Contract is delivered to the Custodian.

(w) The obligation of the original Obligor has not been released or assumed by another Person unless the release or assumption was properly documented and the Deal Agent consents in writing to it for purposes of the Contract being an Eligible Contract.

(x) The Obligor Documents exist and have been delivered to or at the direction of CWC in accordance with Section 2.03.

(y) As of the date of the initial transfer hereunder, with respect to such Eligible Receivable, there are not more than two Scheduled Payments (or any part thereof) due and unpaid, provided, that if the Obligors have paid more than 90% of the most overdue Scheduled Payments such Scheduled Payment shall be deemed paid for purposes hereof.

(z) The cash down payment has been paid in full by the Obligor in accordance with the Credit and Collection Policies.

(aa) The Contract was purchased by an Eligible Originator from a Vehicle Dealer in the ordinary course of the Vehicle Dealer's business (or, with reference to Samco only, from a finance company in the ordinary course of the finance company's business) within 60 days after the Contract Date.

(bb) The first or second Scheduled Payment (or both) remain(s) unpaid more than thirty (30) days after its/their scheduled due date(s).

(cc) The Amount Financed does not exceed one hundred fifty percent (150%) of the net cost, or value, if applicable, shown on the Vehicle Dealer Invoice.

(dd) The Amount Financed on the Contract Date does not exceed $29,000 and the Vehicle has no more than 85,000 miles on its odometer on the Contract Date.

(ee) Not more than one hundred eighty (180) days has elapsed since the date the Contract was sold or contributed to CWC hereunder.

(ff) On or before the date which is 120 days after the Contract Date, the original Certificate of Title or equivalent title documents issued by the relevant state motor vehicle authority, if applicable, shall be delivered to or at the direction of CWC in accordance with Section 2.03.

"Funding Agreement" means the Receivables Funding and Servicing Agreement, dated as of the date of this Agreement among CWC, VFCC, as Lender, the Company, as Servicer, the Investors named therein, the Deal Agent and Liquidity Agent.

"Indemnified Amounts" has the meaning specified in Section 5.01.

"Indemnified Party" has the meaning specified in Section 5.01.

"Multiemployer Plan" means a multiemployer plan (within the meaning of Section 4001(a)(3) of ERISA) in respect of which a Commonly Controlled Entity makes contributions or has liability.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor agency, corporation or instrumentality of the United States to which the duties and powers of the Pension Benefit Guaranty Corporation are transferred.

"Plan" means any Pension Plan (other than a Multiemployer Plan) covered by Title IV of ERISA, which is maintained by a Commonly Controlled Entity or in respect of which a Commonly Controlled Entity has liability.

"Proceeds" means, with respect to any Receivable, whatever is receivable or received when such Receivable is sold, collected, exchanged or otherwise disposed of, whether such disposition is voluntary or involuntary, and includes all rights to payment, including returned premiums, with respect to any insurance relating to such Receivable but excluding the Sale Price and the Advances.

"Rejected Amount" means, with respect to CWC, the amount of the capital contribution which the Company is required to make to CWC (as determined by the Deal Agent) as a result of breaches of

representations and warranties with respect to Receivables sold or contributed to CWC by the Company pursuant to this Agreement.

"Reportable Event" means any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder.

"Requested Amount" means the amount which the Company wishes to receive from the sale of Receivables on any Sale Date.

"Request Notice" means a notice in the form of a computer print-out, tape or other form acceptable to CWC and the Deal Agent, which (a) contains a List of Contracts identifying all Receivables to be sold or contributed on the succeeding Sale Date by the Company to CWC, (b) sets forth the amount of payments received on each Transferred Receivable since the prior Sale Date and (c) sets forth the Requested Amount for the following Sale Date.

"Request Notice Date" has the meaning set forth in Section 2.01(b).

"Sale" means any transfer, on any Sale Date, of Receivables from the Company to CWC pursuant to this Agreement.

"Sale Date" has the meaning specified in Section 2.01(b).

"Sale Price" means with respect to the Eligible Receivables to be sold by the Company to CWC on any day, price paid to the Vehicle Dealer with respect to such Eligible Receivable, plus accrued interest at the Annual Percentage Rate.

"Sold Receivable" has the meaning specified in Section 2.01(b).

"Transferred Receivable" means any Receivable that is a Contributed Receivable or a Sold Receivable.

"Underfunded Plan" means any Plan that has an Underfunding.

"Underfunding" means, with respect to any Plan, the excess, if any, of (a) the present value of all benefits under the Plan (based on the assumptions used to fund the Plan pursuant to Section 412 of the Code) as of the most recent valuation date over (b) the fair market value of the assets of such Plan as of such valuation date.

SECTION 1.02. Other Terms and Interpretation. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. All terms used in Article 9 of the UCC of the State of New York, and not specifically defined herein, are used herein as defined in such Article 9. All hourly references herein shall refer to New York City time. Except as otherwise indicated, all agreements defined in this Agreement refer to the same as from time to time amended or supplemented or as the terms of such agreements are waived or modified in accordance with their terms.

ARTICLE II

TRANSFERS OF RECEIVABLES

SECTION 2.01. Agreement to Transfer. (a) On the terms and conditions of this Agreement until the Commitment Termination Date, on and after the date of this Agreement, the Company agrees to make available for sale or, at its option, to contribute to CWC Eligible Receivables in accordance with the Allocation Formula originated by the Eligible Originators and deliver the appropriate Obligor Delivery Documents to or at the direction of CWC. To the extent CWC has or is able to obtain sufficient funds for the purchase thereof, CWC agrees to purchase such Eligible Receivables offered for sale by Parent. On or before the Effective Date, the

Company and CWC shall enter into a Certificate of Assignment substantially in the form of Exhibit 1 hereto ("Assignment").

(b) The Company shall, on the Effective Date and on a date occurring no less frequently than weekly thereafter (each a "Request Notice Date"),
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deliver to CWC and the Custodian a Request Notice identifying (i) all outstanding Receivables originated and owned by the Company through such date, (ii) at its option, a certain number of such Eligible Receivables as contributed to CWC (the "Contributed Receivables"), and (iii) to the extent
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CWC has available funds to pay the Sale Price thereof, as purchased and sold all other Eligible Receivables not previously identified as purchased and sold or contributed (the "Sold Receivables"), in each case in
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accordance with the procedures described in this Section 2.01(b). No later than the following Business Day (the "Sale Date"), CWC and the Company
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shall identify Eligible Receivables designated in such Request Notice arising since the last Sale Date which are to be purchased and sold on such Sale Date. Each such identification shall be made as of the opening of business of the Servicer on each Sale Date.

(c) The price paid for such Sold Receivables shall be the Sale Price. Such Sale Price shall be paid by means of an immediate cash payment to the Company. On each Sale Date the Sold Receivables and Contributed Receivables shall be assigned, and on such Sale Date CWC shall pay the Sale Price for such Sold Receivables. The portion of the Sale Price which is immediately payable in cash shall be payable by wire transfer on the Sale Date to an account designated by the Company (and approved by the Deal Agent) on or before the Sale Date.

(d) On and after each Sale Date hereunder, CWC shall own the Sold Receivables and the Contributed Receivables which have been (assuming compliance with the terms hereof) identified as being transferred to CWC under this Section 2.01 and the Company shall not take any action inconsistent with such ownership and shall not claim any ownership interest in any such Transferred Receivable.

(e) Until the occurrence of an Event of Servicer Termination or a resignation pursuant to the Funding Agreement, the Company, as Servicer, shall conduct the servicing, administration and collection of such Transferred Receivables and shall take, or cause to be taken, all such actions as may be necessary or advisable to service, administer and collect such Transferred Receivable, from time to time, all in accordance with (i) the terms of the Funding Agreement, (ii) customary and prudent servicing procedures for trade receivables of a similar type and (iii) all applicable laws, rules and regulations. Documents relating to Transferred Receivables shall be held in trust by the Company, as Servicer, for the benefit of CWC and its assignees as the owners thereof, and possession of any incident relating to the Transferred Receivables and Contracts so retained is for the sole purpose of facilitating the servicing of the Transferred Receivables. Such retention and possession thereof is at the will of CWC and its assignees and in a custodial capacity for their benefit only.

SECTION 2.02. Grant of Security Interest. It is the intention of the
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parties hereto that each transfer of Transferred Receivables to be made hereunder shall constitute a purchase and sale or capital contribution and not a loan. In the event, however, that a court of competent jurisdiction is to hold that any transaction provided for hereby constitutes a loan and not a purchase and sale or capital contribution, it is the intention of the parties hereto that this Agreement shall constitute a security agreement under applicable law and that the Company shall be deemed to have granted, and the Company does hereby grant, to CWC a first priority security interest in all of the Company's right, title and interest in, to and under the Transferred Receivables, all payments of principal, interest, fees, charges and indemnities on or under such Transferred Receivables and all Proceeds of any such Transferred Receivables.

SECTION 2.03. Delivery of Obligor Documents. (a) On or before each Sale
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Date, the Company shall deliver to or at the direction of CWC the Obligor Delivery Documents relating to the Transferred Receivables on such Sale Date.

(b) On or before the date which is 120 days after the Contract Date, the Company shall deliver to or at the direction of CWC the original Certificate of Title or equivalent title documents issued by the relevant state motor vehicle authority, if applicable.

SECTION 2.04. Company to Facilitate Dispositions of Transferred Receivables. In consideration of the Sale Price and other consideration received hereunder, in the case of the Sold Receivables, and as an additional capital contribution, in the case of the Contributed Receivables, the Company hereby agrees and covenants that in connection with each Disposition it shall:

(i) make such representations and warranties concerning the Transferred Receivables as of the "cutoff date" of the related Disposition to such Disposition Participants as may be necessary to effect the Disposition; provided, that the Company shall not be required to make any representations or warranties that would increase the scope or substance of such representations and warranties beyond the substance of those delineated on Exhibit 2 hereto;

(ii) negotiate in good faith with CWC and other Disposition Participants to provide such additional representations and warranties concerning the Transferred Receivables that may be required in the future by Disposition Participants; provided, however, that the Company shall not be required to make such representations and warranties concerning the Transferred Receivables that would materially increase, from the date of the Company's original transfer to CWC , the probability that it would be required to repurchase such Transferred Receivables under the related Disposition;

(iii) supply such information, opinions of counsel, letters from law and/or accounting firms and other documentation and certificates regarding the origination and servicing of the Transferred Receivables as CWC or any Disposition Participant shall reasonably request to effect a Disposition;

(iv) make itself available for and engage in good faith consultation with CWC and Disposition Participants concerning information to be contained in any document, agreement, private placement memorandum, or filing with the Securities and Exchange Commission relating to the Company or the Transferred Receivables in connection with a Disposition and shall use reasonable efforts to compile any information and prepare any reports and certificates, into a form, whether written or electronic, suitable for inclusion in such documentation;

(v) to implement the foregoing and to otherwise effect a Disposition, enter into insurance and indemnity servicing agreements, purchase agreements and any other documentation, all to the extent that the same are reasonably required of or deemed appropriate by CWC or a Disposition Participant in order to effect a Disposition; and

(vi) take such further actions as may be reasonably necessary to effect the foregoing, including without limitation, delivery of additional Obligor Documents to the Custodian for inclusion with the other Obligor Delivery Documents.

provided, that notwithstanding anything in this Agreement to the contrary, (a) the Company shall have no liability for the Transferred Receivables arising from or relating to the ongoing ability or willingness of Obligors to pay under the Transferred Receivables; (b) none of the indemnities hereunder shall constitute an unconditional guarantee by the Company of collectibility of the Transferred Receivables; (c) the Company shall have no obligation with respect to the inability or unwillingness of an Obligor to pay principal, interest or other amount owing by such Obligor under the Transferred Receivables and (d) the Company shall only be required to enter into documentation in connection with Dispositions that is consistent with industry practice with respect to Dispositions among similarly situated parties.

SECTION 2.05. Cooperation of CWC. CWC hereby agrees to make such representations and warranties concerning the Transferred Receivables to the Company as the Company may reasonably request in order for it to fulfill its obligations under Section 2.04.

ARTICLE III

CONDITIONS OF SALE

SECTION 3.01. Conditions Precedent to the Initial Sale. The initial Sale hereunder is subject to the following conditions precedent:

(a) that CWC shall have received on or before the date of the initial Sale under this Agreement, each dated such date (unless otherwise indicated), in form and substance satisfactory to CWC and the Deal Agent:

(i) an Assignment executed by the Company;

(ii) each of the documents delivered by the Company pursuant to Section 3.01(d) of the Funding Agreement;

(iii) a certificate of the Secretary or Assistant Secretary of the Company certifying the names and true signatures of the officers authorized on its behalf to sign this Agreement, the Assignment, and the other documents to be delivered by it hereunder (on which certificate CWC may conclusively rely until such time as CWC shall receive from the Company a revised certificate meeting the requirements of this Subsection (iii)) and certifying that (A) the charter of the Company has not changed since the date of the delivery of the last certified charter delivered, (B) that the Company is qualified as a foreign corporation in all such jurisdictions and still in good standing in all jurisdictions in which the nature of its business required it to be qualified, (C) all representations and warranties made by the Company in this Agreement are true and correct in every particular and (D) no financing statements or other similar instruments and documents relating to the Receivables have been filed in any jurisdiction, other than those financing statements, other similar instruments and documents shown on the certified copies of the requests for information or copies (Form UCC-11)(or a similar search report certified by a party acceptable to the Deal Agent) provided pursuant to clause (vi);

(iv) copies of proper financing statements (Form UCC-1), dated on or prior to the date of the initial Sale, naming the Company as the assignor of the Transferred Receivables and CWC as assignee, or other similar instruments or documents, in form and substance sufficient for filing under the UCC or any comparable law of any and all jurisdictions as may be necessary or, in the opinion of the Deal Agent desirable to perfect CWC's ownership interest in all Transferred Receivables, in each case in which an interest may be assigned hereunder;

(v) copies of properly executed termination statements or statements of release (Form UCC-3) or other similar instruments or documents, if any, in form and substance satisfactory for filing under the UCC or any comparable law of any and all jurisdictions as may be necessary or, in the opinion of the Deal Agent, desirable to release all security interests and similar rights of any Person in the Transferred Receivables previously granted by the Company;

(vi) certified copies of requests for information or copies (or a similar search report certified by a party acceptable to the Deal Agent), dated a date reasonably near and prior to the date of the initial Sale, listing all effective financing statements and other similar instruments and documents including those referred to above in subsections (iv) and (v) which name the Company (under its present name and any previous name) as debtor and which are filed in the jurisdictions in which filings are to be made pursuant to such Subsections (iv) and (v) above, together with copies of such financing statements, none of which, except those filed pursuant to Subsections (iv) and (v),

above, together with copies of such financing statements, none of which, except those filed pursuant to Subsections (iv) and (v), above, shall cover any Transferred Receivables; and

(vii) Any necessary third party consents to the closing of the transactions contemplated hereby, in the form and substance satisfactory to the Deal Agent.

