

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

Commission file number: 1-14116

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

California
(State or other jurisdiction of incorporation or organization)

33-0459135
(IRS Employer Identification No.)

3800 Howard Hughes Parkway, Suite 1400,
Las Vegas, Nevada
(Address of principal executive offices)

89169
(Zip Code)

Registrant's telephone number, including Area Code: (949) 753-6800

Former name, former address and former fiscal year, if changed since last report: N/A

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	CPSS	The Nasdaq Stock Market LLC (Global Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer []

Accelerated filer [X]

Non-accelerated filer []

Smaller reporting company [X]

Emerging growth company []

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [] No [X]

As of November 6, 2019 the registrant had 22,530,918 common shares outstanding.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
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For the Quarterly Period Ended September 30, 2019

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Item 1. *Financial Statements*

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 8,799	\$ 12,787
Restricted cash and equivalents	128,556	117,323
Finance receivables	1,022,391	1,522,085
Less: Allowance for finance credit losses	(12,740)	(67,376)
Finance receivables, net	1,009,651	1,454,709
Finance receivables measured at fair value	1,313,205	821,066
Furniture and equipment, net	1,702	1,837
Deferred tax assets, net	16,125	19,188
Accrued interest receivable	12,729	31,969
Other assets	46,695	26,801
	<u>\$ 2,537,462</u>	<u>\$ 2,485,680</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 55,431	\$ 31,692
Warehouse lines of credit	157,761	136,847
Residual interest financing	39,385	39,106
Securitization trust debt	2,066,458	2,063,627
Subordinated renewable notes	15,529	17,290
	<u>2,334,564</u>	<u>2,288,562</u>
COMMITMENTS AND CONTINGENCIES		
Shareholders' Equity		
Preferred stock, \$1 par value; authorized 4,998,130 shares; none issued	-	-
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	-	-
Series B preferred stock, \$1 par value; authorized 1,870 shares; none issued	-	-
Common stock, no par value; authorized 75,000,000 shares; 22,525,718 and 22,421,688 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	70,676	70,273
Retained earnings	139,776	134,399
Accumulated other comprehensive loss	(7,554)	(7,554)
	<u>202,898</u>	<u>197,118</u>
	<u>\$ 2,537,462</u>	<u>\$ 2,485,680</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Interest income	\$ 83,528	\$ 93,617	\$ 253,822	\$ 291,535
Other income	1,994	2,014	6,255	7,022
	<u>85,522</u>	<u>95,631</u>	<u>260,077</u>	<u>298,557</u>
Expenses:				
Employee costs	20,251	18,806	59,030	59,288
General and administrative	8,185	7,784	25,109	22,730
Interest	27,940	25,808	82,933	75,057
Provision for credit losses	19,874	31,959	64,319	107,997
Sales	4,407	4,377	13,877	13,176
Occupancy	1,760	1,935	5,745	5,644
Depreciation and amortization	276	256	789	746
	<u>82,693</u>	<u>90,925</u>	<u>251,802</u>	<u>284,638</u>
Income before income tax expense	2,829	4,706	8,275	13,919
Income tax expense	991	1,508	2,898	4,409
Net income	<u>\$ 1,838</u>	<u>\$ 3,198</u>	<u>\$ 5,377</u>	<u>\$ 9,510</u>
Earnings per share:				
Basic	\$ 0.08	\$ 0.14	\$ 0.24	\$ 0.44
Diluted	\$ 0.08	\$ 0.13	\$ 0.22	\$ 0.38
Number of shares used in computing earnings per share:				
Basic	22,526	22,636	22,378	21,800
Diluted	24,066	24,735	24,102	25,178

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Net income	\$ 1,838	\$ 3,198	\$ 5,377
Other comprehensive income/(loss); change in funded status of pension plan	-	-	-	-
Comprehensive income	\$ 1,838	\$ 3,198	\$ 5,377	\$ 9,510

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2019	2018
<i>Cash flows from operating activities:</i>		
Net income	\$ 5,377	\$ 9,510
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of deferred acquisition fees and origination costs	1,374	2,119
Net interest income accretion on fair value receivables	64,131	13,010
Depreciation and amortization	789	746
Amortization of deferred financing costs	6,226	6,430
Mark to fair value of finance receivables measured at fair value	(604)	-
Provision for credit losses	64,319	107,997
Stock-based compensation expense	1,496	2,816
Changes in assets and liabilities:		
Accrued interest receivable	19,240	10,521
Deferred tax assets, net	3,063	3,760
Other assets	2,708	(2,892)
Accounts payable and accrued expenses	1,870	4,609
Net cash provided by operating activities	<u>169,989</u>	<u>158,626</u>
<i>Cash flows from investing activities:</i>		
Payments received on finance receivables held for investment	379,365	470,312
Purchases of finance receivables measured at fair value	(756,555)	(659,641)
Payments received on finance receivables at fair value	200,889	31,824
Change in repossessions held in inventory	(733)	624
Purchase of furniture and equipment	(654)	(795)
Net cash used in investing activities	<u>(177,688)</u>	<u>(157,676)</u>
<i>Cash flows from financing activities:</i>		
Proceeds from issuance of securitization trust debt	726,188	622,098
Proceeds from issuance of subordinated renewable notes	1,452	2,226
Payments on subordinated renewable notes	(3,213)	(1,844)
Net advances of warehouse lines of credit	20,914	15,005
Net advances of residual interest financing debt	-	40,000
Repayment of securitization trust debt	(723,205)	(671,700)
Payment of financing costs	(6,099)	(6,467)
Purchase of common stock	(1,440)	(4,437)
Exercise of options and warrants	347	483
Net cash provided by (used in) financing activities	<u>14,944</u>	<u>(4,636)</u>
Increase in cash and cash equivalents	7,245	(3,686)
Cash and restricted cash at beginning of period	130,110	124,696
Cash and restricted cash at end of period	<u>\$ 137,355</u>	<u>\$ 121,010</u>
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid (received) during the period for:		
Interest	\$ 76,269	\$ 68,042
Income taxes	\$ (3,231)	\$ 7,256
Non-cash financing activities:		
Right-of-use asset, net	\$ (21,869)	\$ -
Lease liability	\$ 23,327	\$ -
Deferred office rent	\$ (1,458)	\$ -

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Common Stock (Shares Outstanding)				
Balance, beginning of period	22,526	20,963	22,422	21,489
Common stock issued upon exercise of options and warrants	–	2,003	483	2,316
Repurchase of common stock	–	(310)	(379)	(1,149)
Balance, end of period	<u>22,526</u>	<u>22,656</u>	<u>22,526</u>	<u>22,656</u>
Common Stock				
Balance, beginning of period	\$ 70,299	\$ 70,955	\$ 70,273	\$ 71,582
Common stock issued upon exercise of options and warrants	–	3	347	483
Repurchase of common stock	–	(1,177)	(1,440)	(4,437)
Stock-based compensation	377	663	1,496	2,816
Balance, end of period	<u>\$ 70,676</u>	<u>\$ 70,444</u>	<u>\$ 70,676</u>	<u>\$ 70,444</u>
Retained Earnings				
Balance, beginning of period	\$ 137,938	\$ 125,849	\$ 134,399	\$ 119,537
Net income	1,838	3,198	5,377	9,510
Balance, end of period	<u>\$ 139,776</u>	<u>\$ 129,047</u>	<u>\$ 139,776</u>	<u>\$ 129,047</u>
Accumulated Other Comprehensive Loss				
Balance, beginning of period	\$ (7,554)	\$ (7,182)	\$ (7,554)	\$ (7,182)
Pension benefit obligation	–	–	–	–
Balance, end of period	<u>\$ (7,554)</u>	<u>\$ (7,182)</u>	<u>\$ (7,554)</u>	<u>\$ (7,182)</u>
Total Shareholders' Equity	<u>\$ 202,898</u>	<u>\$ 192,309</u>	<u>\$ 202,898</u>	<u>\$ 192,309</u>

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Description of Business

We were formed in California on March 8, 1991. We specialize in purchasing and servicing retail automobile installment sale contracts (“automobile contracts” or “finance receivables”) originated by licensed motor vehicle dealers located throughout the United States (“dealers”) in the sale of new and used automobiles, light trucks and passenger vans. Through our purchases, we provide indirect financing to dealer customers for borrowers with limited credit histories or past credit problems (“sub-prime customers”). We serve as an alternative source of financing for dealers, allowing sales to customers who otherwise might not be able to obtain financing. In addition to purchasing installment purchase contracts directly from dealers, we have also (i) lent money directly to consumers for loans secured by vehicles, (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders, and (iii) acquired installment purchase contracts in four merger and acquisition transactions. In this report, we refer to all of such contracts and loans as “automobile contracts.”

Basis of Presentation

Our Unaudited Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States of America, with the instructions to Form 10-Q and with Article 10 of Regulation S-X of the Securities and Exchange Commission, and include all adjustments that are, in management’s opinion, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. Results for the nine month period ended September 30, 2019 are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted from these Unaudited Condensed Consolidated Financial Statements. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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.

Finance Receivables Measured at Fair Value

Effective January 1, 2018, we adopted the fair value method of accounting for finance receivables acquired on or after that date. For each finance receivable acquired after 2017, we consider the price paid on the purchase date as the fair value for such receivable. We estimate the cash to be received in the future with respect to such receivables, based on our experience with similar receivables acquired in the past. We then compute the internal rate of return that results in the present value of those estimated cash receipts being equal to the purchase date fair value. Thereafter, we recognize interest income on such receivables on a level yield basis using that internal rate of return as the applicable interest rate. Cash received with respect to such receivables is applied first against such interest income, and then to reduce the carrying value of the receivables.

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We re-evaluate the fair value of such receivables at the close of each measurement period. If the reevaluation were to yield a value materially different from the carrying value, an adjustment would be required. In the three-month period ended September 30, 2019, the net present value of the forecasted cash flows for the receivables acquired in the first quarter of 2018 exceeded the carrying value of that pool by \$604,000, which we have recorded as a mark to market value of that pool of receivables.