SECTION 3.02. Conditions Precedent to All Sales. The obligation of CWC to pay for each Sold Receivable on each Sale Date (including the initial Sale Date) shall be subject to the further conditions precedent (any one of which can be waived by CWC) that on such Sale Date:

I. The following statements shall be true (and delivery by the Company of a Request Notice and the acceptance by the Company of the Sale Price for any Receivables on any Sale Date shall constitute a representation and warranty by the Company that on such Sale Date such statements are true):

A. the representations and warranties of the Company contained in Section 4.01 shall be correct on and as of such Sale Date in all material respects (except with respect to Section 4.01(b) and those already so qualified which are true and correct in all respects), before and after giving effect to such Sale and to the application of proceeds therefrom, as though made on and as of such date; and

B. no event has occurred, or would result from such Sale or from the application of the proceeds therefrom, which constitutes a Termination Event or would constitute a Termination Event but for the requirement that notice be given or time elapse or both;

C. the Company is in compliance with each of its covenants and other agreements set forth herein;

D. no event has occurred which constitutes an Event of Servicer Termination or would constitute an Event of Servicer Termination but for the requirement that notice be given or time elapse or both;

E. each Transferred Receivable designated as an Eligible Receivable is an Eligible Receivable; and

F. the Company shall have executed an Assignment of Insurance Interests substantially in the form attached hereto as Exhibit 3;

II. The Commitment Termination Date shall not have occurred;

III. CWC shall have received an Assignment, dated the related Sale Date, executed by the Company; and

IV. The Company shall have taken such other action, including delivery of approvals, consents, opinions, documents and instruments to VFCC and the Deal Agent, as the Deal Agent may reasonably request; and

V. There shall have been no material adverse change in the condition (financial or otherwise), business, operations, results of operations or properties of the Company since the preceding Sale.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS

SECTION 4.01. Representations and Warranties of the Company. The Company represents and warrants to CWC as of each Sale Date, which representations and warranties are or will be true and correct as of such Sale Date, that:

I. With respect to the Company:

A. the Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly qualified to do business and is in good standing in every jurisdiction in which the nature of its business requires it to be so qualified;

B. the Company has the power and authority to own, pledge, mortgage, operate and convey all of its properties and assets, to execute and deliver the Basic Documents and to perform the transactions contemplated hereby and thereby;

C. the Company is operated in such a manner that CWC would not be substantively consolidated in the estate of the Company (that is, such that the separate corporate existence of CWC and the Company would be disregarded), in the event of a bankruptcy or insolvency of the Company and in such regard:

(1) CWC is a limited purpose corporation whose activities are restricted in its respective certificate of incorporation;

(2) except as otherwise contemplated herein or in the other Basic Documents, neither the Company or any Affiliate of the Company is involved in the day-to-day management of CWC;

(3) other than the purchase and contribution of Receivables, other transactions contemplated by this Agreement and the Funding Agreement, the payment of dividends and the return of capital, any lease or sub-lease of office space or equipment, any common officers or other employees, and the payment of Servicing Fees (as defined in the Funding Agreement) to the Servicer under the Funding Agreement, CWC does not engage in any intercorporate transactions with the Company or any Affiliate of the Company;

(4) CWC maintains separate corporate records and books of account from the Company, holds regular corporate meetings and otherwise observes corporate formalities and has a separate business office from the Company;

(5) all the financial statements and books and records of CWC and the Company reflect the respective separate corporate existence of CWC;

(6) CWC maintains its assets separately from the assets of the Company and any other Affiliate of the Company (including through the maintenance of separate bank accounts), CWC's funds and assets, and records relating thereto, have not been, are not and will not be commingled with those of the Company or any other Affiliate of the Company and the separate creditors of CWC will be entitled to be satisfied out of CWC's assets prior to any value in CWC becoming available to CWC's equity holders;

(7) neither the Company nor any Affiliate of the Company (A) pays CWC's expenses; (B) guarantees CWC's obligations, or (C) advances funds to CWC for the payment of expenses or otherwise;

(8) all business correspondence of CWC and other communications are conducted in CWC's own name, on its own stationery and through a separately-listed telephone number;

(9) CWC does not act as agent for the Company or of any of its Affiliates, but instead presents itself to the public as a corporation separate from the Company and its Affiliates, independently engaged in the business of purchasing and financing Receivables;

(10) CWC maintains a board of directors consisting of at least three directors, of which one such director is independent and at all times shall not be a shareholder, director, officer, employee or associate of the Company or any Affiliate of the Company (other than as a director of CWC and one or more other limited purpose subsidiaries of the Company) as provided in its certificate or articles of incorporation;

(11) CWC is solvent and will not be rendered insolvent by the transactions contemplated by any of this Agreement or the other Basic Documents and, after giving effect to such transactions, CWC will not be left with an unreasonably small amount of capital with which to engage in its business nor will CWC have intended to incur, or believe that it has incurred, debts beyond its ability to pay such debts as they mature;

(12) the Company is the owner of 100% of the voting stock of CWC;

D. the execution, delivery and performance by the Company of this Agreement and the other Basic Documents and the transactions contemplated hereby and thereby (A) have been duly authorized by all necessary corporate or other action on the part of the Company, (B) do not contravene or cause the Company to be in default under (1) the Company's certificate or articles of incorporation or by-laws, (2) any contractual restriction with respect to any Debt of the Company or contained in any indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note, or other agreement or instrument binding on or affecting the Company, its affiliates or their or its respective property or (3) any law, rule, regulation, order, writ, judgment, award, injunction or decree applicable to, binding on or affecting the Company, or its property and (C) do not result in or require the creation of any Adverse Claim upon or with respect to any of its properties (other than in favor of CWC with respect to this Agreement and VFCC and the Collateral Agent under the Funding Agreement);

E. this Agreement and the other Basic Documents have each been duly executed and delivered by the Company;

F. no approval or consent of, notice to, filing with or licenses, permits, qualifications or other action by any Governmental Authority or any other party, is required or necessary for the conduct of the Company's business as currently conducted and for the due execution, delivery and performance by the Company of this Agreement or any of the other Basic Documents or for the perfection of or the exercise by CWC, VFCC, the Deal Agent or the Collateral Agent of any of their rights or remedies thereunder or hereunder, other than approvals, consents, notices, filings and other actions which have been obtained or made and complete copies of which have been provided to VFCC, the Deal Agent and the Collateral Agent;

G. each of this Agreement, each other Basic Document delivered by the Company and the respective obligations of the Company thereunder is the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms subject to (i) any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and (ii) general equitable principles, whether applied in a proceeding at law or in equity;

H. there is no pending or threatened, nor any reasonable basis for any, action, suit or proceeding against or affecting the Company, its officers or directors, or the property of the Company, in any court or tribunal, or before any arbitrator of any kind or before or by any Governmental Authority (A) asserting the invalidity of this Agreement or any of the other Basic Documents, (B) seeking to prevent the sale, transfer, pledge or contribution of any Receivable or the consummation of any of the transactions contemplated hereby or thereby, (C) seeking any determination or ruling that might materially and adversely affect (1) the performance by CWC or the Company of its obligations under this Agreement or any of the other Basic Documents, (2) the validity or enforceability of this Agreement or any of the other Basic Documents, (3) the Transferred Receivables or the Contracts or the interests of CWC or VFCC therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables or (D) asserting a claim for payment of money in excess of $500,000 (other than such judgments or orders in respect of which adequate insurance is maintained by the Company for the payment thereof);

I. no injunction, writ, restraining order or other order of any nature adverse to the Company or the conduct of its business or which is inconsistent with the due consummation of the transactions contemplated by this Agreement or the other Basic Documents has been issued by a Governmental Authority nor been sought by any Person;

J. the principal place of business and chief executive office of the Company are located at the address of the Company referred to on the signature page of this Agreement and there are now no, and during the past four months there have not been any, other locations where the Company is located (as that term is used in the UCC of the jurisdiction where such principal place of business is located) or keeps Records;

K. the legal name of the Company is as set forth at the beginning of this Agreement and the Company has not changed its name in the last six years, and during such period the Company did not use, nor does the Parent now use, any tradenames, fictitious names, assumed names or "doing business as" names.

L. the Company is solvent and will not become insolvent after giving effect to the transactions contemplated by this Agreement and the other Basic Documents; the Company is paying its Debts as they mature; the Company has not incurred Debts beyond its ability to pay as they mature; and the Company, after giving effect to the transactions contemplated by this Agreement and the other Basic Documents, will have an adequate amount of capital to conduct its business in the foreseeable future;

M. for federal income tax, reporting and accounting purposes, the Company will treat (A) the sale of each Sold Receivable sold or assigned pursuant to this Agreement as a sale of, or absolute assignment of, its full right, title and ownership interest in such Receivable to CWC and (B) the contribution of each Contributed Receivable contributed pursuant to this Agreement as an absolute conveyance and assignment of its full right, title and interest in such Receivable to CWC (and those Receivables contributed to CWC by the Company pursuant to this Agreement shall be accounted for as an increase in the stated capital of CWC), and the

Company has not in any other respect accounted for or treated the transfers of Transferred Receivables contemplated by this Agreement or the other Basic Documents;

N. the Company has complied in all material respects with all applicable laws, rules, regulations, and orders with respect to it, its business and properties and all Transferred Receivables and related Contracts (including without limitation, all applicable environmental, health and safety requirements) and all restrictions contained in any indenture, loan or credit agreement, mortgage, security agreement, bond, note or other agreement or instrument binding on or affecting the Company or its property, and has and maintains all permits, licenses, authorizations, registrations, approvals and consents of Governmental Authorities for (A) the activities and business of the Company and each of its Subsidiaries as currently conducted and as proposed to be conducted, (B) the ownership, use, operation and maintenance by each of them of its properties, facilities and assets and (C) the performance by the Company and CWC of this Agreement and the other Basic Documents (hereinafter referred to collectively as "Governmental Consents"), with respect to which any noncompliance or failure to maintain such items would, separately or in the aggregate, have a material adverse effect;

O. no practice, procedure or policy employed or proposed to be employed by the Company in the conduct of its business violates any law, regulation, judgment, agreement, order or decree applicable to the Company which, if enforced, would have a material adverse effect on (1) the performance by CWC or the Company of its obligations under this Agreement or any of the other Basic Documents, (2) the validity or enforceability of this Agreement or any of the other Basic Documents, (3) the Transferred Receivables or the Contracts or the interests of CWC or VFCC therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables;

P. without limiting the generality of the prior representation, no condition exists or event has occurred which, in itself or with the giving of notice or lapse of time or both, would result in the suspension, revocation, impairment, forfeiture or non-renewal of any Governmental Consent applicable to the Company or any Subsidiary except where such conditions or events would not, separately or in the aggregate, have a material adverse effect on (1) the performance by CWC or the Company of its obligations under this Agreement or any of the other Basic Documents, (2) the validity or enforceability of this Agreement or any of the other Basic Documents, (3) the Transferred Receivables or the Contracts or the interests of CWC or VFCC therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables;

Q. the Company has filed on a timely basis all tax returns (federal, state and local) required to be filed and has paid or made adequate provisions for the payment of all taxes, fees, assessments and other governmental charges due from the Company, no tax lien or similar Adverse Claim has been filed, and no claim is being asserted, with respect to any such tax, fee, assessment, or other governmental charge. Any taxes, fees, assessments and other governmental charges payable by the Company in connection with the execution and delivery of this Agreement and the other Basic Documents and the transactions contemplated hereby or thereby have been paid or shall have been paid when due, at or prior to such Sale Date;

R. with respect to the Company or any of its Subsidiaries, there has occurred no event which has or is reasonably likely to have a material adverse effect on the Company's operations, including its ability to perform its obligations under this Agreement or the other Basic Documents, as Company, Servicer or otherwise;

S. the Company is licensed or otherwise has the lawful right to use all patents, trademarks, servicemarks, tradenames, copyrights, technology, know-how and processes used in

or necessary for the conduct of its business as currently conducted which are material to its financial condition, business, operations and assets, individually or taken as a whole;