Anticipated credit losses are included in our estimation of cash to be received with respect to receivables. Because such credit losses are included in our computation of the appropriate level yield, we do not thereafter make periodic provision for credit losses, as our best estimate of the lifetime aggregate of credit losses is included in that initial computation. Also because we include anticipated credit losses in our computation of the level yield, the computed level yield is materially lower than the average contractual rate applicable to the receivables. Because our initial carrying value is fixed as the price we pay for the receivable, rather than as the contractual principal balance, we do not record acquisition fees as an amortizing asset related to the receivables, nor do we capitalize costs of acquiring the receivables. Rather we recognize the costs of acquisition as expenses in the period incurred.

Other Income

The following table presents the primary components of Other Income for the three-month and nine-month periods ending September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Direct mail revenues	\$ 1,121	\$ 1,328	\$ 3,508	\$ 4,833
Convenience fee revenue	600	360	1,870	1,200
Recoveries on previously charged-off contracts	30	44	132	198
Sales tax refunds	200	220	631	658
Other	43	62	114	133
Other income for the period	<u>\$ 1,994</u>	<u>\$ 2,014</u>	<u>\$ 6,255</u>	<u>\$ 7,022</u>

On January 1, 2018, the Company adopted Accounting Standards Codification (“ASC”) Topic 606, “Revenue from Contracts with Customers”. The majority of the Company’s revenues come from interest income which is outside the scope of ASC 606. The Company’s services that fall within the scope of ASC 606 are presented within Other Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include revenue associated with direct mail and other related products and services that we offer to our dealers.

Leases

Effective January 1, 2019, the Company adopted guidance Accounting Standards Update (“ASU 2016-02”) Topic 842, “Leases” using the modified retrospective transition method. Prior comparable periods are presented accordance with previous guidance under Accounting Standards Codification (“ASC”) Topic 840, “Leases.” The Company also elected the package of practical expedients, ASU 2018-11. This election allowed the Company to not reassess if expired or existing contracts contain leases, to not reassess lease classifications for any expired or existing leases and to not reassess existing leases initial direct costs.

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We determine if a contract contains a lease at contract inception. Right-of-use assets and liabilities are recognized based on the present value of lease payments over the lease term. In determining the present value of lease payments, we use the Company's incremental borrowing rate. Right-of-use assets are included in other assets and lease liabilities are included in accounts payable and accrued expenses in our Unaudited Condensed Consolidated Balance Sheet at September 30, 2019.

The Company has operating leases for corporate offices, equipment, software and hardware. The Company has entered into operating leases for the majority of its real estate locations, primarily office space. These leases are generally for periods of three to seven years with various renewal options. The depreciable life of leased assets is limited by the expected lease term. Leases with an initial term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term.

The following table presents the supplemental balance sheet information related to leases:

	Nine Months Ended, September 30, 2019 (In thousands)	
Operating Leases		
Operating lease right-of-use assets	\$	23,555
Less: Accumulated amortization right-of-use assets		(4,986)
Operating lease right-of-use assets, net	\$	18,569
Operating lease liabilities	\$	(20,005)
Finance Leases		
Property and equipment, at cost	\$	545
Less: Accumulated depreciation		(84)
Property and equipment, net	\$	461
Finance lease liabilities	\$	(447)
Weighted Average Discount Rate		
Operating lease		5.0%
Finance lease		6.7%

Maturities of lease liabilities were as follows:

(In thousands)	Year Ending December 31,	
	Operating Lease	Finance Lease
2019 (excluding the nine months ended September 30, 2019)	\$ 1,908	\$ 46
2020	7,500	183
2021	7,391	183
2022	6,125	60
2023	1,389	18
Thereafter	689	6
Total undiscounted lease payments	25,002	496
Less amounts representing interest	(4,997)	(49)
Lease Liability	\$ 20,005	\$ 447

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the leases expense included in Occupancy, General and administrative on our Unaudited Condensed Consolidated Statement of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Operating lease cost	\$ 1,884	\$ 1,785	\$ 5,659	\$ 5,290
Finance lease cost	46	-	90	-
Total lease cost	<u>\$ 1,930</u>	<u>\$ 1,785</u>	<u>\$ 5,749</u>	<u>\$ 5,290</u>

The following table presents the supplemental cash flow information related to leases:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(In thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,901	\$ 5,678
Operating cash flows from finance leases	37	73
Financing cash flows from finance leases	9	17

Stock-based Compensation

We recognize compensation costs in the financial statements for all share-based payments based on the grant date fair value estimated in accordance with the provisions of ASC 718 "Stock Compensation".

For the three and nine months ended September 30, 2019, we recorded stock-based compensation costs in the amount of \$377,000 and \$1.5 million, respectively. These stock-based compensation costs were \$663,000 and \$2.8 million for the three and nine months ended September 30, 2018. As of September 30, 2019, unrecognized stock-based compensation costs to be recognized over future periods equaled \$2.1 million. This amount will be recognized as expense over a weighted-average period of 2.3 years.

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following represents stock option activity for the nine months ended September 30, 2019:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at the beginning of period	14,421	\$ 4.57	N/A
Granted	1,490	3.53	N/A
Exercised	(483)	0.86	N/A
Forfeited	(75)	4.00	N/A
Options outstanding at the end of period	<u>15,353</u>	<u>\$ 4.58</u>	<u>3.59 years</u>
Options exercisable at the end of period	<u>11,722</u>	<u>\$ 4.87</u>	<u>2.94 years</u>

At September 30, 2019, the aggregate intrinsic value of options outstanding and exercisable was \$5.8 million and \$5.5 million, respectively. There were 482,500 options exercised for the nine months ended September 30, 2019 compared to 315,500 for the comparable period in 2018. The total intrinsic value of options exercised was \$1.4 million and \$869,000 for the nine-month periods ended September 30, 2019 and 2018. There were 1,458,000 shares available for future stock option grants under existing plans as of September 30, 2019.

Purchases of Company Stock

The table below describes the purchase of our common stock for the nine-month ended September 30, 2019 and 2018:

	Nine Months Ended			
	September 30, 2019		September 30, 2018	
	Shares	Avg. Price	Shares	Avg. Price
Open market purchases	335,546	\$ 3.95	714,898	\$ 3.81
Shares redeemed upon net exercise of stock options	18,424	3.76	33,599	4.37
Other purchases	24,500	4.20	90,000	4.13
Total stock purchases	<u>378,470</u>	<u>\$ 3.97</u>	<u>838,497</u>	<u>\$ 3.87</u>

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on net income or shareholders' equity.

Financial Covenants

Certain of our securitization transactions, our warehouse credit facilities and our residual interest financing contain various financial covenants requiring minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. As of September 30, 2019, we were in compliance with all such covenants. In addition, certain of our debt agreements other than our term securitizations contain cross-default provisions. Such cross-default provisions would allow the respective creditors to declare a default if an event of default occurred with respect to other indebtedness of ours, but only if such other event of default were to be accompanied by acceleration of such other indebtedness.

Provision for Contingent Liabilities

We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. Our legal counsel has advised us on such matters where, based on information available at the time of this report, there is an indication that it is both probable that a liability has been incurred and the amount of the loss can be reasonably determined.

We record at each measurement date, most recently as of September 30, 2019, our best estimate of probable incurred losses for legal contingencies. The amount of losses that may ultimately be incurred cannot be estimated with certainty.

Adoption of New Accounting Standards

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The revised accounting guidance changes the criteria under which credit losses are measured. The amendment introduces a new credit reserving model known as the Current Expected Credit Loss (CECL) model, which replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to establish credit loss estimates. ASU 2016-13 was initially scheduled to become effective for interim and annual reporting periods beginning after December 15, 2019, however on October 16, 2019, the FASB changed the effective date for smaller reporting companies to interim and annual reporting periods beginning after December 15, 2022. Early adoption would still be permitted for interim and annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the provisions of ASU 2016-13, however, it is expected that the new CECL model will alter the assumptions used in calculating the Company's credit losses, given the change to estimated losses for the estimated life of the financial asset, and will likely result in a material effect on the Company's financial position and results of operations.

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) Finance Receivables

Our portfolio of finance receivables consists of small-balance homogeneous contracts comprising a single segment and class that is collectively evaluated for impairment on a portfolio basis according to delinquency status. Our contract purchase guidelines are designed to produce a homogenous portfolio. For key terms such as interest rate, length of contract, monthly payment and amount financed, there is relatively little variation from the average for the portfolio. We report delinquency on a contractual basis. Once a contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the obligor under the contract makes sufficient payments to be less than 90 days delinquent. Any payments received on a contract that is greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

In January 2018 the Company adopted the fair value method of accounting for finance receivables acquired after 2017. Finance receivables measured at fair value are recorded separately on the Company's Balance Sheet and are excluded from all tables in this footnote.

The following table presents the components of Finance Receivables, net of unearned interest:

	September 30, 2019	December 31, 2018
(In thousands)		
Finance receivables		
Automobile finance receivables, net of unearned interest	\$ 1,020,044	\$ 1,518,395
Unearned acquisition fees and originations costs	2,347	3,690
Finance receivables	<u>\$ 1,022,391</u>	<u>\$ 1,522,085</u>

We consider an automobile 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, as extended where applicable. Automobile contracts less than 31 days delinquent are not included. In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. The only modification of terms is to advance the obligor's next due date by one month and extend the maturity date of the receivable by one month. In certain limited cases, a two-month extension may be granted. There are no other concessions such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, we consider such extensions to be insignificant delays in payments rather than troubled debt restructurings. The following table summarizes the delinquency status of finance receivables as of September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
(In thousands)		
Delinquency Status		
Current	\$ 804,537	\$ 1,262,730
31 - 60 days	124,214	157,688
61 - 90 days	65,046	66,134
91 + days	26,247	31,843
	<u>\$ 1,020,044</u>	<u>\$ 1,518,395</u>

CONSUMER PORTFOLIO SERVICES, INC.
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Finance receivables totaling \$26.2 million and \$31.8 million at September 30, 2019 and December 31, 2018, respectively, including all receivables greater than 90 days delinquent, have been placed on non-accrual status as a result of their delinquency status.

We use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable incurred credit losses that can be reasonably estimated in our portfolio of automobile contracts. The estimate for probable incurred credit losses is reduced by our estimate for future recoveries on previously incurred losses. Provision for credit losses is charged to our consolidated statement of operations. Net losses incurred on finance receivables are charged to the allowance.

The following table presents a summary of the activity for the allowance for finance credit losses for the three-months and nine-month periods ended September 30, 2019 and 2018:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Balance at beginning of period	\$ 32,664	\$ 94,376	\$ 67,376	\$ 109,187
Provision for credit losses on finance receivables	19,874	31,959	64,319	107,997
Charge-offs	(46,118)	(54,033)	(149,038)	(163,628)
Recoveries	6,320	10,170	30,083	28,916
Balance at end of period	<u>\$ 12,740</u>	<u>\$ 82,472</u>	<u>\$ 12,740</u>	<u>\$ 82,472</u>

Excluded from finance receivables are contracts that were previously classified as finance receivables but were reclassified as other assets because we have repossessed the vehicle securing the Contract. The following table presents a summary of such repossessed inventory together with the allowance for losses in repossessed inventory that is not included in the allowance for finance credit losses:

	September 30,	December 31,
	2019	2018
	(In thousands)	
Gross balance of repossessions in inventory	\$ 37,481	\$ 33,462
Allowance for losses on repossessed inventory	(27,851)	(24,564)
Net repossessed inventory included in other assets	<u>\$ 9,630</u>	<u>\$ 8,898</u>

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(3) Securitization Trust Debt

We have completed many securitization transactions that are structured as secured borrowings for financial accounting purposes. The debt issued in these transactions is shown on our Unaudited Condensed Consolidated Balance Sheets as “Securitization trust debt,” and the components of such debt are summarized in the following table:

Series	Final Scheduled Payment Date (1)	Receivables Pledged at September 30, 2019 (2)	Initial Principal	Outstanding Principal at September 30, 2019	Outstanding Principal at December 31, 2018	Weighted Average Contractual Interest Rate at September 30, 2019
(Dollars in thousands)						
CPS 2014-A	June 2021	–	180,000	–	15,328	–
CPS 2014-B	September 2021	–	202,500	–	24,051	–
CPS 2014-C	December 2021	24,989	273,000	23,997	40,896	5.04%
CPS 2014-D	March 2022	28,979	267,500	28,550	46,489	5.33%
CPS 2015-A	June 2022	34,107	245,000	32,069	52,448	5.09%
CPS 2015-B	September 2022	41,879	250,000	42,412	64,591	4.97%
CPS 2015-C	December 2022	61,129	300,000	61,648	90,639	5.59%
CPS 2016-A	March 2023	80,790	329,460	81,833	119,444	5.82%
CPS 2016-B	June 2023	96,470	332,690	94,181	135,688	6.13%
CPS 2016-C	September 2023	96,780	318,500	94,589	136,114	6.06%
CPS 2016-D	April 2024	75,637	206,325	74,176	104,645	4.51%
CPS 2017-A	April 2024	83,017	206,320	80,887	113,527	4.61%
CPS 2017-B	December 2023	100,865	225,170	87,633	127,726	3.96%
CPS 2017-C	September 2024	102,834	224,825	91,654	131,845	3.88%
CPS 2017-D	June 2024	104,368	196,300	95,003	132,919	3.55%
CPS 2018-A	March 2025	112,179	190,000	103,008	142,643	3.50%
CPS 2018-B	December 2024	131,373	201,823	124,822	167,809	3.87%
CPS 2018-C	September 2025	157,848	230,275	148,605	204,418	3.94%
CPS 2018-D	June 2025	183,774	233,730	169,869	224,189	3.95%
CPS 2019-A	March 2026	222,685	254,400	206,977	–	3.87%
CPS 2019-B	June 2026	209,982	228,275	202,163	–	3.52%
CPS 2019-C	December 2026	237,068	243,513	234,315	–	2.98%
		<u>\$ 2,186,753</u>	<u>\$ 5,339,606</u>	<u>\$ 2,078,391</u>	<u>\$ 2,075,409</u>	

- (1) The Final Scheduled Payment Date represents final legal maturity of the securitization trust debt. Securitization trust debt is expected to become due and to be paid prior to those dates, based on amortization of the finance receivables pledged to the trusts. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are \$214.6 million in 2019, \$743.3 million in 2020, \$523.0 million in 2021, \$312.6 million in 2022, \$216.5 million in 2023, \$43.6 million in 2024, \$13.0 million in 2025.
- (2) Includes repossessed assets that are included in Other assets on our Unaudited Condensed Consolidated Balance Sheet.

CONSUMER PORTFOLIO SERVICES, INC.
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Debt issuance costs of \$11.9 million and \$11.8 million as of September 30, 2019 and December 31, 2018, respectively, have been excluded from the table above. These debt issuance costs are presented as a direct deduction to the carrying amount of the securitization trust debt on our Unaudited Condensed Consolidated Balance Sheets.

All of the securitization trust debt was sold in private placement transactions to qualified institutional buyers. The debt was issued through our wholly-owned bankruptcy remote subsidiaries and is secured by the assets of such subsidiaries, but not by our other assets.

The terms of the securitization agreements related to the issuance of the securitization trust debt and the warehouse credit facilities require that we meet certain delinquency and credit loss criteria with respect to the pool of receivables, and certain of the agreements require that we maintain minimum levels of liquidity and not exceed maximum leverage levels. As of September 30, 2019, we were in compliance with all such covenants.

We are responsible for the administration and collection of the automobile contracts. The securitization agreements also require certain funds be held in restricted cash accounts to provide additional collateral for the borrowings, to be applied to make payments on the securitization trust debt or as pre-funding proceeds from a term securitization prior to the purchase of additional collateral. As of September 30, 2019, restricted cash under the various agreements totaled approximately \$128.6 million. Interest expense on the securitization trust debt consists of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, amortization of deferred financing costs and discounts on notes sold. Deferred financing costs and discounts on notes sold related to the securitization trust debt are amortized using a level yield method. Accordingly, the effective cost of the securitization trust debt is greater than the contractual rate of interest disclosed above.

Our wholly-owned bankruptcy remote subsidiaries were formed to facilitate the above asset-backed financing transactions. Similar bankruptcy remote subsidiaries issue the debt outstanding under our credit facilities. Bankruptcy remote refers to a legal structure in which it is expected that the applicable entity would not be included in any bankruptcy filing by its parent or affiliates. All of the assets of these subsidiaries have been pledged as collateral for the related debt. All such transactions, treated as secured financings for accounting and tax purposes, are treated as sales for all other purposes, including legal and bankruptcy purposes. None of the assets of these subsidiaries are available to pay other creditors.

On October 16, 2019 we completed our fourth securitization transaction of 2019. In the transaction, qualified institutional buyers purchased \$274.3 million of asset-backed notes secured by \$275 million in automobile receivables purchased by us. The sold notes, issued by CPS Auto Receivables Trust 2019-D, consist of six classes. Ratings of the notes were provided by Standard & Poor's and Kroll Bond Rating Agency, and were based on the structure of the transaction, the historical performance of similar receivables and CPS's experience as a servicer. The weighted average yield on the notes is approximately 2.95%.

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(4) Debt

The terms and amounts of our other debt outstanding at September 30, 2019 and December 31, 2018 are summarized below:

Description	Interest Rate	Maturity	Amount Outstanding at	
			September 30, 2019	December 31, 2018
(In thousands)				
Warehouse lines of credit	5.50% over one month Libor (Minimum 6.50%)	February 2021	\$ 35,264	\$ 38,198
	3.00% over one month Libor (Minimum 3.75%)	September 2020	96,154	99,885
	6.75% over a commercial paper rate (Minimum 7.75%)	November 2019	27,578	–
Residual interest financing	8.60%	January 2026	40,000	40,000
Subordinated renewable notes	Weighted average rate of 9.22% and 8.53% at September 30, 2019 and December 31, 2018, respectively	Weighted average maturity of December 2021 and January 2021 at September 30, 2019 and December 31, 2018, respectively	15,529	17,290
			<u>\$ 214,525</u>	<u>\$ 195,373</u>

Unamortized debt issuance costs of \$615,000 and \$894,000 as of September 30, 2019 and December 31, 2018, respectively, have been excluded from the amount reported above for residual interest financing. Similarly, unamortized debt issuance costs of \$1.2 million and \$1.2 million as of September 30, 2019 and December 31, 2018, respectively, have been excluded from the Warehouse lines of credit amounts in the table above. These debt issuance costs are presented as a direct deduction to the carrying amount of the debt on our Unaudited Condensed Consolidated Balance Sheets.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) Interest Income and Interest Expense

The following table presents the components of interest income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest on finance receivables	\$ 49,912	\$ 79,573	\$ 167,862	\$ 264,545
Interest on finance receivables at fair value	32,903	13,482	83,696	25,822
Other interest income	713	562	2,264	1,168
Interest income	<u>\$ 83,528</u>	<u>\$ 93,617</u>	<u>\$ 253,822</u>	<u>\$ 291,535</u>

The following table presents the components of interest expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Securitization trust debt	\$ 24,208	\$ 22,678	\$ 72,662	\$ 66,762
Warehouse lines of credit	2,407	1,827	6,387	5,850
Residual interest financing	956	936	2,867	1,387
Subordinated renewable notes	369	367	1,017	1,058
Interest expense	<u>\$ 27,940</u>	<u>\$ 25,808</u>	<u>\$ 82,933</u>	<u>\$ 75,057</u>

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(6) Earnings Per Share

Earnings per share for the three-months and nine-month periods ended September 30, 2019 and 2018 were calculated using the weighted average number of shares outstanding for the related period. The following table reconciles the number of shares used in the computations of basic and diluted earnings per share for the three-months and nine-month periods ended September 30, 2019 and 2018:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(In thousands)		(In thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	22,526	22,636	22,378	21,800
Incremental common shares attributable to exercise of outstanding options and warrants	<u>1,540</u>	<u>2,099</u>	<u>1,724</u>	<u>3,378</u>
Weighted average number of common shares used to compute diluted earnings per share	<u><u>24,066</u></u>	<u><u>24,735</u></u>	<u><u>24,102</u></u>	<u><u>25,178</u></u>

If the anti-dilutive effects of common stock equivalents were considered, shares included in the diluted earnings per share calculation for the three-month and nine-month periods ended September 30, 2019 would have included an additional 10.6 million and 10.6 million shares, respectively, attributable to the exercise of outstanding options and warrants. For the three-month and nine-month periods ended September 30, 2018, an additional 11.0 million and 10.1 million shares, respectively, would be included in the diluted earnings per share calculation.