T. (A) the consolidated balance sheets of the Company and its consolidated Subsidiaries for each of the last three fiscal years prior to the Balance Sheet Date are delivered prior to such Sale Date, and the related statements of income and shareholders' equity of the Company and its consolidated Subsidiaries for such fiscal years, certified without qualification by the Company's independent certified public accountants, copies of which have been furnished to VFCC and the Deal Agent, are complete and correct and fairly present the consolidated financial condition, business, operations, results of operations and assets of the Company and its consolidated Subsidiaries as of the last day of such fiscal years and the consolidated results of the operations of the Company and its consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP, (B) the unaudited consolidated balance sheets and the related statements of income and shareholders' equity of the Company and its consolidated Subsidiaries for each fiscal quarter in the period since the most recent consolidated balance sheet and related statement of income and shareholders' equity referred to in clause (A) above and ended at least 45 days prior to such Sale Date, copies of which have been furnished to VFCC and the Deal Agent, are complete and correct and fairly present the consolidated financial condition, business and operations of the Company and its consolidated Subsidiaries as of the last day of such fiscal quarters and the consolidated results of the operations of the Company and its consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP, and (C) since the last date for which a balance sheet of the Company and its consolidated Subsidiaries has been delivered to VFCC and the Deal Agent, there has, except as already disclosed in writing to the Deal Agent, been no material adverse change in any such condition, business, operations or results of operations;

U. each Request Notice contains a complete and accurate list of all Transferred Receivables contributed or sold by the Company to CWC as of its date; V. no Obligor of an Eligible Receivable being sold on the related Sale Date has any claim of a material nature against or affecting the Company or the property of the Parent;

V. no Obligator of an Eligible Receivable being sold on the related Sale Date has any claim of a material nature against or affecting the Company or the property of the Parent;

W. the Company is in compliance with ERISA and has not incurred and does not expect to incur any liabilities (except for premium payments arising in the ordinary course of business) to the PBGC under ERISA;

X. each pension plan or profit sharing plan to which the Company or any Affiliate is a party has been administered and fully funded in accordance with the obligations of the Company under law and as set forth in such plan, and the Company has complied with the applicable provisions of ERISA in effect as of such Sale Date ;

Y. the Company has valid business reasons for selling or contributing its interests in the Transferred Receivables rather than obtaining a loan with the Transferred Receivables as collateral;

Z. the Company has not agreed to pay any fee or commission to any agent, broker, finder or other person for or on account of services rendered as a broker or finder in connection with this Agreement or the other Basic Documents or the transactions contemplated hereby or thereby which would give rise to any valid claim against CWC for any brokerage commission or finder's fee or like payment;

AA. all information heretofore or hereafter furnished with respect to the Company to CWC, VFCC, Deal Agent or Collateral Agent in connection with any transaction contemplated by this Agreement or the other Basic Documents is and will be true and complete

in all material respects and does not and will not omit to state a material fact necessary to make the statements contained herein or therein not misleading. With respect to the Company or CWC, there has occurred no event which has or is reasonably likely to have a material adverse effect on such entity;

BB. no part of the proceeds received by the Company or any Affiliate from the Sale Price will be used directly or indirectly for the purpose of purchasing or carrying, or for payment in full or in part of, Debt that was incurred for the purposes of purchasing or carrying any "margin stock," as such term is defined in (S) 221.3 of Regulation U of the Board of Governors of the Federal Reserve System;

CC. there are not now, nor will there be at any time in the future, any agreement or understanding between the Company and CWC (other than as expressly set forth herein) providing for the allocation or sharing of obligations to make payments or otherwise in respect of any taxes, fees, assessments or other governmental charges;

DD. no transaction contemplated by this Agreement or any of the other Basic Documents requires compliance with any bulk sales act or similar law;

EE. the Military Assistance Command or, if applicable, each financial institution making payments on behalf of any Allotment Obligor has been directed, and is required, to remit all payments with respect to the Transferred Receivable for deposit in the Lockbox Account;

FF. the Request Notice with respect to such Sale Date is accurate in all material respects;

GG. each purchase of Receivables under the Receivables Transfer Agreement will constitute (A) a "current transaction" within the meaning of Section 3(a)(3) of the Securities Act of 1933, as amended, and (B) a purchase or other acquisition of notes, drafts, acceptances, open accounts receivable or other obligations representing part or all of the sales price of merchandise, insurance or services within the meaning of Section 3(c)(5) of the Investment Company Act of 1940, as amended;

HH. (A) the Company is not a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any charter or corporation restriction that is reasonably likely to have, and no provision of applicable law or governmental regulation is reasonably likely to have, a material adverse effect on the condition (financial or otherwise), business, operations, results of operations, or properties of the Company, or could have such an effect on the ability of the Company to carry out its obligations under this Agreement and the other Basic Documents to which the Company is a party and (B) the Company is not in default under or with respect to any contract, agreement, lease or other instrument to which the Company is a party and which is material to the Company's condition (financial or otherwise), business, operations, results of operations or properties, and the Company has not delivered or received any notice of default thereunder;

II. the Company is not an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended. The purchase or acquisition of the Transferred Receivables by CWC, the application of the proceeds and the consummation of the transactions contemplated by this Agreement and the other Basic Documents to which the Company is a party will not violate any provision of such Act or any rule, regulation or order issued by the Securities and Exchange Commission thereunder;

JJ. the bylaws or the articles of incorporation of the Company require it to maintain (A) books and records of account, and (B) minutes of the meetings and other proceedings of its shareholders and board of directors; and

KK. each of the representations and warranties of the Company contained in this Agreement and the other Basic Documents is true and correct in all material respects and the Company hereby makes each such representation and warranty to, and for the benefit of, the Collateral Agent, the Deal Agent and VFCC as if the same were set forth in full herein.

II. On each Sale Date, and as of the date of each Borrowing Base Certificate delivered under the Funding Agreement with respect to each Transferred Receivable:

A. such Receivable is an Eligible Receivable and is a receivable created by the Company in the ordinary course of its business in a current transaction;

B. such Receivable was created in accordance with and satisfies in all material respects all applicable requirements of (A) a Contract and (B) the Credit and Collection Policies;

C. a copy of any related Contract (if such contract exists in a reproducible form) to such Receivable to which the Company is a party has been delivered to the Deal Agent;

D. such Receivable represents the genuine, legal, valid and binding obligation in writing of the Obligor enforceable by the holder thereof in accordance with its terms, and neither such Receivable nor its related Contract has been satisfied, subordinated, rescinded or amended in any manner, subject to (A) any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the enforceability of creditors' rights generally and (B) general equitable principles, whether applied in a proceeding at law or in equity;

E. neither such Receivable nor its related Contract is or will be subject to any exercise of any right of rescission, set-off, recoupment, counterclaim or defense, whether arising out of transactions concerning the Receivable or otherwise;

F. prior to its sale or contribution to CWC such Receivable was owned by the Company free and clear of any Adverse Claim or Restrictions on Transferability, and the Company had the right to contribute, sell, assign and transfer the same and interests therein as contemplated under this Agreement and, upon such sale or contribution, CWC acquired good and marketable title to and a valid and the sole record and beneficial ownership interest in such Receivable, free and clear of any Adverse Claim and any other Restriction on Transferability;

G. this Agreement and the Assignment related to such Receivable constitute a valid sale, contribution, transfer, assignment, setover and conveyance to CWC of all right, title and interest of the Company in and to such Receivable;

H. such Receivable is entitled to be paid pursuant to the terms of the related Contract, has not been paid in full or been compromised, adjusted, extended, satisfied, subordinated, rescinded or modified, and is not subject to compromise, adjustment, extension, satisfaction, subordination, rescission, or modification by the Company;

I. the Company has submitted to the Obligor all necessary documentation for payment of such Receivable and has fulfilled all its other obligations in respect thereof;

J. any stated term of such Receivable is not greater than 60 months;

K. such Receivable is an "account" or "chattel paper" within the meaning of the UCC of the jurisdiction where the Company's chief executive office is located;

L. neither such Receivable nor its related Contract contravenes in any material respect any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to usury, consumer protection, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and no party to such related Contract is in violation of any such law, rule or regulation in any material respect;

M. such Receivable does not arise from a transaction for which any additional performance by the Company or acceptance or other act of the Obligor remains to be performed as a condition to any Scheduled Payment on such Receivable;

N. there are no proceedings or investigations pending or threatened before any Governmental Authority (A) asserting the invalidity of such Receivable or such Contract, (B) asserting the bankruptcy or insolvency of the related Obligor, (C) seeking the payment of such Receivable or payment and performance of such Contract or (D) seeking any determination or ruling that might materially and adversely affect the validity or enforceability of such Receivable or such Contract;

O. as of the applicable date of transfer hereunder, no Obligor on such Receivable is bankrupt or insolvent, is unable to make payment of its obligations when due, is the debtor in a voluntary or involuntary bankruptcy proceeding, or is the subject of a comparable receivership or insolvency proceeding, other than Obligors under the protection of a bankruptcy court or receivership which has approved payment by any such Obligor of such Receivable;

P. the Company has no knowledge of any fact (including any defaults by the Obligor on any other accounts) which leads it or should have led it to expect that any Scheduled Payment on such Receivable will not be paid in full when due or to expect any other material adverse effect on (1) the performance by CWC or the Company of its obligations under this Agreement or any of the Basic Documents, (2) the validity or enforceability of this Agreement or any of the Basic Documents, (3) the Transferred Receivables or the Contracts or the interests of CWC or VFCC therein, or (4) the federal income tax attributes of the contribution, sale or pledge of the Transferred Receivables; and

Q. there has been no material adverse change in the condition (financial or otherwise), business, operations, results of operations or properties of the Company since the Balance Sheet Date.

It is understood and agreed that the representations and warranties described in this Section 4.01 shall survive the sale or contribution of the Transferred Receivables to CWC, any subsequent assignment of the Transferred Receivables by CWC (including its grant of a first priority perfected security interest in, to and under the Transferred Receivables, pursuant to the Funding Agreement, in order to secure the due payment and performance by CWC of CWC Secured Obligations), and the termination of this Agreement and the Funding Agreement and shall continue so long as any Transferred Receivable shall remain outstanding.

SECTION 4.02. Covenants of the Company.

I. Offices and Records. The Company shall keep its chief place of
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business and chief executive offices and the office where it keeps its Records at the respective locations specified in Section 4.01(a)(x) or, upon thirty (30) days prior written notice to CWC and the Collateral Agent, at such other location in a jurisdiction where all action required by Section 4.02(f) shall have been taken with respect to the Transferred Receivables. The Company shall, for not less than three years or for such longer period as may be required by law, from the

date on which any Transferred Receivable arose, maintain the Records with respect to each Transferred Receivable, including records of all payments received, credits granted and merchandise returned. The Company will permit representatives of CWC, the Servicer, the Deal Agent or the Collateral Agent at any time and from time to time during normal business hours, and at such times outside of normal business hours as CWC, the Servicer, the Deal Agent or the Collateral Agent shall reasonably request, (i) to inspect and make copies of and abstracts from such records, and (ii) to visit the properties of the Company utilized in connection with the collection, processing or servicing of the Transferred Receivables for the purpose of examining such Records, and to discuss matters relating to the Transferred Receivables or the Company's performance under this Agreement or the affairs, finances and accounts of the Company with any of its officers, directors, employees, representatives or agents and with its independent certified accountants and advise such accountants that CWC, the Deal Agent, the Servicer and the Collateral Agent have been authorized to review and discuss with such accountants any and all financial statements and other information of any kind that they may have with respect to the Company and direct such accountants to comply with any request of CWC, the Deal Agent, the Servicer or the Collateral Agent for such information with any officer or employee of the Company having knowledge of such matters. In connection therewith, CWC, the Deal Agent or the Collateral Agent may institute procedures to permit it to confirm the Obligor outstanding balances in respect of any Transferred Receivables. The Company agrees to render to CWC, the Deal Agent and the Collateral Agent, at the Company's own cost and expense, such clerical and other assistance as may be reasonably requested with regard to the foregoing. If a Termination Event under the Funding Agreement shall have occurred and be continuing, promptly upon request therefor, the Company shall assist CWC in delivering to the Deal Agent records reflecting activity through the close of business on the immediately preceding Business Day.

II. Collection of Transferred Receivables. The Company will deposit or cause to be deposited in the Collection Account all cash, checks, money orders, wire transfers or moneygrams or other Proceeds of Collateral received in respect of Transferred Receivables within two Business Days of the receipt thereof. Until so deposited, all such Proceeds shall be held in trust for the Collateral Agent by the Company.

III. Maintain Records of Transferred Receivables. The Company as Servicer shall, at its own cost and expense, maintain satisfactory and complete records of the Transferred Receivables, including a record of all payments received and all credits granted with respect to the Transferred Receivables and all other dealings with the Transferred Receivables. The Company as Servicer will mark conspicuously with a legend, in form and substance satisfactory to the Deal Agent, its records, computer tapes, computer disks and credit files pertaining to the Transferred Receivables, and its file cabinets or other storage facilities where it maintains information pertaining to the Transferred Receivables, to evidence this Agreement, the transfers hereunder and that ownership of each Transferred Receivable is held by CWC or its assignee. Upon the occurrence and during the continuation of a Termination Event, the Company as Servicer shall (i) provide to the Deal Agent or its representatives with access to, at any time on demand of the Deal Agent, all of the Company's facilities, personnel, books and records pertaining to the Transferred Receivables, including all Records, and (ii) allow the Deal Agent to occupy the premises of the Company where such books and Records are maintained, and utilize such premises, the equipment thereon and any personnel of the Company that either such party may wish to employ to administer, service and collect the Transferred Receivables.

IV. Compliance With Credit and Collection Policies. The Company shall comply in all material respects with the Credit and Collection Policies with regard to each Transferred Receivable and the related Contracts, and with the terms of such Receivables and Contracts.