(7) Income Taxes

We file numerous consolidated and separate income tax returns with the United States and with many states. With few exceptions, we are no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2013.

As of September 30, 2019 and December 31, 2018, we had no unrecognized tax benefits for uncertain tax positions. We do not anticipate that total unrecognized tax benefits will significantly change due to any settlements of audits or expirations of statutes of limitations over the next 12 months.

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The Company and its subsidiaries file a consolidated federal income tax return and combined or stand-alone state franchise tax returns for certain states. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values 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.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgments, significant weight is given to evidence that can be objectively verified. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of \$16.1 million as of September 30, 2019 is more likely than not based on forecasted future net earnings. Our net deferred tax asset of \$16.1 million consists of approximately \$11.5 million of net U.S. federal deferred tax assets and \$4.6 million of net state deferred tax assets.

Income tax expense was \$991,000 and \$2.9 million for the three months and nine months ended September 30, 2019 and represents an effective income tax rate of 35%, compared to income tax expense of \$1.5 million and \$4.4 million for the three and nine months ended September 30, 2018, and represents an effective income tax rate of 32%.

(8) Legal Proceedings

Consumer Litigation. We are routinely involved in various legal proceedings resulting from our consumer finance activities and practices, both continuing and discontinued. Consumers can and do initiate lawsuits against us alleging violations of law applicable to collection of receivables, and such lawsuits sometimes allege that resolution as a class action is appropriate.

For the most part, we have legal and factual defenses to consumer claims, which we routinely contest or settle (for immaterial amounts) depending on the particular circumstances of each case.

Wage and Hour Claim. On September 24, 2018, a former employee filed a lawsuit against us in the Superior Court of Orange County, California, alleging that we incorrectly classified our sales representatives as outside salespersons exempt from overtime wages, mandatory break periods and certain other employee protective provisions of California and federal law. The complaint seeks injunctive relief, an award of unpaid wages, liquidated damages, and attorney fees and interest. The plaintiff purports to act on behalf of a class of similarly situated employees and ex-employees. As of the date of this report, no motion for class certification has been filed or granted.

We believe that our compensation practices with respect to our sales representatives are compliant with applicable law. Accordingly, we have defended and intend to continue to defend this lawsuit. We have not recorded a liability with respect to this claim on the accompanying consolidated financial statements.

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In General. There can be no assurance as to the outcomes of the matters described or referenced above. We record at each measurement date, most recently as of September 30, 2019, our best estimate of probable incurred losses for legal contingencies, including each of the matters described or referenced above. The amount of losses that may ultimately be incurred cannot be estimated with certainty. However, based on such information as is available to us, we believe that the total of probable incurred losses for legal contingencies as of September 30, 2019 is immaterial, and that the range of reasonably possible losses for the legal proceedings and contingencies we face, including those described or referenced above, as of September 30, 2019 does not exceed \$3 million.

Accordingly, we believe that the ultimate resolution of such legal proceedings and contingencies should not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the uncertainties inherent in contested proceedings there can be no assurance that the ultimate resolution of these matters will not be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our income for that period.

(9) Fair Value Measurements

ASC 820, "Fair Value Measurements" clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy.

ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The three levels are defined as follows: level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument; and level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Effective January 2018 we have elected to use the fair value method to value our portfolio of finance receivables acquired in January 2018 and thereafter.

Our valuation policies and procedures have been developed by our Accounting department in conjunction with our Risk department and with consultation with outside valuation experts. Our policies and procedures have been approved by our Chief Executive and our Board of Directors and include methodologies for valuation, internal reporting, calibration and back testing. Our periodic review of valuations includes an analysis of changes in fair value measurements and documentation of the reasons for such changes. There is little available third-party information such as broker quotes or pricing services available to assist us in our valuation process.

Our level 3, unobservable inputs reflect our own assumptions about the factors that market participants use in pricing similar receivables and are based on the best information available in the circumstances. They include such inputs as estimates for the magnitude and timing of net charge-offs and the rate of amortization of the portfolio of finance receivable. Significant changes in any of those inputs in isolation would have a significant impact on our fair value measurement.

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The table below presents a reconciliation of the finance receivables measured at fair value on a recurring basis using significant unobservable inputs:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Balance at beginning of period	\$ 1,158,365	\$ 412,895	\$ 821,066	\$ –
Finance receivables at fair value acquired during period	261,929	229,030	756,555	659,641
Payments received on finance receivables at fair value	(83,384)	(18,851)	(200,889)	(31,824)
Net interest income accretion on fair value receivables	(24,309)	(8,267)	(64,131)	(13,010)
Mark to fair value	604	–	604	–
Balance at end of period	<u>\$ 1,313,205</u>	<u>\$ 614,807</u>	<u>\$ 1,313,205</u>	<u>\$ 614,807</u>

The table below compares the fair values of these finance receivables to their contractual balances for the periods shown:

	September 30, 2019		December 31, 2018	
	Contractual	Fair	Contractual	Fair
	Balance	Value	Balance	Value
	(In thousands)			
Finance receivables measured at fair value	\$ 1,356,157	\$ 1,313,205	\$ 829,039	\$ 821,066

The following table provides certain qualitative information about our level 3 fair value measurements:

Financial Instrument	Fair Values as of		Unobservable Inputs	Inputs as of	
	September 30,	December 31,		September 30,	December 31,
	2019	2018		2019	2018
	(In thousands)				
Assets:					
Finance receivables measured at fair value	\$ 1,313,205	\$ 821,066	Discount rate	8.9% - 11.1%	8.9% - 9.9%
			Cumulative net losses	15.0% - 16.1%	15.0% - 16.0%

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The following table summarizes the delinquency status of these finance receivables measured at fair value as of September 30, 2019 and December 31, 2018:

Delinquency Status	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
	(In thousands)	
Current	\$ 1,242,569	\$ 790,727
31 - 60 days	70,802	26,285
61 - 90 days	29,557	8,350
91 + days	13,229	3,677
	<u>\$ 1,356,157</u>	<u>\$ 829,039</u>

Repossessed vehicle inventory, which is included in Other assets on our unaudited condensed consolidated balance sheet, is measured at fair value using level 2 assumptions based on our actual loss experience on sale of repossessed vehicles. At September 30, 2019 the finance receivables related to the repossessed vehicles in inventory totaled \$37.5 million. We have applied a valuation adjustment, or loss allowance, of \$27.9 million, which is based on a recovery rate of approximately 26%, resulting in an estimated fair value and carrying amount of \$9.6 million. The fair value and carrying amount of the repossessed inventory at December 31, 2018 was \$8.9 million after applying a valuation adjustment of \$24.6 million.

There were no transfers in or out of level 1, level 2 or level 3 assets and liabilities for the three months ended September 30, 2019 and 2018.

The estimated fair values of financial assets and liabilities at September 30, 2019 and December 31, 2018, were as follows:

Financial Instrument	As of September 30, 2019				
	(In thousands)				
	Carrying Value	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 8,799	\$ 8,799	\$ –	\$ –	\$ 8,799
Restricted cash and equivalents	128,556	128,556	–	–	128,556
Finance receivables, net	1,009,651	–	–	964,540	964,540
Accrued interest receivable	12,729	–	–	12,729	12,729
Liabilities:					
Warehouse lines of credit	\$ 157,761	\$ –	\$ –	\$ 157,761	\$ 157,761
Accrued interest payable	5,257	–	–	5,257	5,257
Residual interest financing	39,385	–	–	39,385	39,385
Securitization trust debt	2,066,458	–	–	2,095,487	2,095,487
Subordinated renewable notes	15,529	–	–	15,529	15,529

As of December 31, 2018

Financial Instrument

	(In thousands)				
	Carrying Value	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 12,787	\$ 12,787	\$ —	\$ —	\$ 12,787
Restricted cash and equivalents	117,323	117,323	—	—	117,323
Finance receivables, net	1,454,709	—	—	1,434,631	1,434,631
Accrued interest receivable	31,969	—	—	31,969	31,969
Liabilities:					
Warehouse lines of credit	\$ 136,847	\$ —	\$ —	\$ 136,847	\$ 136,847
Accrued interest payable	4,819	—	—	4,819	4,819
Residual interest financing	39,106	—	—	39,106	39,106
Securitization trust debt	2,063,627	—	—	2,051,920	2,051,920
Subordinated renewable notes	17,290	—	—	17,290	17,290

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a specialty finance company. Our business is to purchase and service retail automobile contracts originated primarily by franchised automobile dealers and, to a lesser extent, by select independent dealers in the United States in the sale of new and used automobiles, light trucks and passenger vans. Through our automobile contract purchases, we provide indirect financing to the customers of dealers who have limited credit histories or past credit problems, who we refer to as sub-prime customers. We serve as an alternative source of financing for dealers, facilitating sales to customers who otherwise might not be able to obtain financing from traditional sources, such as commercial banks, credit unions and the captive finance companies affiliated with major automobile manufacturers. In addition to purchasing installment purchase contracts directly from dealers, we also originate vehicle purchase money loans by lending directly to consumers and have (i) acquired installment purchase contracts in four merger and acquisition transactions, and (ii) purchased immaterial amounts of vehicle purchase money loans from non-affiliated lenders. In this report, we refer to all of such contracts and loans as "automobile contracts."

We were incorporated and began our operations in March 1991. From inception through September 30, 2019, we have originated a total of approximately \$16.0 billion of automobile contracts, primarily by purchasing retail installment sales contracts from dealers, and to a lesser degree, by originating loans secured by automobiles directly with consumers. In addition, we acquired a total of approximately \$822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and 2011. Recent contract purchase volumes and managed portfolio levels are shown in the table below:

Period	Contracts Purchased in Period	Managed Portfolio at Period End
2013	\$ 764,087	\$ 1,231,422
2014	944,944	1,643,920
2015	1,060,538	2,031,136
2016	1,088,785	2,308,070
2017	859,069	2,333,530
2018	902,416	2,380,847
Nine months ended September 30, 2019	755,285	2,412,638

Our principal executive offices are in Las Vegas, Nevada. Most of our operational and administrative functions take place in Irvine, California. Credit and underwriting functions are performed primarily in that California branch with certain of these functions also performed in our Florida and Nevada branches. We service our automobile contracts from our California, Nevada, Virginia, Florida and Illinois branches.

The programs we offer to dealers and consumers are intended to serve a wide range of sub-prime customers, primarily through franchised new car dealers. We originate automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose subsidiary of ours, which in turn issues asset-backed securities to fund the purchase of the pool of contracts from us.

Securitization and Warehouse Credit Facilities

Throughout the period for which information is presented in this report, we have purchased automobile contracts with the intention of financing them on a long-term basis through securitizations, and on an interim basis through warehouse credit facilities. All such financings have involved identification of specific automobile contracts, sale of those automobile contracts (and associated rights) to one of our special-purpose subsidiaries, and issuance of asset-backed securities to be purchased by institutional investors. Depending on the structure, these transactions may be accounted for under generally accepted accounting principles as sales of the automobile contracts or as secured financings. All of our active securitizations are structured as secured financings.

When structured to be treated as a secured financing for accounting purposes, the subsidiary is consolidated with us. Accordingly, the sold automobile contracts and the related debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then periodically (i) recognize interest and fee income on the contracts, and (ii) recognize interest expense on the securities issued in the transaction. For automobile contracts acquired before 2018, we also periodically record as expense a provision for credit losses on the contracts; for automobile contracts acquired after 2017 we take account of estimated credit losses in our computation of a level yield used to determine recognition of interest on the contracts.

Since 1994 we have conducted 83 term securitizations of automobile contracts that we originated. As of September 30, 2019, 20 of those securitizations are active and all are structured as secured financings. Since September 2010 we have utilized senior subordinated structures without any financial guarantees. We have generally conducted our securitizations on a quarterly basis, near the end of each calendar quarter, resulting in four securitizations per calendar year. However, in 2015, we elected to defer what would have been our December securitization in favor of a securitization in January 2016, and since that time have generally conducted our securitizations near the beginning of each calendar quarter.

Our recent history of term securitizations is summarized in the table below:

Period	\$ in thousands	
	Number of Term Securitizations	Receivables Pledged in Term Securitizations
2013	4	\$ 778,000
2014	4	923,000
2015	3	795,000
2016	4	1,214,997
2017	4	870,000
2018	4	883,452
Nine months ended September 30, 2019	3	739,124

Generally, prior to a securitization transaction we fund our automobile contract purchases primarily with proceeds from warehouse credit facilities. Our current short-term funding capacity is \$300 million, comprising three credit facilities. The first \$100 million credit facility was established in May 2012. This facility was most recently renewed in September 2018, extending the revolving period to September 2020, with an optional amortization period through September 2021. In April 2015, we entered into a second \$100 million facility. This facility was renewed in April 2017 and again in February 2019, extending the revolving period to February 2021, followed by an amortization period to February 2023. In November 2015, we entered into a third \$100 million facility. This facility was renewed in November 2017, extending the revolving period to November 2019, followed by an amortization period to November 2021.

In a securitization and in our warehouse credit facilities, we are required to make certain representations and warranties, which are generally similar to the representations and warranties made by dealers in connection with our purchase of the automobile contracts. If we breach any of our representations or warranties, we will be obligated to repurchase the automobile contract at a price equal to the principal balance plus accrued and unpaid interest. We may then be entitled under the terms of our dealer agreement to require the selling dealer to repurchase the contract at a price equal to our purchase price, less any principal payments made by the customer. Subject to any recourse against dealers, we will bear the risk of loss on repossession and resale of vehicles under automobile contracts that we repurchase.

In a securitization, the related special purpose subsidiary may be unable to release excess cash to us if the credit performance of the securitized automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of securitized automobile contracts could therefore have a material adverse effect on both our liquidity and results of operations.

Financial Covenants

Certain of our securitization transactions and our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain of our debt agreements other than our term securitizations contain cross-default provisions. Such cross-default provisions would allow the respective creditors to declare a default if an event of default occurred with respect to other indebtedness of ours, but only if such other event of default were to be accompanied by acceleration of such other indebtedness. As of September 30, 2019, we were in compliance with all such covenants.

Results of Operations

Comparison of Operating Results for the three months ended September 30, 2019 with the three months ended September 30, 2018

Revenues. During the three months ended September 30, 2019, our revenues were \$85.5 million, a decrease of \$10.1 million, or 10.6%, from the prior year revenue of \$95.6 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the three months ended September 30, 2019 decreased \$10.1 million, or 10.8%, to \$83.5 million from \$93.6 million in the prior year. The primary reason for the decrease in interest income is the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The table below shows the average balances and interest yields of our loan portfolio for the three months ended September 30, 2019 and 2018:

	Three Months Ended September 30,					
	2019			2018		
	Average Balance	Interest	(Dollars in thousands) Interest Yield	Average Balance	Interest	Interest Yield
Interest Earning Assets						
Finance receivables	\$ 1,105,087	\$ 50,625	18.3%	\$ 1,787,428	\$ 80,135	17.9%
Finance receivables measured at fair value	1,304,012	32,903	10.1%	547,468	13,482	9.9%
Total	<u>\$ 2,409,099</u>	<u>\$ 83,528</u>	<u>13.9%</u>	<u>\$ 2,334,896</u>	<u>\$ 93,617</u>	<u>16.0%</u>

In the three months ended September 30, 2019, other income of \$1.9 million decreased by \$20,000, or 1.0% compared to the prior year. The three-month period ended September 30, 2019 includes a decrease of \$207,000 in revenues associated with direct mail and other related products and services that we offer to our dealers and decreases in other income categories. These were partially offset by an increase of \$240,000 in payments from third-party providers of convenience fees paid by our customers for web based and other electronic payments.

Expenses. Our operating expenses consist largely of interest expense, provision for credit losses, employee costs, sales and general and administrative expenses. Provision for credit losses is affected by the balance and credit performance of our portfolio of finance receivables (other than our portfolio of finance receivables measured at fair value, as to which expected credit losses have the effect of reducing the interest rate applicable to such receivables). Interest expense is significantly affected by the volume of automobile contracts we purchased during the trailing 12-month period and the use of our warehouse facilities and asset-backed securitizations to finance those contracts. Employee costs and general and administrative expenses are incurred as applications and automobile contracts are received, processed and serviced. Factors that affect margins and net income include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and changes in the unemployment level.

Employee costs include base salaries, commissions and bonuses paid to employees, and certain expenses related to the accounting treatment of outstanding stock options, and are one of our most significant operating expenses. These costs (other than those relating to stock options) generally fluctuate with the level of applications and automobile contracts processed and serviced.

Other operating expenses consist largely of facilities expenses, telephone and other communication services, credit services, computer services, sales and advertising expenses, and depreciation and amortization.

Total operating expenses were \$82.7 million for the three months ended September 30, 2019, compared to \$90.9 million for the prior period, a decrease of \$8.2 million, or 9.1%. The decrease is primarily due to a decrease in provision for credit losses, offsetting increases in interest expense, employee costs and general and administrative expenses.

Employee costs increased by \$1.4 million or 7.7%, to \$20.3 million during the three months ended September 30, 2019, representing 24.5% of total operating expenses, from \$18.8 million for the prior year, or 20.7% of total operating expenses. The table below summarizes our employees by category as well as contract purchases and units in our managed portfolio as of, and for the three-month periods ended, September 30, 2019 and 2018:

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
	<u>Amount</u>	<u>Amount</u>
	(\$ in millions)	
Contracts purchased (dollars)	\$ 262.1	\$ 225.3
Contracts purchased (units)	14,353	12,853
Managed portfolio outstanding (dollars)	\$ 2,412.6	\$ 2,342.9
Managed portfolio outstanding (units)	177,575	174,584
Number of Originations staff	203	211
Number of Sales staff	118	132
Number of Servicing staff	622	567
Number of other staff	75	101
Total number of employees	<u>1,018</u>	<u>1,011</u>

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were \$8.2 million, an increase from \$7.8 million in the previous year and represented 9.9% of total operating expenses.

Interest expense for the three months ended September 30, 2019 increased by \$2.1 million to \$27.9 million, or 8.3% and represented 33.8% of total operating expenses, compared to \$25.8 million in the previous year, when it was 28.4% of total operating expenses.