V. Notice of Adverse Claim. The Company shall advise CWC, the Deal Agent and the Collateral Agent promptly, in reasonable detail, (i) of any Adverse Claim known to it made or asserted against any of the Transferred Receivables, (ii) of any determination that a Sold Receivable, or any other Receivable designated as an Eligible Receivable in a Request Notice or otherwise, was not an Eligible Receivable at such time and (iii) of the occurrence of any event which would have a material adverse effect on the aggregate value of the Transferred Receivables or on the validity of the transfers in this Agreement.

VI. Further Assurances; Financing Statements. (i) The Company agrees that at any time and from time to time, at its expense, it shall promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable or that CWC, the Deal Agent or the Collateral Agent may reasonably request to perfect, preserve, continue and maintain fully and protect the transfers made and the right, title and interests (including any security interests) granted to CWC by this Agreement or to enable CWC, the Deal Agent or the Collateral Agent to exercise and enforce its rights and remedies under this Agreement or any of the Basic Documents with respect to any Transferred Receivables. Without limiting the generality of the foregoing, the Company shall execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices as may be necessary or desirable or that CWC, the Deal Agent or the Collateral Agent may request to protect and preserve and perfect the transfers and security interests granted by this Agreement, free and clear of all Adverse Claims and Restrictions on Transferability. In addition, the Company and the Deal Agent agree to cooperate with S&P and Moody's in connection with any review of the transactions contemplated hereby or by the Basic Documents which may be undertaken by S&P and Moody's after the date hereof.

(ii) The Company hereby authorizes CWC and the Collateral Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Transferred Receivables without the signature of the Company where permitted by law. A carbon, photographic or other reproduction of this Agreement or any notice or financing statement covering the Transferred Receivables or any part thereof shall be sufficient as a notice or financing statement where permitted by law.

VII. Assignment. The Company acknowledges and agrees that, pursuant to the Funding Agreement, CWC may assign all of its right, title and interest in, to and under the Transferred Receivables and its rights, title and interest under this Agreement, including its right to exercise the remedies created by Section 4.04 hereof to VFCC and the Collateral Agent. The Company agrees that, upon such assignment, the assignee may enforce directly, without joinder of CWC, the repurchase obligations of the Company set forth in Section 4.04 hereof with respect to breaches of the representations and warranties or covenants set forth in Section 4.01 and 4.02 of this Agreement.

VIII. Compliance With Agreements and Applicable Laws. The Company shall perform each of its obligations under this Agreement and the other Basic Documents and comply with all material requirements of any law, rule or regulation applicable to it.

IX. Notice of Material Event. The Company shall promptly inform CWC in writing of the occurrence of any of the following:

A. the submission of any claim or the initiation of any legal process, litigation or administrative or judicial investigation against the Company or with respect to or in connection with all or any portion of the Transferred Receivables, involving potential damages or penalties in an uninsured amount in excess of $100,000 in any one instance or $500,000 in the aggregate;

B. any change in the location of Company's principal office or any change in the location of the Company's books and records;

C. the occurrence of any Termination Event or event which, upon the giving of notice or the passage of time, or both, would become a Termination Event;

D. the commencement or threat of any rule making or disciplinary proceedings or any proceedings instituted by or against the Company in any federal, state or local court or before any governmental body or agency, or before any arbitration board, or the promulgation of any proceeding or any proposed or final rule which, if adversely determined, would have a material adverse effect with respect to the Company;

E. the commencement of any proceedings by or against the Company under any applicable bankruptcy, reorganization, liquidation, rehabilitation, insolvency or other similar law now or hereafter in effect or of any proceeding in which a receiver, liquidator, conservator, trustee or similar official shall have been, or may be, appointed or requested for the Company or any of its assets;

F. the receipt of notice that (A) the Company is being placed under regulatory supervision, (B) any license, permit, charter, registration or approval necessary for the conduct of the Company's business is to be, or may be, suspended or revoked, or (C) the Company is to cease and desist any practice, procedure or policy employed by the Company in the conduct of its business, and such cessation may have a material adverse effect with respect to the Company; or

G. any other event, circumstance or condition that has had, or has a material possibility of having, a material adverse effect in respect of the Company.

X. Maintenance of Licenses. The Company shall maintain all licenses, permits, charters and registrations which are material to the conduct of its business.

XI. Separate Identity.

A. The Company shall maintain corporate records and books of account separate from those of CWC.

B. The annual financial statements of the Company shall disclose the effects of the Company's transactions in accordance with GAAP and the annual financial statements of the Company shall disclose that the assets of CWC are not available to pay creditors of the Company or any other Affiliate of the Company.

C. The annual financial statements of the Company and its consolidated subsidiaries (including CWC) will contain footnotes or other information to the effect that with respect to CWC: (a) CWC's business consists of the purchase of the Receivables from the Company, (b) CWC is a separate corporate entity with its own separate creditors, which upon its liquidation will be entitled to be satisfied out of CWC's assets prior to any value in the Company becoming available to CWC's equity holders and (c) the Transferred Receivables have been sold or contributed to CWC.

D. The resolutions, agreements and other instruments underlying the transactions described in this Agreement shall be continuously maintained by the Company as official records.

E. The Company shall use its best efforts to maintain an arm's-length relationship with CWC and will not hold itself out as being liable for the debts of CWC.

F. The Company shall use its best efforts to keep its assets and its liabilities wholly separate from those of CWC.

G. The Company will conduct its business solely in its own name through its duly authorized officers or agents so as not to mislead others as to the identity of the Company.

H. The Company will use its best efforts to avoid the appearance of conducting business on behalf of CWC or that the assets of the Company are available to pay the creditors of CWC.

I. The Company will cause operating expenses and liabilities of CWC to be paid from CWC's funds.

XII. ERISA. The Company shall give the Deal Agent prompt notice of each of the following events (but in no event more than 30 days after the occurrence of the event): (i) an Accumulated Funding Deficiency, (ii) the failure to make a material required contribution to a Plan or Multiemployer Plan (but in no event will a contribution failure sufficient to give rise to a lien under (S)302(f) of ERISA be considered immaterial), (iii) a Reportable Event, (iv) any action by a Commonly Controlled Entity to terminate any Plan or withdraw from any Multiemployer Plan, (v) any action by the PBGC to terminate or appoint a trustee to administer a Plan, (vi) the reorganization or insolvency of any Multiemployer Plan and (vii) an aggregate Underfunding for all Underfunded Plans in excess of $100,000.

XIII. Cooperation With Requests for Information or Documents. The Company will cooperate fully with all reasonable requests of CWC regarding the provision of any information or documents, necessary, including the provision of such information or documents in electronic or machine-readable format, or desirable to allow each of VFCC, the Deal Agent and the Collateral Agent to carry out its responsibilities under the Basic Documents.

XIV. Payment, Performance and Discharge of Obligations. The Company will pay, perform and discharge all of its obligations and liabilities, including, without limitation, all taxes, assessments and governmental charges upon its income and properties when due the non-payment, performance or discharge of which would have a material adverse effect, unless and to the extent only that such obligations, liabilities, taxes, assessments and governmental charges shall be contested in good faith and by appropriate proceedings and that, to the extent required by GAAP, proper and adequate book reserves relating thereto are established by the Company and then only to the extent that a bond is filed in cases where the filing of a bond is necessary to avoid the creation of an Adverse Claim against any of its properties.

SECTION 4.03. Negative Covenants of the Company. The Company shall not, without the written consent of CWC, the Deal Agent and the Collateral Agent:

I. sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon or with respect to, or assign any right to receive income in respect of any Transferred Receivable or related Contract with respect thereto, or upon or with respect to the account in which any Collections of any Transferred Receivables are deposited;

II. extend, amend, forgive, discharge, compromise, cancel or otherwise modify the terms of any Transferred Receivable, or amend, modify or waive any term or condition of any Contract related thereto, except in compliance with the Credit and Collection Policies;

III. make any change in its instructions to Obligors regarding payments to be made to CWC or payments to be deposited to the account into which any Collections in respect of any Transferred Receivables are deposited;

IV. merge with or into, consolidate with or into, convey, transfer, lease or, otherwise dispose of all or substantially all of its assets (whether now owned or hereafter acquired) to, or acquire all or substantially all of the assets or capital stock or other ownership interest of, any Person (whether in one transaction or in a series of transactions), provided, however, that the Company may, without the consent of the Deal Agent, invest not more than 25% of its Net Worth to acquire all or substantially all of the assets or capital stock or other ownership interest of another Person;

V. make statements or disclosures or prepare any financial statements which shall account for the transactions contemplated by this Agreement in any manner other than as a sale or contribution of the Transferred Receivables to CWC, or in any other respect account for or treat the transactions contemplated hereby (including

but not limited to, for accounting, tax and reporting purposes) in any manner other than as a sale or absolute assignment of the Transferred Receivables;

VI. amend, supplement or otherwise modify its certificate of incorporation or bylaws (or permit any of the foregoing);

VII. (i) take any action, or fail to take any action, if such action or failure to take action may interfere with the enforcement of any rights under this Agreement or the Basic Documents that are material to the rights, benefits or obligations of CWC or VFCC (however, nothing herein shall be construed to constitute a guarantee of collectability by the Company); (ii) take any action, or fail to take any action, if such action or failure to take action may interfere with the enforcement of any rights with respect to the Transferred Receivables; or (iii) fail to pay any tax, assessment, charge, fee or other obligation of the Company with respect to the Transferred Receivables, or fail to defend any action, if such failure to pay or defend may adversely affect the priority or enforceability of the first priority perfected interest of CWC in the Transferred Receivables or the Company's right, title or interest in the Transferred Receivables;

VIII. neither the Company nor any Commonly Controlled Entity will:

A. terminate any Plan so as to incur any material liability to the PBGC;

B. knowingly participate in any "prohibited transaction" (as defined in ERISA) involving any Plan or Multiemployer Plan or any trust created thereunder which would subject any of them to a material tax or penalty on prohibited transactions imposed under Section 4975 of the Code or ERISA;

C. fail to pay to any Plan or Multiemployer Plan any contribution which it is obligated to pay under the terms of such Plan or Multiemployer Plan, if such failure would cause such plan to have any material Accumulated Funding Deficiency, whether or not waived; or

D. allow or suffer to exist any occurrence of a Reportable Event, or any other event or condition, which presents a material risk of termination by the PBGC on any Plan or Multiemployer Plan, to the extent that the occurrence or nonoccurrence of such Reportable Event or other event or condition is within the control of it or any Commonly Controlled Entity;

IX. make any material change to the Credit and Collection Policies without the prior written consent of Deal Agent; or

X. take or permit (other than with respect to actions taken or to be taken solely by a government or governmental authority) to be taken any action which would have the effect directly or indirectly of subjecting interest on any of the Advances or the Commercial Paper to withholding taxation in the hands of, respectively, CWC, VFCC or holders of the Commercial Paper generally who are residents of the United States, and will perform all of its obligations under this Agreement and the Basic Documents to prevent or cure any default by the Company which would have the effect, directly or indirectly, of subjecting interest on any of the Advances or the Commercial Paper to withholding taxation.

SECTION 4.04. Breach of Representations, Warranties or Covenants. Upon discovery by the Company, CWC, the Deal Agent, VFCC, the Collateral Agent or any assignee of either of CWC's rights hereunder, of a breach of any of the representations, warranties or covenants described in Section 4.01, 4.02 or 4.03 hereof which is reasonably likely to have a material adverse effect on the value of a Transferred Receivable or the interests of CWC, VFCC or the Collateral Agent therein, the party discovering such breach shall give prompt written notice to the other parties. Thereafter, if requested by notice from CWC or any assignee of CWC, the Company shall, on the next succeeding Business Day, either (i) repurchase such Transferred Receivable from CWC in consideration of cash or additional Eligible Receivables at a price equal to the Sale Price

therefor plus accrued and unpaid interest thereon, less principal payments actually received prior to the date of such purchase, (ii) transfer ownership of a new Eligible Receivable or new Eligible Receivables on such Business Day in an amount equal to the face amount of such Transferred Receivable; or (iii) make a capital contribution of the Rejected Amount in cash to CWC, by remitting the amount of such capital contribution to the Collection Account in accordance with the terms of the Funding Agreement, in each case in an amount equal to the Contract Principal Balance of such Transferred Receivable.

ARTICLE V

INDEMNIFICATION

SECTION 5.01. Indemnification. (a) Without limiting any other rights that CWC, VFCC, the Collateral Agent or any of their shareholders, officers or agents, or any assignee of CWC's rights hereunder or such assignee's shareholders, officers, employees or agents (each, an "Indemnified Party") may have hereunder or under applicable law, the Company hereby agrees to indemnify each Indemnified Party from and against any and all claims, losses, liabilities, obligations, damages, penalties, actions, judgments, suits, and related costs and expenses of any nature whatsoever, including reasonable attorneys' fees and disbursements (all of the foregoing being collectively referred to as "Indemnified Amounts") which may be imposed on, incurred by or asserted against an Indemnified Party in any way arising out of or resulting from this Agreement or the other Basic Documents or the use by the Company of proceeds of any purchase or assignment hereunder or in respect of any Transferred Receivable or any Contract, excluding, however, (a) Indemnified Amounts to the extent resulting solely from gross negligence, acts of bad faith or willful misconduct on the part of such Indemnified Party or (b) recourse for uncollectible or uncollected Transferred Receivables. Without limiting or being limited by the foregoing, the Company shall pay on demand to each Indemnified Party any and all Indemnified Amounts necessary to indemnify such Indemnified Party from and against any and all Indemnified Amounts relating to or resulting from:

(i) reliance on any representation or warranty made or deemed made by the Company (or any of its officers) under or in connection with this Agreement or the other Basic Documents, any report or any other information delivered by the Company pursuant hereto, which shall have been incorrect in any material respect when made or deemed made or delivered;

(ii) the failure by the Company to comply with any term, provision or covenant contained in this Agreement or the other Basic Documents, or any agreement executed in connection with this Agreement or with any applicable law, rule or regulation with respect to any Transferred Receivable or the related Contract, or the nonconformity of any Transferred Receivable or the related Contract with any such applicable law, rule or regulation; or

(iii) the failure to vest and maintain vested in CWC, or to transfer to CWC, legal and equitable title to and ownership of the Receivables which are, or are purported to be, Transferred Receivables, together with all Collections and Proceeds in respect thereof, free and clear of any Adverse Claim or Restrictions on Transferability (except as permitted hereunder) whether existing at the time of the proposed sale of such Receivable or at any time thereafter.

SECTION 5.02. Assignment of Indemnities. The Company acknowledges that, pursuant to the Funding Agreement, CWC may assign its rights of indemnity granted hereunder to VFCC, the Collateral Agent and the Lenders upon such assignment, VFCC, the Collateral Agent or the Lenders, as applicable, shall have all rights of CWC hereunder and may in turn assign such rights. The Company agrees that, upon such assignment, VFCC, the Collateral Agent or the Lenders or the assignee of either VFCC, the Collateral Agent or the Lenders, as applicable, may enforce directly, without joinder of CWC, the indemnities set forth in this Article V.

ARTICLE VI [RESERVED]

ARTICLE VII

MISCELLANEOUS

SECTION 7.01. Notices, Etc. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including facsimile, telex and express mail) and mailed or telecommunicated, or delivered as to each party hereto, at its address set forth under its name on the signature page hereof or at such other address as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall not be effective until received by the party to whom such notice or communication is addressed.

SECTION 7.02. No Waiver; Remedies. No failure on the part of the Company or CWC or any assignee of CWC to exercise, and no delay in exercising, any right hereunder or under any Assignment shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any other remedies provided by law.

SECTION 7.03. Binding Effect; Assignability. This Agreement shall be binding upon and inure to the benefit of the Company and CWC, and their respective successors and permitted assigns. Except as contemplated herein, none of the parties may assign any of its rights and obligations hereunder or any interest herein without the prior written consent of the other parties. This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until its termination; provided, that the rights and remedies pursuant to Section 4.04 with respect to any breach of any representation, warranty or covenants made by the Company pursuant to Sections 4.01, 4.02 and 4.03 and the indemnification and payment provisions of Article IV shall be continuing and shall survive any termination of this Agreement.

SECTION 7.04. No Proceedings. The Company hereby agrees that it will not, directly or indirectly, institute, or cause to be instituted, against CWC any proceeding of the type referred to in the definition of Event of Bankruptcy in the Funding Agreement until one year and one day shall have elapsed since the last day on which any Commercial Paper issued by VFCC under the Funding Agreement remains outstanding.

SECTION 7.05. Amendments; Consents and Waivers. No modification, amendment or waiver of, or with respect to, any provision of this Agreement, and all other agreements, instruments and documents delivered thereto, nor consent to any departure by the Company or CWC from any of the terms or conditions thereof shall be effective unless it shall be in writing and signed by each of the parties hereto, and prior written consent is given by VFCC and the Collateral Agent. Any waiver or consent shall be effective only in the specific instance and for the purpose for which given. No consent or demand in any case shall, in itself, entitle any party to any other consent or further notice or demand in similar or other circumstances. This Agreement and the documents referred to herein embody the entire agreement of the Company and CWC with respect to the Transferred Receivables and supersede all prior agreements and understandings relating to the subject hereof.

SECTION 7.06. GOVERNING LAW; WAIVER OF JURY TRIAL. (a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAWS PROVISIONS) OF THE STATE OF NEW YORK.

(b) THE COMPANY AND CWC EACH HEREBY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE ARISING OUT OF, CONNECTED WITH, RELATED TO, OR IN CONNECTION WITH THIS AGREEMENT. INSTEAD, ANY DISPUTE RESOLVED IN COURT WILL BE RESOLVED IN A BENCH TRIAL WITHOUT A JURY.

SECTION 7.07. Execution in Counterparts; Severability. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and both of which when taken together shall constitute one and the same agreement. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations in any jurisdiction, or of such provision or obligation in any jurisdiction, shall not in any way be affected or impaired thereby.

SECTION 7.08. Descriptive Headings. The descriptive headings of the various sections of this Agreement are inserted for convenience of reference only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

SECTION 7.09. No Setoff. The Company's obligations under this Agreement shall not be affected by any right of setoff, counterclaim, recoupment, defense or other right the Company might have against CWC, VFCC, the Deal Agent, any Lender or any assignee, all of which rights are hereby waived by the Company.

SECTION 7.10. Further Assurances. The Company agrees to do such further acts and things and to execute and deliver to CWC, VFCC, the Deal Agent, any Lender or any assignee such additional assignments, agreements, powers and instruments as such Person or any assignee may require or deem advisable to carry into effect the purposes of this Agreement or to better assure and confirm unto any such party its respective rights, powers and remedies hereunder.

SECTION 7.11. Confidentiality. Except to the extent otherwise required by applicable law or as required to be filed publicly with the Securities and Exchange Commission or unless the Affected Party shall otherwise consent in writing, the Company and CWC agree to maintain the confidentiality of this Agreement (and all drafts of this agreement and documents ancillary to this Agreement) in its communications with third parties other than any Affected Party or any Indemnified Party and otherwise and not to disclose, deliver or otherwise make available to any third party (other than its directors, officers, employees, accountants or counsel) the original or any copy of all or any part of this Agreement (or any draft of this Agreement and documents ancillary to this Agreement) except to an Affected Party or an Indemnified Party.

SECTION 7.12. Assignment of Agreement. The Company acknowledges that, pursuant to the Funding Agreement, CWC may assign its rights granted hereunder, including any rights in the Collateral granted under Article II, to the Collateral Agent on behalf of the Secured Parties and upon such assignment, the Collateral Agent shall have all rights of CWC hereunder and may in turn assign such rights. The Company agrees that, upon such assignment, the Collateral Agent may enforce directly, without joinder of CWC the rights set forth in this Agreement.

IN WITNESS WHEREOF, the parties have caused this Receivables Transfer Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CONSUMER PORTFOLIO SERVICES, INC.

By:_____
Name:
Title:

Address: Consumer Portfolio Services Inc.
2 Ada, Suite 100
Irvine, CA 92618
Attention: Chief Financial Officer

Telephone (714) 753-6816
Facsimile: (714) 753-6816

CPS WAREHOUSE CORP

By:_____
Name:
Title:

Address: CPS Warehouse Corp,
2 Ada, Suite 100
Irvine, CA 92618

Attention: James L. Stock
Telephone (714) 753-6935
Facsimile: (714) 450-3972

EXHIBIT 1

FORM OF ASSIGNMENT

ASSIGNMENT, dated as of _____ between Consumer Portfolio Services, Inc. (the "Company") and CPS WAREHOUSE CORP. ("CWC").

1. We refer to the Receivables Transfer Agreement (the "Transfer Agreement") dated as of November 24, 1997 between the Company and CWC. All provisions of such Transfer Agreement are incorporated herein by reference. All capitalized terms shall have the meanings set forth in the Transfer Agreement.

2. The Company does hereby sell, or contribute to CWC, without recourse, as of _____ (the "Cutoff Date"), except with respect to its obligations pursuant to Section 4.04 of the Transfer Agreement, all of the Company's right, title and interest in and to the following, in each case whether now or hereafter existing or in which Company now has or hereafter acquires an interest and wherever the same may be located (collectively, the "Conveyed Property"):

(a) all Transferred Receivables listed on the attached Request Notice and related Contracts and Collections received on or after the Cutoff Date (collectively, the "Conveyed Receivables") and the Company's right of foreclosure as lienholder of the vehicles underlying the Conveyed Receivables;

(b) to the extent arising from or relating to the Conveyed Receivables, all of the following (the "Company Account Property"):

(i) all funds held in each Lockbox Account and the Lockboxes and all certificates and instruments, if any, from time to time representing or evidencing each Lockbox Account, the Lockboxes or such funds,

(ii) all Investments from time to time of amounts in each Lockbox Account, and all certificates and instruments, if any, from time to time representing or evidencing such Investments,

(iii) all notes, certificates of deposit and other instruments from time to time delivered to or otherwise possessed by CWC or any assignee or agent on behalf of each Lender in substitution for or in addition to any of the then existing Company Account Property, and

(iv) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any and all of the then existing Company Account Property;

(d) To the extent arising from or relating to the Conveyed Receivables, all additional property that may from time to time be acquired by CWC or by anyone on its behalf under the Transfer Agreement on or after the Cutoff Date, including the deposit with CWC, the Deal Agent or the Collateral Agent of additional moneys by the Company; and

(e) All Proceeds, accessions, substitutions, rents and profits of any and all of the foregoing Company Property (including Proceeds that constitute property of the types described in sections (a) through (d) above) and, to the extent not otherwise included, all payments under insurance (whether or not CWC or any assignee or agent on behalf of CWC is the loss payee thereof or any indemnity, warranty or guaranty payable by reason of loss or damage to or otherwise with respect to any of the foregoing Company Property which are received on or after the Cutoff Date.

3. Each Sale and/or contribution made from the Company under the Transfer Agreement shall be endorsed by CWC on the grid attached hereto which is a part of this Certificate of Assignment, and such endorsement shall evidence the ownership of the Transferred Receivables resulting from such Sale and/or contribution thereof.

4. THIS CERTIFICATE OF ASSIGNMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CPS WAREHOUSE CORP.

By:_____
Name:
Title:

CONSUMER PORTFOLIO SERVICES, INC.

By:_____
Name:
Title:

[ATTACH REQUEST NOTICE]

EXHIBIT 2

FORM OF COMPANY'S REPRESENTATIONS
AND WARRANTIES REGARDING THE PURCHASED ASSETS

The Seller makes the following representations and warranties as to the Receivables to the Note Insurer, the Issuer and to the Trustee on which the Issuer relies in acquiring the Receivables and on which the Note Insurer relies in issuing the Note Policy. Such representations and warranties speak as of the execution and delivery of this Agreement and as of the Closing Date, in the case of the Initial Receivables, and as of the related Subsequent Transfer Date, in case of the Subsequent Receivables, but shall survive the sale, transfer and assignment of the Receivables to the Issuer and the pledge thereof to the Trustee pursuant to the Indenture.

(i) Characteristics of Receivables. (A) Each Receivable (1) has been originated in the United States of America by a Dealer for the retail sale of a Financed Vehicle in the ordinary course of such Dealer's business, has been fully and properly executed by the parties thereto and has been purchased by CPS (or, with respect to the Samco Receivables, Samco) in connection with the sale of Financed Vehicles by the Dealers, (2) has created a valid, subsisting, and enforceable first priority perfected security interest in favor of CPS (or, with respect to the Samco Receivables, Samco) in the Financed Vehicle, which security interest has been assigned by CPS (or, with respect to the Samco Receivables, Samco) to the Seller, which in turn has assigned such security interest to the Trustee, (3) contains customary and enforceable provisions such that the rights and remedies of the holder or assignee thereof shall be adequate for realization against the collateral of the benefits of the security, (4) provides for level monthly payments that fully amortize the Amount Financed over the original term (except for the last payment, which may be different from the level payment) and yield interest at the Annual Percentage Rate, (5) has an Annual Percentage Rate of not less than _____%, (6) that is a Rule of 78's Receivable provides for, in the event that such contract is prepaid, a prepayment that fully pays the Principal Balance and includes a full month's interest, in the month of prepayment, at the Annual Percentage Rate, (7) is a Rule of 78's Receivable or a Simple Interest Receivable, and (8) was originated by a Dealer and was sold by the Dealer without any fraud or misrepresentation on the part of such Dealer.

(B) Approximately _____% of the aggregate Principal Balance of the Receivables, constituting _____% of the number of contracts, as of the Cutoff Date, represents financing of used automobiles, light trucks, vans or minivans; the remainder of the Receivables represent financing of new automobiles, light trucks, vans or minivans; approximately _____% of the aggregate Principal Balance of the Receivables as of the Cutoff Date were originated in the State of California; approximately _____% of the aggregate Principal Balance of the Receivables as of the Cutoff Date were originated under the CPS alpha program; approximately _____% of the aggregate Principal Balance of the Receivables as of the Cutoff Date were originated under the CPS delta program; approximately _____% of the aggregate Principal Balance of the Receivables as of the Cutoff Date were originated under the CPS first time buyer program; approximately _____% of the aggregate Principal Balance of the Receivables were originated under the CPS standard program; the remaining _____% of the aggregate Principal Balance of the Receivables as of the Cutoff Date were acquired by CPS from unaffiliated parties; approximately _____% of the aggregate Principal Balance of the Receivables are Samco Receivables; no Receivable shall have a payment that is more than 30 days overdue as of the Cutoff Date; _____% of the aggregate Principal Balance of the Receivables are Rule of 78's Receivables and _____% of the aggregate Principal Balance of the Receivables are Simple Interest Receivables; each Receivable shall have a final scheduled payment due no later than _____, _____; each Receivable has an original term to maturity of not more than ___ months and a weighted average original term to maturity of ___ months and a remaining term to maturity of not more than ___ months and a weighted average remaining term to maturity of ___ months; and each Receivable was originated on or before the Cutoff Date.

(ii) Schedule of Receivables. The information with respect to the Receivables set forth in Schedule A to this Agreement is true and correct in all material respects as of the close of business on the Cutoff Date, and no selection procedures adverse to the Noteholders have been utilized in selecting the Receivables.