Interest on securitization trust debt increased by \$1.5 million, or 6.8%, for the three months ended September 30, 2019 compared to the prior period. The average balance of securitization trust debt increased 1.8% to \$2,165.9 million for the three months ended September 30, 2019 compared to \$2,128.1 million for the three months ended September 30, 2018. The blended interest rates on new term securitizations have generally increased in 2017 and 2018 before declining in 2019. As a result, the cost of securitization debt during the three-month period ended September 30, 2019 was 4.5%, compared to 4.3% in the prior year period. For any particular quarterly securitization transaction, the blended cost of funds is ultimately the result of many factors including the market interest rates for benchmark swaps of various maturities against which our bonds are priced and the margin over those benchmarks that investors are willing to accept, which in turn, is influenced by investor demand for our bonds at the time of the securitization. These and other factors have resulted in fluctuations in our securitization trust debt interest costs. The blended interest rates of our recent securitizations are summarized in the table below:

Blended Cost of Funds on Recent Asset-Backed Term Securitizations	
Period	Blended Cost of Funds
January 2017	3.91%
April 2017	3.45%
July 2017	3.52%
October 2017	3.39%
January 2018	3.46%
April 2018	3.98%
July 2018	4.18%
October 2018	4.25%
January 2019	4.22%
April 2019	3.95%
July 2019	3.36%

Interest expense on subordinated renewable notes increased by \$2,000. The average balance of the outstanding subordinated debt decreased 9.1% to \$15.1 million for the three months ended September 30, 2019 compared to \$16.7 million for the three months ended September 30, 2018. However, the average yield of subordinated notes increased to 9.8% in the three-month period ended September 30, 2019 compared to 8.8% in the prior period.

Interest expense on warehouse debt increased by \$580,000, or 31.8%, for the three months ended September 30, 2019 compared to the prior period. The average rate on the debt decreased to 9.8% in the three-month period ended September 30, 2019 compared to 12.4% in the prior period. However, the decrease was offset by higher outstanding warehouse debt balance in the current period.

On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. Interest expense on this residual interest financing was \$956,000 for the three months ended September 30, 2019 compared to \$936,000 in the prior year period.

The following table presents the components of interest income and interest expense and a net interest yield analysis for the three-month periods ended September 30, 2019 and 2018:

	Three Months Ended September 30,					
	2019			2018		
	(Dollars in thousands)					
	Average Balance (1)	Interest	Annualized Average Yield/Rate	Average Balance (1)	Interest	Annualized Average Yield/Rate
Interest Earning Assets						
Finance receivables gross (2)	\$ 1,105,087	\$ 50,625	18.3%	\$ 1,787,427	\$ 80,135	17.9%
Finance receivables at fair value	1,304,012	32,903	10.1%	547,468	13,482	9.9%
	<u>2,409,099</u>	<u>83,528</u>	<u>13.9%</u>	<u>2,334,895</u>	<u>93,617</u>	<u>16.0%</u>
Interest Bearing Liabilities						
Warehouse lines of credit	\$ 98,520	2,407	9.8%	\$ 58,806	1,827	12.6%
Residual interest financing	40,000	956	9.6%	40,000	936	9.4%
Securitization trust debt	2,165,927	24,208	4.5%	2,128,142	22,678	4.3%
Subordinated renewable notes	15,133	369	9.8%	16,655	367	8.8%
	<u>\$ 2,319,580</u>	<u>27,940</u>	<u>4.8%</u>	<u>\$ 2,243,603</u>	<u>25,808</u>	<u>4.6%</u>
Net interest income/spread		<u>\$ 55,588</u>			<u>\$ 67,809</u>	
Net interest yield (3)			9.1%			11.4%
Ratio of average interest earning assets to average interest bearing liabilities			104%			104%

- (1) Average balances are based on month end balances except for warehouse lines of credit, which are based on daily balances.
(2) Net of deferred fees and direct costs.
(3) Annualized net interest income divided by average interest earning assets.

	Three Months Ended September 30, 2019 Compared to September 30, 2018		
	Total Change	Change Due to Volume	Change Due to Rate
	(In thousands)		
Interest Earning Assets			
Finance receivables gross	\$ (29,510)	\$ (32,184)	\$ 2,674
Finance receivables at fair value	19,421	18,769	652
	<u>(10,089)</u>	<u>(13,415)</u>	<u>3,326</u>
Interest Bearing Liabilities			
Warehouse lines of credit	580	1,220	(640)
Residual interest financing	20	20	—
Securitization trust debt	1,530	447	1,083
Subordinated renewable notes	2	(36)	38
	<u>2,132</u>	<u>1,651</u>	<u>481</u>
Net interest income/spread	<u>\$ (12,221)</u>	<u>\$ (15,066)</u>	<u>\$ 2,845</u>

The reduction in the annualized yield on our finance receivables for the three months ended September 30, 2019 compared to the prior year period is the result of the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The average balance of these receivables was \$1,304.0 million for the three months ended September 30, 2019 compared to \$547.5 million in the prior year period.

In the three-month period ended September 30, 2019, the net present value of the forecasted cash flows for the receivables acquired in the first quarter of 2018 exceeded the carrying value by \$604,000, which we have recorded as a mark to market value of that pool of receivables.

Provision for credit losses was \$19.9 million for the three months ended September 30, 2019, a decrease of \$12.1 million, or 37.8% compared to the prior year and represented 24.0% of total operating expenses. The provision for credit losses maintains the allowance for finance credit losses at levels that we feel are adequate for probable incurred credit losses that can be reasonably estimated. Our approach for establishing the allowance requires greater amounts of provision for credit losses early in the terms of our finance receivables. In addition, we monitor the delinquency and net charge off rates in our portfolio to consider how such rates may affect the allowance for finance credit losses. The allowance applies only to our finance receivables originated through December 2017, which we refer to as our legacy portfolio. Since no receivables have been added to the legacy portfolio since December 2017, it has seasoned to the point where its weighted age is 39 months at September 30, 2019. The age of the legacy portfolio, its continuously declining balance and the significant variance of the relative credit performance of the vintage pools that make up the legacy portfolio have contributed to lower provisions for credit losses and lower levels of the allowance for finance credit losses. Finance receivables that we have originated since January 2018 are accounted for at fair value. Under the fair value method of accounting, we recognize interest income net of expected credit losses. Thus, no provision for credit loss expense is recorded for finance receivables measured at fair value.

Sales expense consists primarily of commission-based compensation paid to our employee sales representatives. Our sales representatives earn a salary plus commissions based on volume of contract purchases and sales of ancillary products and services that we offer our dealers, such as training programs, internet lead sales, and direct mail products. Sales expense increased by \$30,000 to \$4.4 million during the three months ended September 30, 2019 and represented 5.3% of total operating expenses. Although our sales staff was slightly lower as of September 30, 2019 compared September 30, 2018, we have gradually shifted to more field sales representatives as compared to in-house sales representatives. Field sales representatives are somewhat more costly than in-house sales representatives, but we feel will ultimately be more effective. The increase in sales expense can also be attributed to the increase in the volume of contact purchases. We purchased 14,353 contracts representing \$262.1 million in receivables during the three-month period ending September 30, 2019 compared to 12,853 contracts representing \$225.3 million in receivables in the prior period.

Occupancy expenses decreased by \$175,000 or 9.0%, to \$1.8 million compared to \$1.9 million in the previous year and represented 2.1% of total operating expenses.

Depreciation and amortization expenses increased by \$20,000 or 7.8%, to \$276,000 compared to \$256,000 in the previous year and represented 0.3% of total operating expenses.

For the three months ended September 30, 2019 we recorded income tax expense of \$991,000, representing a 35.0% effective income tax rate. In the prior year period, we recorded \$1.5 million in income tax expense, representing a 32.0% effective income tax rate.

Comparison of Operating Results for the nine months ended September 30, 2019 with the nine months ended September 30, 2018

Revenues. During the nine months ended September 30, 2019, our revenues were \$260.1 million, a decrease of \$38.5 million, or 12.9%, from the prior year revenue of \$298.6 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the nine months ended September 30, 2019 decreased \$37.7 million, or 12.9%, to \$253.8 million from \$291.5 million in the prior year. The primary reason for the decrease in interest income is the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The table below shows the outstanding and average balances of our portfolio held by consolidated subsidiaries for the nine months ended September 30, 2019 and 2018:

	Nine Months Ended September 30,					
	2019			2018		
	Average Balance	Interest	Interest Yield	Average Balance	Interest	Interest Yield
(Dollars in thousands)						
Interest Earning Assets						
Finance receivables	\$ 1,268,190	\$ 170,126	17.9%	\$ 1,990,289	\$ 265,713	17.8%
Finance receivables measured at fair value	1,131,888	83,696	9.9%	341,967	25,822	10.1%
Total	\$ 2,400,078	\$ 253,822	14.1%	\$ 2,332,256	\$ 291,535	16.7%

In the nine months ended September 30, 2019, other income of \$6.3 million decreased by \$767,000, or 10.9% compared to the prior year. The nine-month period ended September 30, 2019 includes a decrease of \$1.3 million in revenue associated with direct mail and other related products and services that we offer to our dealers. This decrease was partially offset by an increase of \$670,000 in payments from third-party providers of convenience fees paid by our customers for web based and other electronic payments.

Expenses. Our operating expenses consist largely of provision for credit losses, interest expense, employee costs, sales and general and administrative expenses. Provision for credit losses is affected by the balance and credit performance of our portfolio of finance receivables (other than our portfolio of finance receivables measured at fair value, as to which expected credit losses have the effect of reducing the interest rate applicable to such receivables). Interest expense is significantly affected by the volume of automobile contracts we purchased during the trailing 12-month period and the use of our warehouse facilities and asset-backed securitizations to finance those contracts. Employee costs and general and administrative expenses are incurred as applications and automobile contracts are received, processed and serviced. Factors that affect margins and net income include changes in the automobile and automobile finance market environments, and macroeconomic factors such as interest rates and changes in the unemployment level.

Employee costs include base salaries, commissions and bonuses paid to employees, and certain expenses related to the accounting treatment of outstanding stock options, and are one of our most significant operating expenses. These costs (other than those relating to stock options) generally fluctuate with the level of applications and automobile contracts processed and serviced.

Other operating expenses consist largely of facilities expenses, telephone and other communication services, credit services, computer services, sales and advertising expenses, and depreciation and amortization.