(iii) Compliance with Law. Each Receivable, the sale of the Financed Vehicle and the sale of any physical damage, credit life and credit accident and health insurance and any extended service contracts complied at the time the related Receivable was originated or made and at the execution of this Agreement complies in all material respects with all requirements of applicable Federal, State, and local laws, and regulations thereunder including, without limitation, usury laws, the Federal Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Federal Trade Commission Act, the Magnuson-Moss Warranty Act, the Federal Reserve Board's Regulations B and Z, the Soldiers' and Sailors' Civil Relief Act of 1940, the Texas Consumer Credit Code, the California Automobile Sales Finance Act and State adaptations of the National Consumer Act and of the Uniform Consumer Credit Code, and other consumer credit laws and equal credit opportunity and disclosure laws.

(iv) No Government Obligor. None of the Receivables are due from the United States of America or any State or from any agency, department, or instrumentality of the United States of America or any State.

(v) Security Interest in Financed Vehicle. Immediately subsequent to the sale, assignment and transfer thereof to the Trust, each Receivable shall be secured by a validly perfected first priority security interest in the Financed Vehicle in favor of the Trust as secured party, and such security interest is prior to all other liens upon and security interests in such Financed Vehicle which now exist or may hereafter arise or be created (except, as to priority, for any tax liens or mechanics' liens which may arise after the Closing Date).

(vi) Receivables in Force. No Receivable has been satisfied, subordinated or rescinded, nor has any Financed Vehicle been released from the lien granted by the related Receivable in whole or in part.

(vii) No Waiver. No provision of a Receivable has been waived.

(viii) No Amendments. No Receivable has been amended, except as such Receivable may have been amended to grant extensions which shall not have numbered more than (a) one extension of one calendar month in any calendar year or (b) three such extensions in the aggregate.

(ix) No Defenses. No right of rescission, setoff, counterclaim or defense exists or has been asserted or threatened with respect to any Receivable. The operation of the terms of any Receivable or the exercise of any right thereunder will not render such Receivable unenforceable in whole or in part or subject to any such right of rescission, setoff, counterclaim, or defense.

(x) No Liens. As of the Cutoff Date there are no liens or claims existing or which have been filed for work, labor, storage or materials relating to a Financed Vehicle that shall be liens prior to, or equal or coordinate with, the security interest in the Financed Vehicle granted by the Receivable.

(xi) No Default; Repossession. Except for payment delinquencies continuing for a period of not more than thirty days as of the Cutoff Date, no default, breach, violation or event permitting acceleration under the terms of any Receivable has occurred; and no continuing condition that with notice or the lapse of time would constitute a default, breach, violation or event permitting acceleration under the terms of any Receivable has arisen; and the Seller shall not waive and has not waived any of the foregoing; and no Financed Vehicle shall have been repossessed as of the Cutoff Date.

(xii) Insurance; Other. (A) Each Obligor has obtained insurance covering the Financed Vehicle as of the execution of the Receivable insuring against loss and damage due to fire, theft, transportation, collision and other risks generally covered by comprehensive and collision coverage, and each Receivable requires the Obligor to obtain and maintain such insurance naming CPS (or, with respect to the Samco Receivables, Samco) and its successors and assigns as an additional insured, (B) each Receivable that finances the cost of premiums for credit life and credit accident and health insurance is covered by an insurance policy or certificate of insurance naming CPS (or with respect to the Samco Receivables, Samco) as policyholder (creditor) under each such insurance policy and certificate of insurance and (C) as to each Receivable that finances the cost of an extended service

contract, the respective Financed Vehicle which secures the Receivable is covered by an extended service contract.

(xiii) Title. It is the intention of the Seller that the transfer and assignment herein contemplated constitute a sale of the Receivables from the Seller to the Trust and that the beneficial interest in and title to such Receivables not be part of the Seller's estate in the event of the filing of a bankruptcy petition by or against the Seller under any bankruptcy law. No Receivable has been sold, transferred, assigned, or pledged by the Seller to any Person other than the Trust. Immediately prior to the transfer and assignment herein contemplated, the Seller had good and marketable title to each Receivable and was the sole owner thereof, free and clear of all liens, claims, encumbrances, security interests, and rights of others, and, immediately upon the transfer thereof, the Trust for the benefit of the Noteholders and the Note Insurer shall have good and marketable title to each such Receivable and will be the sole owner thereof, free and clear of all liens, encumbrances, security interests, and rights of others, and the transfer has been perfected under the UCC.

(xiv) Lawful Assignment. No Receivable has been originated in, or is subject to the laws of, any jurisdiction under which the sale, transfer, and assignment of such Receivable under this Agreement or pursuant to transfers of the Securities shall be unlawful, void, or voidable. The Seller has not entered into any agreement with any account debtor that prohibits, restricts or conditions the assignment of any portion of the Receivables.

(xv) All Filings Made. All filings (including, without limitation, UCC filings) necessary in any jurisdiction to give the Trust a first priority perfected ownership interest in the Receivables and the proceeds thereof and the other Conveyed Property have been made, taken or performed.

(xvi) Receivable File; One Original. CPS has delivered to the Trustee a complete Receivable File with respect to each Receivable. There is only one original executed copy of each Receivable.

(xvii) Chattel Paper. Each Receivable constitutes "chattel paper" under the UCC.

(xviii) Title Documents. (A) If the Receivable was originated in a State in which notation of a security interest on the title document of the related Financed Vehicle is required or permitted to perfect such security interest, the title document of the related Financed Vehicle for such Receivable shows, or if a new or replacement title document is being applied for with respect to such Financed Vehicle the title document (or, with respect to Receivables originated in the State of Michigan, all other evidence of ownership with respect to such Financed Vehicle) will be received within 180 days and will show, CPS (or, with respect to the Samco Receivables, Samco) named as the original secured party under the related Receivable as the holder of a first priority security interest in such Financed Vehicle, and (B) if the Receivable was originated in a State in which the filing of a financing statement under the UCC is required to perfect a security interest in motor vehicles, such filings or recordings have been duly made and show CPS (or, with respect to the Samco Receivables, Samco) named as the original secured party under the related Receivable, and in either case, the Trust has the same rights as such secured party has or would have (if such secured party were still the owner of the Receivable) against all parties claiming an interest in such Financed Vehicle. With respect to each Receivable for which the title document of the related Financed Vehicle has not yet been returned from the Registrar of Titles, CPS has received written evidence from the related Dealer that such title document showing CPS (or, with respect to the Samco Receivables, Samco) as first lienholder has been applied for.

(xix) Valid and Binding Obligation of Obligor. Each Receivable is the legal, valid and binding obligation of the Obligor thereunder and is enforceable in accordance with its terms, except only as such enforcement may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally, and all parties to such contract had full legal capacity to execute and deliver such contract and all other documents related thereto and to grant the security interest purported to be granted thereby.

(xx) Tax Liens. As of the Cutoff Date, there is no lien against the related Financed Vehicle for delinquent taxes.

(xxi) Characteristics of Obligors. As of the date of each Obligor's application for the loan from which the related Receivable arises, such Obligor (a) did not have any material past due credit obligations or any personal or real property repossessed or wages garnished within one year prior to the date of such application, unless such amounts have been repaid or discharged through bankruptcy, (b) was not the subject of any Federal, State or other bankruptcy, insolvency or similar proceeding pending on the date of application that is not discharged, (c) had not been the subject of more than one Federal, State or other bankruptcy, insolvency or similar proceeding, and (d) was domiciled in the United States.

(xxii) Origination Date. Each Receivable has an origination date on or after April 10, 1995.

(xxiii) Maturity of Receivables. Each Receivable has an original term to maturity of not less than [ ] months and not more than 60 months; the weighted average original term to maturity of the Receivables is 57 months as of the Cutoff Date; the remaining term to maturity of each Receivable was 60 months or less as of the Cutoff Date; the weighted average remaining term to maturity of the Receivables was 56 months as of the Cutoff Date.

(xxiv) Scheduled Payments. Each Receivable had an original principal balance of not less than $_____ nor more than $_____ had an outstanding principal balance as of the Cutoff Date of not less than $_____ nor more than $_____ and has a first Scheduled Payment due on or prior to _____, _____.

(xxv) Origination of Receivables. Based on the billing address of the Obligors and the Principal Balances as of the Cutoff Date, approximately ____% of the aggregate Principal Balance of the Receivables represents Receivables that were originated in California, approximately ____% of the aggregate Principal Balance of the Receivables represents Receivables that were originated in Louisiana, approximately ____% of the aggregate Principal Balance of the Receivables represents Receivables that were originated in Texas, approximately ____% of the aggregate Principal Balance of the Receivables represents Receivables that were originated in Pennsylvania and the remaining ____% of the aggregate Principal Balance of the Receivables represents Receivables that were originated in other States.

(xxvi) Post-Office Box. On or prior to the next billing period after the Cutoff Date, CPS will notify each Obligor to make payments with respect to its respective Receivables after the Cutoff Date directly to the Post-Office Box, and will provide each Obligor with a monthly statement in order to enable such Obligors to make payments directly to the Post-Office Box.

(xxvii) Location of Receivable Files. A complete Receivable File with respect to each Receivable has been or prior to the Closing Date will be delivered to the Trustee at the location listed in Schedule B.

(xxviii) Casualty. No Financed Vehicle has suffered a Casualty.

(xxix) Principal Balance/Number of Contracts. As of the Cutoff Date, the total aggregate principal balance of the Receivables was $_____. The Receivables are evidenced by _____ Contracts.

(xxx) Full Amount Advanced. The full amount of each Receivable has been advanced to each Obligor, and there are no requirements for future advances thereunder. The Obligor with respect to the Receivable does not have any option under the Receivable to borrow from any person additional funds secured by the Financed Vehicle.

EXHIBIT 3

FORM OF ASSIGNMENT OF INSURANCE INTERESTS

Consumer Portfolio Services, Inc. ("Assignor") hereby absolutely and irrevocably assigns to First Union National Bank. ("FUNB") all of Assignor's right, title and interest in, under, and with respect to all insurance and service contracts which provide any of the following coverages with respect to installment contracts which Assignor has pledged to FUNB and FUNB continues to have a security interest in:

1. credit life, credit disability, or credit accident and health;

2. casualty, damage, theft, loss or liability;

3. involuntary unemployment;

4. mechanical breakdown, warranty, maintenance, or servicing;

5. lender protection, vendor/lender single interest, skip, repossessed vehicle casualty (including damage, theft, and loss), confiscation, nonfiling, or failure of lien perfection; or

6. any other coverage assigned in writing by Assignor to FUNB.

Without limiting the rights included in this assignment, this assignment entitles FUNB to claim and collect all benefits, refunds, and other amounts with respect to all coverages that Assignor would be entitled to claim and collect, and to make such claims and collections in its name or Assignor's name. Assignor hereby authorizes FUNB to sign Assignor's name on all such claims and collections FUNB makes, and to endorse Assignor's name on all such payments it receives. Assignor hereby instructs and authorizes all providers of the foregoing coverage to rely on this Assignment and any statement or instruction in writing by FUNB with respect to the operation and effect of this Assignment and the installment contracts covered by it. Assignor hereby agrees that the providers of the coverages who so rely shall have no liability to Assignor for complying with this Assignment and such statements and instructions by FUNB.

Dated: November ___, 1997 CONSUMER PORTFOLIO SERVICES, INC. [SEAL]

By:_____
Name:
Title:

EXHIBIT 10.16

CPS CREDIT LINE NOTE

Not to Exceed
$25,000,000 August 8, 1997

For value received, CONSUMER PORTFOLIO SERVICES, INC. (the "Maker"), a California corporation, promises to pay to the order of STANWICH FINANCIAL SERVICES CORP. (the "Holder"), a Rhode Island corporation, the principal amount of Twenty-five Million Dollars ($25,000,000) or, if less, the aggregate unpaid principal amount of all loans and advances now or hereafter made by the Holder to the Maker, as contemplated by Sections 1 and 2 of this Note, together with interest thereon, in accordance with the provisions of this Note.

SECTION 1. INITIAL ADVANCE. On the date hereof the Holder has made an advance to the Maker under this Note in the amount of Twenty-five Million Dollars ($25,000,000) (the "Initial Advance"). The Initial Advance was funded, in accordance with the Maker's instructions, by wire transfer of the amount thereof to the Maker's account by the Holder. The Maker acknowledges receipt of the Initial Advance.

SECTION 2. FUTURE ADVANCES. The Maker acknowledges that, at the request of the Maker, the Holder may hereafter from time to time make additional advances to the Maker under this Note (each a "Future Advance"); provided, however, that the Holder shall not be obligated to make any Future Advance after December 19, 1997 or at any time when the principal amount outstanding under this Note is more than Twenty-two Million Five Hundred Thousand Dollars ($22,500,000); and provided, further, that the Holder shall not be obligated to make any Future Advance unless:

(i) the Maker shall have delivered to the Holder a request in writing for such Future Advance (an "Advance Request"); and

(ii) the Advance Request specifies (A) the amount of the Future Advance then being requested, which shall be Two Million Five Hundred Thousand Dollars ($2,500,000) or an integral multiple thereof (but no other amount), (B) the date proposed by the Maker for the making of such Future Advance (the "Proposed Advance Date"), which shall be not fewer than three (3) nor more than thirty (30) business days after the date of the Advance Request and (C) that such Advance Request is being made pursuant to this Note, which shall be identified in such Advance Request as "that certain CPS Credit Line Note dated August 8, 1997 in the principal amount not to exceed $25,000,000"; and

(iii) the amount of such requested Future Advance is not greater than the amount obtained by subtracting (A) the principal amount outstanding under this Note on

the applicable Proposed Advance Date from (B) Twenty-five Million Dollars ($25,000,000); and

(iv) no Event of Default (as such term is hereinafter defined) shall have occurred on or prior to the Proposed Advanced Date and be continuing on such date.