Total operating expenses were \$251.8 million for the nine months ended September 30, 2019, compared to \$284.6 million for the prior period, a decrease of \$32.8 million, or 11.5%. The decrease is primarily due to a decrease in provision for credit losses, offsetting increases in interest expense and general and administrative expenses.

Employee costs decreased by \$258,000 or 0.4%, to \$59.0 million during the nine months ended September 30, 2019, representing 23.4% of total operating expenses, from \$59.3 million for the prior year, or 20.8% of total operating expenses. The decrease in employee costs were primarily a result of a decrease of \$1.3 million in stock compensation expense offset by other increases in employee costs related to higher headcounts in 2019. The table below summarizes our employees by category as well as contract purchases and units in our managed portfolio as of, and for the nine-month periods ended, September 30, 2019 and 2018:

(\$ in millions)	<u>September 30, 2019</u>	<u>September 30, 2018</u>
	<u>Amount</u>	<u>Amount</u>
Contracts purchased (dollars)	\$ 755.3	\$ 650.6
Contracts purchased (units)	42,534	38,749
Managed portfolio outstanding (dollars)	\$ 2,412.6	\$ 2,342.9
Managed portfolio outstanding (units)	177,575	174,584
Number of Originations staff	203	211
Number of Sales staff	118	132
Number of Servicing staff	622	567
Number of other staff	75	101
Total number of employees	<u>1,018</u>	<u>1,011</u>

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were \$25.1 million, an increase of \$2.4 million, or 10.5% compared to the previous year and represented 10.0% of total operating expenses.

Interest expense for the nine months ended September 30, 2019 increased by \$7.9 million to \$82.9 million, or 10.5% and represented 32.9% of total operating expenses, compared to \$75.1 million in the previous year, when it was 26.4% of total operating expenses.

Interest on securitization trust debt increased by \$5.9 million, or 8.8%, for the nine months ended September 30, 2019 compared to the prior period. The average balance of securitization trust debt increased to \$2,178.4 million for the nine months ended September 30, 2019 compared to \$2,137.5 million for the nine months ended September 30, 2018. In addition, the blended interest rates on new term securitizations have generally increased since 2017. As a result, the cost of securitization debt during the nine-month period ended September 30, 2019 was 4.4%, compared to 4.2% in the prior year period. For any particular quarterly securitization transaction, the blended cost of funds is ultimately the result of many factors including the market interest rates for risk-free securities (against which our bonds are priced), and the margin over those benchmarks that investors are willing to accept, which in turn is influenced by investor demand for our bonds at the time of the securitization. These and other factors have resulted in a general trend toward higher securitization trust debt interest costs. The blended interest rates of our recent securitizations are summarized in the table below:

Blended Cost of Funds on Recent Asset-Backed Term Securitizations	
Period	Blended Cost of Funds
January 2017	3.91%
April 2017	3.45%
July 2017	3.52%
October 2017	3.39%
January 2018	3.46%
April 2018	3.98%
July 2018	4.18%
October 2018	4.25%
January 2019	4.22%
April 2019	3.95%
July 2019	3.36%

Interest expense on subordinated renewable notes decreased by \$41,000, or 3.9%. The decrease is primarily due to a decrease in the average outstanding balance on our subordinated renewable notes from \$16.4 million in the prior year period to \$14.5 million in the current period. The average yield on these notes increased to 9.3% from 8.6% in the prior year.

On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. Interest expense on this residual interest financing was \$2.9 million for the nine months ended September 30, 2019 compared to \$1.4 million in the prior year period.

Interest expense on warehouse lines of credit debt increased by \$537,000, or 9.2%, for the nine months ended September 30, 2019 compared to the prior period. The average outstanding balance was \$85.3 million compared to \$64.6 million in the prior year period.

The following table presents the components of interest income and interest expense and a net interest yield analysis for the nine-month periods ended September 30, 2019 and 2018:

	Nine Months Ended September 30,					
	2019			2018		
	(Dollars in thousands)					
	Average Balance (1)	Interest	Annualized Average Yield/Rate	Average Balance (1)	Interest	Annualized Average Yield/Rate
Interest Earning Assets						
Finance receivables gross (2)	\$ 1,233,413	\$ 170,125	18.4%	\$ 1,990,289	\$ 265,713	17.8%
Finance receivables at fair value	1,131,888	83,696	9.9%	341,967	25,822	10.1%
	<u>2,365,301</u>	<u>253,821</u>	14.3%	<u>2,332,256</u>	<u>291,535</u>	16.7%
Interest Bearing Liabilities						
Warehouse lines of credit	\$ 85,289	6,387	10.0%	\$ 64,555	5,850	12.1%
Residual interest financing	40,000	2,867	9.6%	20,220	1,387	9.1%
Securitization trust debt	2,178,437	72,662	4.4%	2,137,549	66,762	4.2%
Subordinated renewable notes	14,513	1,017	9.3%	16,357	1,058	8.6%
	<u>\$ 2,318,239</u>	<u>82,933</u>	4.8%	<u>\$ 2,238,681</u>	<u>75,057</u>	4.5%
Net interest income/spread		<u>\$ 170,888</u>			<u>\$ 216,478</u>	
Net interest yield (3)			9.5%			12.2%
Ratio of average interest earning assets to average interest bearing liabilities			102%			104%

- (1) Average balances are based on month end balances except for warehouse lines of credit, which are based on daily balances.
(2) Net of deferred fees and direct costs.
(3) Annualized net interest income divided by average interest earning assets.

**Nine Months Ended September 30, 2019
Compared to September 30, 2018**

	Total Change	Change Due to Volume	Change Due to Rate
	(In thousands)		
Interest Earning Assets			
Finance receivables gross	\$ (95,588)	\$ (99,227)	3,639
Finance receivables at fair value	57,874	59,647	(1,773)
	<u>(37,714)</u>	<u>(39,580)</u>	1,866
Interest Bearing Liabilities			
Warehouse lines of credit	537	1,879	(1,342)
Residual interest financing	1,480	1,357	123
Securitization trust debt	5,900	1,277	4,623
Subordinated renewable notes	(41)	(119)	78
	<u>7,876</u>	<u>4,394</u>	<u>3,482</u>
Net interest income/spread	<u>\$ (45,590)</u>	<u>\$ (43,974)</u>	<u>\$ (1,616)</u>

The reduction in the annualized yield on our finance receivables for the nine months ended September 30, 2019 compared to the prior year period is a result of the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables.

In the nine-month period ended September 30, 2019, the net present value of the forecasted cash flows for the receivables acquired in the first quarter of 2018 exceeded the carrying value by \$604,000, which we have recorded as a mark to market value of that pool of receivables.

Provision for credit losses was \$64.3 million for the nine months ended September 30, 2019, a decrease of \$43.7 million, or 40.4% compared to the prior year and represented 25.5% of total operating expenses. The provision for credit losses maintains the allowance for finance credit losses at levels that we feel are adequate for probable incurred credit losses that can be reasonably estimated. Our approach for establishing the allowance requires greater amounts of provision for credit losses early in the terms of our finance receivables. In addition, we monitor the delinquency and net charge off rates in our portfolio to consider how such rates may affect the allowance for finance credit losses. The allowance applies only to our finance receivables originated through December 2017, which we refer to as our legacy portfolio. Since no receivables have been added to the legacy portfolio since December 2017, it has seasoned to the point where its weighted age is 39 months at September 30, 2019. The age of the legacy portfolio, its continuously declining balance and the significant variance of the relative credit performance of the vintage pools that make up the legacy portfolio have contributed to lower provisions for credit losses and lower levels of the allowance for finance credit losses. Finance receivables that we have originated since January 2018 are accounted for at fair value. Under the fair value method of accounting, we recognize interest income net of expected credit losses. Thus, no provision for credit loss expense is recorded for finance receivables measured at fair value.

Sales expense consists primarily of commission-based compensation paid to our employee sales representatives. Our sales representatives earn a salary plus commissions based on volume of contract purchases and sales of ancillary products and services that we offer our dealers, such as training programs, internet lead sales, and direct mail products. Sales expense increased by \$701,000, or 5.3%, to \$13.9 million during the nine months ended September 30, 2019, compared to \$13.2 million in the prior year period, and represented 5.5% of total operating expenses. For the nine months ended September 30, 2019, we purchased 42,534 contracts representing \$755.3 million in receivables compared to 38,749 contracts representing \$650.6 million in receivables in the prior period. In addition, in recent months, we have gradually shifted to more field sales representatives as compared to in-house sales representatives. Field sales representatives are somewhat more costly than in-house sales representatives, but we feel will ultimately be more effective.

Occupancy expenses increased by \$101,000 or 1.8%, to \$5.7 million compared to \$5.6 million in the previous year and represented 2.3% of total operating expenses.

Depreciation and amortization expenses increased by \$43,000 or 5.8%, to \$789,000 compared to \$746,000 in the previous year and represented 0.2% of total operating expenses.

For the nine months ended September 30, 2019, we recorded income tax expense of \$2.9 million, representing a 35.0% effective income tax rate. In the prior year period, we recorded \$4.4 million in income tax expense, representing a 31.7% effective income tax rate.

Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. The tables below document the delinquency, repossession and net credit loss experience of all such automobile contracts that we originated or own an interest in as of the respective dates shown. The tables do not include the experience of third party originated and owned portfolios.