SECTION 3. PAYMENT OF PRINCIPAL. Subject to Section 8 of this Note, the principal of this Note shall be payable in full on December 31, 1997.

SECTION 4. INTEREST. The unpaid principal of this Note outstanding from time to time shall bear interest, beginning as of the date hereof, at an annual rate of ten percent (10%), computed on the basis of a 365-day year and continuing until the principal hereof is repaid in full. Interest shall be payable monthly in arrears beginning August 31, 1997 and on the last day of each succeeding month (each, an "Interest Payment Date") until the principal of this Note is paid in full. If the principal of this Note is paid on other than an Interest Payment Date, interest shall also be payable on the date of such principal payment.

In no contingency or event whatsoever shall the interest payable to Holder by Maker, howsoever characterized or computed, hereunder, exceed the highest rate permissible under any law to which such interest is subject. There is no intention that Holder shall contract for, charge or receive interest in excess of the highest lawful rate, and, in the event it should be determined that any excess has been charged or received then, ipso facto, such rate shall be reduced ---- -----
to the highest lawful rate so that no amounts shall be charged which are in excess thereof. In the event that it should be determined that any excess over such highest lawful rate has been charged or received, Holder, shall apply such excess against the outstanding principal balance of this Note, and, to the extent of any amounts remaining thereafter, shall refund such excess to Maker.

SECTION 5. PREPAYMENTS. The Maker may prepay the principal of this Note in whole or, from time to time, in part without penalty or premium; provided, --------
however, that each partial prepayment shall be in the amount of Two Million Five - -------
Hundred Thousand Dollars ($2,500,000) or an integral multiple thereof; and provided further that, if the Maker makes a prepayment of principal on any date, - -------- -------
it shall also pay on the same date all accrued and unpaid interest hereunder to such date. Any such prepayment of principal shall be without prejudice to the right of the Maker, through a Future Advance, thereafter to reborrow all or a portion of the amount so prepaid, subject to the provisions of Section 2 of this Note.

SECTION 6. PLACE OF PAYMENTS. All payments of principal and interest under this Note shall be made to the order of Holder at the address specified in Section 15(b) or, if the Holder so requests, by wire transfer of funds to the Holder's account.

SECTION 7. MAKER'S REPRESENTATIONS, WARRANTIES AND COVENANTS. Maker represents, warrants and covenants to and with the Holder as follows:

(a) The Maker is a corporation duly organized, validly existing and in good standing under the laws of the State of California.

(b) The execution and delivery of this Note, and the performance by the Maker of its obligations hereunder, have been (or will be by August 31, 1997) duly authorized by all necessary corporate action on the part of the Maker.

(c) The Maker is a corporation organized for a profit and is engaged primarily in commercial or nonconsumer pursuits.

(d) The funds received by the Maker from the Initial Advance and all Future Advances, if any, will not be utilized for consumer purposes.

(e) Upon Holder's request after each Future Advance, if any, the Maker will execute and deliver to the Holder a receipt of the proceeds thereof, in form and substance satisfactory to the Holder.

SECTION 8. DEFAULT; ACCELERATION. As used in this Note, the term "Event of Default" means the occurrence of any of the following events:

(i) the failure of the Maker to pay any installment of interest under this Note when due or within ten (10) business days after notice from the Holder of such failure to pay; or

(ii) the filing by or against the Maker of any petition for adjudication, arrangement, reorganization or the like under any bankruptcy or insolvency law (which petition, in the case of an involuntary proceeding, is not dismissed within 30 days of its filing); or

(iii) the making by the Maker of an assignment for the benefit of its creditors; or

(iv) the appointment of a receiver for any part of the property of the Maker; or

(v) the acceleration of the payment of any indebtedness of the Maker for borrowed money to a date prior to the date of the scheduled maturity thereof as a result of the occurrence of a default or event of default under the loan or financing agreements or instruments pursuant to which such indebtedness was incurred; provided; however, that if such acceleration is rescinded by the applicable lender within 30 days after the date thereof, the same shall not constitute an Event of Default; or

(vi) the Maker's breach or failure to perform any covenant or agreement made by it in this Note, which breach or failure is not cured (if curable) within 30 days after notice thereof given by the Holder to the Maker; or

(vii) the breach of or inaccurracy in any representation or warranty made or given by the Maker in this Note; or

(viii) the dissolution of the Maker; or

(ix) the sale of all or substanitally all of its assets of the Maker other than in the ordinary course of business; or

(x) the merger or consolidation of the Maker with or into another corporation or entity in a transaction in which the Maker is not the surviving corporation;

If an Event of Default occurs, then, in such case, the entire indebtedness and accrued interest thereon outstanding under this Note, at the Holder's option, shall accelerate and become immediately due and payable without notice, presentment, demand or any other formalities, all of which, to the extent permitted by applicable law, the Maker hereby expressly waives.

SECTION 9. COST OF COLLECTION. The Maker shall reimburse the Holder for all reasonable costs and expenses, including the reasonable fees and disbursements of the Holder's attorneys, which may be incurred by the Holder in collecting any amounts due hereunder.

SECTION 10. LOSS, THEFT, DESTRUCTION OR MUTILATION OF NOTE. Upon receipt by the Maker of evidence reasonably satisfactory to the Maker of the loss, theft, destruction or mutilation of this Note, and of indemnity or security reasonably satisfactory to the Maker, and upon reimbursement to the Maker of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Note, if mutilated, the Maker will make and deliver a new note of like tenor in lieu of this Note. Any note made and delivered in accordance with the provision of this paragraph shall be dated as of the date to which interest has been paid on this Note, or if no interest has theretofore been paid on this Note, then dated the date hereof.

SECTION 11. GOVERNING LAW. This Note shall be construed in accordance with and governed by the laws of the State of Connecticut (in which state this Note has been delivered and accepted), without regard to principles of conflicts of laws.

SECTION 12. SUCCESSORS AND ASSIGNS. All the covenants, stipulations, promises and agreements contained in this Note by or on behalf of the Maker or the Holder and all rights of the Maker or the Holder contained in this Note shall bind or inure to their respective successors, assigns, heirs and personal representatives, whether so expressed or not.

SECTION 13. CUMULATIVE REMEDIES. No course of dealing, or any delay or omission of the Holder to exercise any right or power hereunder (including, without limitation, any right or power arising from any default or failure of performance of the Maker), shall exhaust, impair, waive or otherwise prejudice any such right or power or prevent its exercise. Every right and remedy given to the Holder hereunder, by any and all agreements executed and delivered in connection herewith or by law may be exercised from time to time as often as the Holder may deem expedient. No waiver by the Holder of any such default, whether such waiver be full or partial, shall extend to or be taken to affect any subsequent default, or to impair the rights resulting therefrom except as may be otherwise expressly provided herein. No remedy hereunder is intended to be exclusive of any other remedy but each and every remedy shall be cumulative and in addition to any and every other remedy given hereunder or otherwise existing.

SECTION 14. HEADINGS. The headings of the paragraphs of this Note are inserted for convenience only and shall not be deemed to constitute a part hereof.

SECTION 15. NOTICES. All notices, requests, demands and other communications hereunder must be in writing and shall be deemed to have been duly given if delivered by hand or mailed by first class, registered or certified mail, return receipt requested, postage and registry fees prepaid, and addressed as follows:

(a) If to Maker:

Consumer Portfolio Services, Inc.
#2 Ada
Irvine, CA 92718

Attention: President

(b) If to Holder:

Stanwich Financial Services Corp.
c/o Stanwich Partners, Inc.
62 Southfield Avenue
Stamford, CT 06902

Attention: President

Any of the foregoing parties by notice in writing mailed to the other parties may change the name and address to which notices, requests, demands and other communications to it or him shall be mailed.

SECTION 16. LOAN CLOSING FEES. The Maker hereby agrees to pay to the Holder, in addition to principal and interest hereunder, a loan closing fee in the amount of Two Hundred Fifty Thousand Dollars ($250,000). Such fee shall be payable on or before August 22, 1997.

IN WITNESS WHEREOF, the Maker has signed this Note by a duly authorized officer and dated it as of the day and year first above written.

CONSUMER PORTFOLIO SERVICES, INC

By: _____
Name: Jeffrey P. Fritz
Title: Senior Vice President

Accepted by

STANWICH FINANCIAL SERVICES CORP.

By: _____
Charles E. Bradley
President

Exhibit 21.1 List of Subsidiaries

Following is a list of subsidiaries of the registrant, omitting certain subsidiaries which, if taken together as one subsidiary, would not be a significant subsidiary as of December 31, 1996.

Alton Receivables Corp.*
CPS Receivables Corp.*
CPS Warehouse Corp.**
CPS Leasing, Inc.**
CPS Funding Corp.*
CPS Marketing, Inc.*
SAMCO Acceptance Corp.**
LINC Acceptance Company LLC**

* organized under California law
**organized under Delaware law

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Consumer Portfolio Services, Inc.:

We consent to incorporation by reference in the registration statements (Nos. 33-77314, 333-00880 and 333-00736) on Form S-3 and (Nos. 33-78680 and 33-80327) on Form S-8 of Consumer Portfolio Services, Inc. of our report dated February 18, 1998, relating to the consolidated balance sheets of Consumer Portfolio Services, Inc. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of earnings, shareholders' equity and cash flows for the years ended December 31, 1997 and 1996, and for the nine-month period ended December 31, 1995, which report is included in the December 31, 1997 Annual Report on Form 10-K of Consumer Portfolio Services, Inc.

/s/ KPMG PEAT MARWICK LLP

Orange County, California
March 9, 1998

12-MOS	12-MOS
DEC-31-1997	DEC-31-1996
JAN-01-1997	JAN-01-1996
DEC-30-1997	DEC-30-1996
1,745,200	153,958
0	0
73,695,845	24,742,967
2,465,441	723,089
0	0
0	0
4,861,614	1,727,353
1,733,529	1,097,579
225,895,244	101,946,420
72,092,463	14,961,636
40,000,000	20,000,000
0	0
0	0
41,761,410	34,644,314
40,845,382	22,313,219
225,895,244	101,946,420
79,339,589	51,193,803
79,339,589	51,193,803
0	0
47,380,739	27,501,407
0	0
4,088,504	2,755,803
9,184,463	5,780,529
31,958,850	23,692,396
13,426,687	9,595,020
18,532,163	14,097,376
0	0
0	0
0	0
18,532,163	14,097,376
1.29	1.05
1.17	0.93

EXHIBIT 99.1

Persons evaluating the Company and its securities should bear in mind the following considerations:

LIQUIDITY. The Company requires significant operating cash to purchase Contracts. As a result of the Company's expansion since inception and its program of securitizing and selling Contracts, the Company's cash requirements have in the past exceeded cash generated from operations. The Company's primary operating cash requirements include the funding of (a) purchases of Contracts pending their pooling and sale, (b) Spread Accounts in connection with sales or securitizations of Contracts, (c) fees and expenses incurred in connection with its sales and securitizations of Contracts, (d) tax payments and (e) ongoing administrative and other operating expenses. Net cash used in operating activities during the nine-month period ended December 31, 1995, and the years ended December 31, 1996 and 1997, was $18.5 million, $8.4 million and $26.1 million, respectively. The Company has obtained these funds in three ways: (a) loans and warehouse financing arrangements, pursuant to which Contracts are financed on a temporary basis; (b) securitizations or sales of Contracts, pursuant to which Contracts are sold; and (c) external financing. At December 31, 1997 the Company had cash of approximately $1,745,200.

CASH REQUIREMENTS ASSOCIATED WITH SECURITIZATION TRUSTS. Under the financial structures the Company has used to date in its twenty-one securitizations, certain excess servicing cash flows generated by the Contracts are retained in a Spread Account within the securitization trusts to provide liquidity and credit enhancement. While the specific terms and mechanics of the Spread Account vary slightly among transactions, the Company's agreements with Financial Security Assurance, Inc. ("FSA"), the financial guaranty insurer that has provided credit enhancements in connection with the Company's securitizations since June 1994, generally provide that the Company is not entitled to receive any excess servicing cash flows unless certain Spread Account balances have been attained and/or the delinquency or losses related to the Contracts in the pool are below certain predetermined levels. In the event delinquencies and losses on the Contracts exceed such levels, the terms of the securitization may require increased Spread Account balances to be accumulated for the particular pool; may restrict the distribution to the Company of excess cash flows associated with other pools in which asset-backed securities are insured by FSA; or, in certain circumstances, may require the transfer of servicing on some or all of the Contracts in FSA-insured pools to another servicer. The imposition by FSA of any of these conditions could materially adversely affect the Company's liquidity and financial condition. In the past, delinquency and loss levels on ten of the FSA-insured pools have attained levels which temporarily resulted in increased Spread Account requirements for those pools. As of December 31, 1997, the Spread Accounts for eight of the Company's 21 securitized pools were at higher than requisite levels due to delinquency, repossession or net loss performance. Such Spread Account balances therefore included approximately $7.0 million more than would have been required at the original requisite levels.

DEPENDENCE ON WAREHOUSE FINANCING. The Company's primary sources of financing for its day-to-day operations are its warehouse lines of credit (the "Warehouse Lines of Credit"), under which the Company borrows against Contracts held for sale, pending their sale in securitization transactions. The Company has two Warehouse Lines of Credit, one of which permits maximum borrowings of $100 million, and the other of which permits maximum borrowings of $150 million. Both Warehouse Lines of Credit expire in November 1998. The Company expects to be able to maintain existing warehouse arrangements (or to obtain replacement or additional financing) as current arrangements expire or become fully utilized; however, there can be no assurance that such financing will be obtainable on favorable terms. To the extent that the Company is unable to maintain its existing Warehouse Lines of Credit or is unable to arrange new warehouse lines of credit, the Company may have to curtail Contract purchasing activities, which could have a material adverse effect on the Company's financial condition, results of operations or liquidity.

DEPENDENCE ON SECURITIZATION PROGRAM. The Company is dependent upon its ability to continue to pool and sell Contracts in order to generate cash proceeds for new purchases. Adverse changes in the market for securitized Contract pools, or a substantial lengthening of the warehousing period, would burden the Company's financing capabilities, could require the Company to curtail its purchase of Contracts, and could have a material adverse effect on the Company. In addition, as a means of reducing the percentage of cash collateral that the Company would otherwise be required to deposit and maintain in Spread Accounts, all of the Company's securitizations since June 1994 have utilized credit enhancement in the form of financial guaranty insurance policies issued by FSA to achieve "AAA/Aaa" ratings for the asset-backed securities that have been sold to investors. The Company believes that financial guaranty insurance policies reduce the costs of securitizations relative to alternative forms of credit enhancements available to the Company. FSA is not required to insure Company-sponsored securitizations and there can be no assurance that it will continue to do so or that future securitizations will be similarly rated. Similarly, there can be no assurance that any securitization transaction will be available on terms acceptable to the Company, or at all. The timing of any securitization transaction is affected by a number of factors beyond the Company's control, any of which could cause substantial delays, including, without limitation, market conditions and the approval by all parties of the terms of the securitization. Any delay in the sale of a pool of Contracts beyond a quarter-end could reduce the gain on sale recognized in such quarter and could result in decreased earnings or possible losses for such quarter being reported by the Company.

RISK OF GENERAL ECONOMIC DOWNTURN. The Company's business is directly related to sales of new and used automobiles, which are affected by employment rates, prevailing interest rates and other domestic economic conditions. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. Because of the Company's focus on Sub-Prime Borrowers, the actual rates of delinquencies, repossessions and losses on such Contracts could be higher under adverse economic conditions than those currently experienced in the automobile finance industry in general. Any sustained period of economic slowdown or recession could adversely affect the Company's ability to sell or securitize pools of Contracts. The timing of any economic changes is uncertain, and sluggish sales of automobiles and weakness in the economy could have an adverse effect on the Company's business and that of the Dealers from which it purchases Contracts.

CREDITWORTHINESS OF BORROWERS. The Company specializes in the purchase, sale and servicing of Contracts to finance automobile purchases by Sub-Prime Borrowers, which entail a higher risk of non-performance, higher delinquencies and higher losses than Contracts with more creditworthy borrowers. While the Company believes that the underwriting criteria and collection methods it employs enable it to control the higher risks inherent in Contracts with Sub-Prime Borrowers, no assurance can be given that such criteria and methods will afford adequate protection against such risks. Since inception, the Company has expanded its operations significantly and has rapidly increased its servicing portfolio. Because there is limited performance data available with respect to that portion of the Company's servicing portfolio purchased most recently, historical delinquency and loss statistics are not necessarily indicative of future performance. The Company has experienced fluctuations in the delinquency and charge-off performance of its Contracts, including an upward trend for each. The Company believes, however, that such fluctuations are normal and that the upward trend is the result of the seasoning of the servicing portfolio. In the event that portfolios of Contracts sold and serviced by the Company experience greater defaults, higher delinquencies or higher losses than anticipated, the Company's earnings could be negatively impacted. In addition, the Company

bears the entire risk of loss on Contracts it holds for sale. A larger number of defaults than anticipated could also result in adverse changes in the structure of the Company's future securitization transactions, such as increased interest rates on the asset-backed securities issued in those transactions.

CONTRACTS MAY BE ONLY PARTIALLY SECURED. Although the Contracts are each secured by a lien on the purchased vehicle, a repossession in the event of default generally does not yield proceeds sufficient to pay all amounts owing under a Contract. The actual cash value of the vehicle may be less than the amount financed at inception of the Contract, and also thereafter, because the amount financed may be as much as 115% of the wholesale book value in the case of used vehicles or 110% of manufacturer's invoice in the case of new vehicles, plus sales tax, licensing fees, and any service contract or credit life or disability policy purchased by the borrower, less the borrower's down payment and/or trade-in allowance (generally not less than 10% of the vehicle sales price). In addition, the proceeds available upon resale are reduced by statutory liens, such as those for repairs, storage, unpaid taxes and unpaid parking fines, and by the costs incurred in the repossession and resale. Unless the Contract is sufficiently seasoned that the borrower has substantial equity in the vehicle, the proceeds of sale are generally insufficient to pay all amounts owing. For that reason, the Company's collection policies aim to avoid repossession to the extent possible.

GEOGRAPHIC CONCENTRATION OF BUSINESS. For the year ended December 31, 1997, the Company purchased 18.1% of its Contracts from Dealers located in California, and its prospects are dependent, in part, upon economic conditions prevailing in this state. Such geographic concentration increases the potential impact of collection disruptions and casualty losses on the financed vehicles which could result from regional economic or catastrophic events. Although the percentage of the servicing portfolio purchased from Dealers in California has been declining as the Company's volume of Contract purchases has increased, at December 31, 1997, 23.9% of the servicing portfolio represents obligations of automobile purchasers in California. Accordingly, an economic slowdown in California could result in a decline in the availability of Contracts for purchase by the Company as well as an increase in delinquencies and repossessions. Such conditions could have a material adverse effect on the Company's financial condition, results of operations or liquidity.

POSSIBLE INCREASE IN COST OF FUNDS. The Company's profitability is determined by, among other things, the difference between the rate of interest charged on the Contracts purchased by the Company and the pass-through rate of interest (the "Pass-Through Rate") payable to investors on portfolios of Contracts sold by the Company. The Contracts purchased by the Company generally bear the maximum finance charges permitted by applicable state law. The fixed Pass-Through Rates payable to investors on portfolios of Contracts sold by the Company are based on interest rates prevailing in the market at the time of sale. Consequently, increases in market interest rates tend to reduce the "spread" or margin between Contract finance charges and the Pass-Through Rates required by investors and, thus, the potential operating profits to the Company from the purchase, sale and servicing of Contracts. Operating profits expected to be earned by the Company on portfolios of Contracts previously sold are insulated from the adverse effects of increasing interest rates because the Pass-Through Rates on such portfolios were fixed at the time the Contracts were sold. Any future increases in interest rates would likely increase the Pass-Through Rates for future portfolios sold and could have a material adverse effect on the Company's results of operations.

PREPAYMENT AND DEFAULT RISK. Gains from the sale of Contracts in the Company's 21 securitization transactions have constituted a significant portion of the net earnings of the Company and are likely to continue to represent a significant portion of the Company's net earnings. A portion of the gains are based in part on management's estimates of future prepayment and default rates and other considerations in light of then-current conditions. If actual prepayments with respect to Contracts occur more quickly than was projected at the time such Contracts were sold, as can occur when interest rates decline, or if default rates are greater than projected at the time such Contracts were sold, a charge to earnings may be required and would be taken in the period of adjustment. If actual prepayments occur more slowly or if default rates are lower than estimated with respect to Contracts sold, total revenue would exceed previously estimated amounts. Actual default and prepayment performance, both in the aggregate and as to each securitization trust, has been materially consistent with management's estimates. No material charges to earnings have occurred as a result of default and prepayment performance. However, there can be no assurance that charges to earnings will not occur in the future as a result of actual default and prepayment performance exceeding management's estimates.

COMPETITION. The automobile financing business is highly competitive. The Company competes with a number of national, local and regional finance companies. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles and captive finance companies affiliated with major automobile manufacturers such as General Motors Acceptance Corporation, Ford Motor Credit Corporation, Chrysler Credit Corporation and Nissan Motors Acceptance Corporation. Many of the Company's competitors and potential competitors possess substantially greater financial, marketing, technical, personnel and other resources than the Company. Moreover, the Company's future profitability will be directly related to the availability and cost of its capital relative to that of its competitors. The Company's competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade rated debt instruments, and to other funding sources which may be unavailable to the Company. Many of these companies also have long-standing relationships with Dealers and may provide other financing to Dealers, including floor plan financing for the Dealers' purchases of automobiles from manufacturers, which is not offered by the Company. There can be no assurance that the Company will be able to continue to compete successfully.

MANAGEMENT OF RAPID GROWTH. The Company has experienced rapid growth and expansion of its business. The Company's ability to support and manage continued growth is dependent upon, among other things, its ability to hire, train, supervise and manage the increased personnel. Furthermore, the Company's ability to manage portfolio delinquency and loss rates is dependent upon the maintenance of efficient collection procedures, adequate collection staffing, internal controls, and automated systems. There can be no assurance that the Company's personnel, procedures, staff, internal controls, or systems will be adequate to support such growth.

RESTRICTIONS IMPOSED BY THE TERMS OF THE COMPANY'S INDEBTEDNESS. The Warehouse Lines of Credit and the indentures governing the notes ("1997 Notes") that the Company issued in April 1997("1997 Indenture") and the notes ("1995 Notes") that the Company issued in December 1995 ("1995 Indenture") contain covenants limiting, among other things, the nature and amount of additional indebtedness that the Company may incur. These covenants could limit the Company's ability to withstand competitive pressures or adverse economic conditions, make acquisitions or take advantage of business opportunities that may arise. Failure to comply with these covenants could, as provided in the Warehouse Lines of Credit, permit the lenders under the Warehouse Lines of Credit to accelerate payment of the amounts borrowed under the facility or permit the indenture trustee thereunder to accelerate payment of the 1995 Notes or the 1997 Notes.

POTENTIAL FOR ADDITIONAL SENIOR INDEBTEDNESS. Under the 1997 Indenture and the 1995 Indenture, the Company will be permitted to incur substantial additional senior indebtedness. The potential interest expense associated with any permitted additional Senior Indebtedness could substantially increase the Company's fixed charge obligations and could potentially limit the Company's ability to meet its obligations.

ABILITY TO REPAY NOTES UPON ACCELERATED REDEMPTION. Upon the occurrence of a Special Redemption Event (certain events or transactions that result in a change in control of the Company), each holder of the 1997 Notes or the 1995 Notes will have the right to require that the Company purchase the holder's notes at 100% of the principal amount plus accrued interest. If a Special Redemption Event should occur, there can be no assurance that the Company will have available funds sufficient to pay that purchase price for all of the notes that might be delivered by holders seeking to exercise such rights. In the event the Company is required to purchase outstanding notes pursuant to a Special Redemption Event, the Company expects that it would seek third party financing to the extent it does not have available funds to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing, and, if obtained, the terms of any such financing may be less favorable than the terms of the notes.

LITIGATION. Because of the consumer-oriented nature of the industry in which the Company operates and the application of certain laws and regulations, industry participants are regularly named as defendants in class-action litigation involving alleged violations of Federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against the Company or within the industry in connection with any such litigation could have a material adverse effect on the Company's financial condition and results of operations. Two legal actions in particular are discussed in the body of this report.

DEPENDENCE ON DEALERS. The Company is dependent upon establishing and maintaining relationships with unaffiliated Dealers to supply it with Contracts. As of December 31, 1997 the Company was a party to Dealer Agreements with 3,193 Dealers. During the year ended December 31, 1997, no Dealer accounted for more than 1.0% of the Contracts purchased by the Company. The Dealer Agreements do not require Dealers to submit a minimum number of Contracts for purchase by the Company. The failure of Dealers to submit Contracts that meet the Company's underwriting criteria would have a material adverse effect on the Company's financial condition and results of operations.

CONTRACTUAL RECOURSE BY PURCHASERS OF CONTRACTS. Purchasers of Contracts have recourse against the Company in the event of the Company's breach of its representations and warranties to the purchaser (relating to the enforceability and validity of the Contracts) or certain defaults with respect to the Contracts. In such cases, recourse is limited to requiring the Company to repurchase the Contracts in question. In the event the Company is required to repurchase a Contract, the Company will generally have similar recourse against the Dealer from which it purchased the Contract; however, there can be no assurance that any Dealer will have the financial resources to satisfy its repurchase obligations to the Company. Subject to any recourse against Dealers, the Company will bear any loss on repossession and resale of vehicles financed under Contracts repurchased by it from investors, which could have a material adverse effect on the financial condition and results of operations of the Company.

GOVERNMENT REGULATION. The Company's business is subject to numerous Federal and state consumer protection laws and regulations, which, among other things: (i) require the Company to obtain and maintain certain licenses and qualifications; (ii) limit the interest rates, fees and other charges the Company is allowed to charge; (iii) limit or prescribe certain other terms of its Contracts; (iv) require the Company to provide specified disclosures; and (v) regulate certain servicing and collection practices and define its rights to repossess and sell collateral. An adverse change in existing laws or regulations, or in the interpretation thereof, the promulgation of any additional laws or regulations, the failure to comply with such laws and regulations or the expansion of the Company's business into jurisdictions with more stringent requirements could have a material adverse effect on the Company's financial condition and results of operations.

CONTROL OF THE COMPANY. As of December 31, 1997, Charles E. Bradley, Jr., his father, Charles Bradley, Sr., and other members of his family beneficially owned 5,061,178 shares of outstanding Common Stock. Such shares represent approximately 33% of the outstanding Common Stock of the Company. As a result of their ownership of Common Stock, they and the other directors of the Company collectively are able, as a practical matter, to elect a majority of the Company's Board of Directors, to cause an increase in the authorized capital or the dissolution, merger or sale of the assets of the Company, and generally to direct the affairs of the Company.