Delinquency, Repossession and Extension Experience (1)
Total Owned Portfolio

	September 30, 2019		September 30, 2018		December 31, 2018	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Delinquency Experience						
Gross servicing portfolio (1)	177,575	\$ 2,412,638	174,584	\$ 2,342,889	176,042	\$ 2,380,847
Period of delinquency (2)						
31-60 days	14,071	\$ 195,016	10,509	\$ 144,842	13,182	\$ 183,974
61-90 days	6,909	94,603	4,750	62,642	5,577	74,485
91+ days	3,059	39,476	2,462	29,729	2,858	35,520
Total delinquencies (2)	<u>24,039</u>	<u>329,095</u>	<u>17,721</u>	<u>237,213</u>	<u>21,617</u>	<u>293,979</u>
Amount in repossession (3)	<u>4,047</u>	<u>50,779</u>	<u>2,636</u>	<u>33,989</u>	<u>2,840</u>	<u>36,480</u>
Total delinquencies and amount in repossession (2)	<u>28,086</u>	<u>\$ 379,874</u>	<u>20,357</u>	<u>\$ 271,202</u>	<u>24,457</u>	<u>\$ 330,459</u>
Delinquencies as a percentage of gross servicing portfolio	13.5%	13.6%	10.2%	10.1%	12.3%	12.3%
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	15.8%	15.7%	11.7%	11.6%	13.9%	13.9%
Extension Experience						
Contracts with one extension, accruing	25,036	\$ 337,383	27,476	\$ 366,400	27,192	\$ 364,575
Contracts with two or more extensions, accruing	<u>54,182</u>	<u>681,939</u>	<u>61,692</u>	<u>833,005</u>	<u>61,977</u>	<u>828,573</u>
	79,218	1,019,322	89,168	1,199,405	89,169	1,193,148
Contracts with one extension, non-accrual (4)	1,084	13,636	700	8,311	798	9,518
Contracts with two or more extensions, non-accrual (4)	<u>4,435</u>	<u>56,347</u>	<u>3,498</u>	<u>45,238</u>	<u>3,946</u>	<u>51,912</u>
	<u>5,519</u>	<u>69,983</u>	<u>4,198</u>	<u>53,549</u>	<u>4,744</u>	<u>61,430</u>
Total contracts with extensions	<u>84,737</u>	<u>\$ 1,089,305</u>	<u>93,366</u>	<u>\$ 1,252,954</u>	<u>93,913</u>	<u>\$ 1,254,578</u>

- (1) All amounts and percentages are based on the amount remaining to be repaid on each automobile contract, including, for pre-computed automobile contracts, any unearned interest. The information in the table represents the gross principal amount of all automobile contracts we have purchased, including automobile contracts subsequently sold in securitization transactions that we continue to service. The table does not include certain contracts we have serviced for third parties on which we earn servicing fees only and have no credit risk.
- (2) We consider an automobile 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. Automobile contracts less than 31 days delinquent are not included. The delinquency aging categories shown in the tables reflect the effect of extensions.
- (3) Amount in repossession represents financed vehicles that have been repossessed but not yet liquidated.
- (4) Amount in repossession and accounts past due more than 90 days are on non-accrual.

Net Charge-Off Experience (1)
Total Owned Portfolio

	September 30, 2019	September 30, 2018	December 31, 2018
	(Dollars in thousands)		
Average servicing portfolio outstanding	\$ 2,400,078	\$ 2,332,256	\$ 2,341,954
Annualized net charge-offs as a percentage of average servicing portfolio (2)	8.0%	7.9%	7.7%

- (1) All amounts and percentages are based on the principal amount scheduled to be paid on each automobile contract, net of unearned income on pre-computed automobile contracts.
- (2) 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) and amounts collected subsequent to the date of charge-off, including some recoveries which have been classified as other income in the accompanying interim consolidated financial statements. September 30, 2019 and September 30, 2018 percentages represent nine months ended September 30, 2019 and September 30, 2018 annualized. December 31, 2018 represents 12 months ended December 31, 2018.

Extensions

In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. In general, an obligor would not be entitled to more than two such extensions in any 12-month period and no more than six over the life of the contract. The only modification of terms is to advance the obligor's next due date by one month and extend the maturity date of the receivable by one month. In some cases, a two-month extension may be granted. There are no other concessions such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, we consider such extensions to be insignificant delays in payments rather than troubled debt restructurings.

The basic question in deciding to grant an extension is whether or not we will (a) be delaying the inevitable repossession and liquidation or (b) risk losing the vehicle as a result of not being able to locate the obligor and vehicle. In both of those situations, the loss would likely be higher than if the vehicle had been repossessed without the extension. The benefits of granting an extension include minimizing current losses and delinquencies, minimizing lifetime losses, getting the obligor's account current (or close to it) and building goodwill with the obligor so that he might prioritize us over other creditors on future payments. Our servicing staff are trained to identify when a past due obligor is facing a temporary problem that may be resolved with an extension. In most cases, the extension will be granted in conjunction with our receiving a past due payment (and where allowed by law, a nominal fee, applied to the loan as a partial payment) from the obligor, thereby indicating an additional monetary and psychological commitment to the contract on the obligor's part.

The credit assessment for granting an extension is initially made by our collector, who bases the recommendation on the collector's discussions with the obligor. In such assessments the collector will consider, among other things, the following factors: (1) the reason the obligor has fallen behind in payment; (2) whether or not the reason for the delinquency is temporary, and if it is, have conditions changed such that the obligor can begin making regular monthly payments again after the extension; (3) the obligor's past payment history, including past extensions if applicable; and (4) the obligor's willingness to communicate and cooperate on resolving the delinquency. If the collector believes the obligor is a good candidate for an extension, he must obtain approval from his supervisor, who will review the same factors stated above prior to offering the extension to the obligor. After receiving an extension, an account remains subject to our normal policies and procedures for interest accrual, reporting delinquency and recognizing charge-offs.

We believe that a prudent extension program is an integral component to mitigating losses in our portfolio of sub-prime automobile receivables. The table below summarizes the status, as of September 30, 2019, for accounts that received extensions from 2008 through 2018 (2019 extension data are not included at this time due to insufficient passage of time for meaningful evaluation of results):

Period of Extension	# Extensions Granted	Active or Paid Off at September 30, 2019	% Active or Paid Off at September 30, 2019	Charged Off > 6 Months After Extension	% Charged Off > 6 Months After Extension	Charged Off <= 6 Months After Extension	% Charged Off <= 6 Months After Extension	Avg Months to Charge Off Post Extension
2008	35,588	10,710	30.1%	20,059	56.4%	4,819	13.5%	19
2009	32,226	10,274	31.9%	16,168	50.2%	5,783	17.9%	17
2010	26,167	12,165	46.5%	12,003	45.9%	1,999	7.6%	19
2011	18,786	10,975	58.4%	6,879	36.6%	932	5.0%	19
2012	18,783	11,332	60.3%	6,655	35.4%	796	4.2%	18
2013	23,398	11,314	48.4%	11,108	47.5%	976	4.2%	22
2014	25,773	11,105	43.1%	13,842	53.7%	826	3.2%	23
2015	53,319	25,404	47.6%	26,833	50.3%	1,082	2.0%	22
2016	80,897	45,756	56.6%	33,208	41.0%	1,933	2.4%	19
2017	133,881	84,120	62.8%	42,801	32.0%	6,926	5.2%	14
2018	121,531	95,240	78.4%	20,284	16.7%	6,007	4.9%	9

Note: Table excludes extensions on portfolios serviced for third parties

We view these results as a confirmation of the effectiveness of our extension program. For example, of the accounts granted extensions in 2012, 60.3% were either paid in full or active and performing at September 30, 2019. Each of these successful accounts represent continued payments of interest and principal (including payment in full in many cases), where without the extension we likely would have incurred a substantial loss and no interest revenue subsequent to the extension.

For the extension accounts that ultimately charge off, we consider any that charged off more than six months after the extension to be at least partially successful. For example, of the accounts granted extensions in 2012 that subsequently charged off, such charge offs occurred, on average, 18 months after the extension, indicating that even in the cases of an ultimate loss, the obligor serviced the account with additional payments of principal and interest.

Additional information about our extensions is provided in the tables below:

	Nine Months Ended September 30,		Year Ended December 31,
	2019	2018	2018
Average number of extensions granted per month	5,152	10,460	10,128
Average number of outstanding accounts	177,094	174,425	174,738
Average monthly extensions as % of average outstandings	2.9%	6.0%	5.8%

Note: Table excludes portfolios originated and owned by third parties

	September 30, 2019		September 30, 2018		December 31, 2018	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Contracts with one extension	26,120	\$ 351,019	28,176	\$ 374,711	27,991	\$ 374,116
Contracts with two extensions	17,816	228,337	21,294	285,741	20,789	277,497
Contracts with three extensions	14,611	187,088	17,435	237,743	17,210	231,905
Contracts with four extensions	12,372	157,264	13,152	180,657	13,583	185,114
Contracts with five extensions	8,507	104,396	8,544	114,061	9,189	121,836
Contracts with six extensions	5,311	61,201	4,765	60,041	5,152	64,134
	<u>84,737</u>	<u>\$ 1,089,305</u>	<u>93,366</u>	<u>\$ 1,252,954</u>	<u>93,914</u>	<u>\$ 1,254,602</u>
Managed portfolio (excluding originated and owned by 3rd parties)	177,575	\$ 2,412,638	174,584	\$ 2,342,889	176,042	\$ 2,380,847

Note: Table excludes portfolios originated and owned by third parties

In recent years, we have experienced an increase in the number of extensions that we grant to our customers. We attribute this to a number of factors. First, in June 2014 we entered into a consent decree with the FTC that required us to make certain procedural changes in our servicing practices, which we believe have contributed to somewhat higher delinquencies and extensions compared to prior periods. Secondly, in recent years we have found it more difficult to communicate with our customers via outbound voice telephone calls, which have historically been our primary means of communicating with our customers. Consequently, we have recently developed text messaging platforms to supplement our outbound voice calling efforts. In addition, in 2016 we added features to the customer portal of our website to facilitate the process whereby the customer may request an extension. Since January of 2019, we have attempted to reduce extensions by working with our servicing staff to be more selective in granting extensions including, where appropriate, to exhaust all possibilities of payment by the customer before granting an extension.

Non-Accrual Receivables

It is not uncommon for our obligors to fall behind in their payments. However, with the diligent efforts of our Servicing staff and systems for managing our collection efforts, we regularly work with our customers to resolve delinquencies. Our staff are trained to employ a counseling approach to assist our customers with their cash flow management skills and help them to prioritize their payment obligations in order to avoid losing their vehicle to repossession. Through our experience, we have learned that once a customer becomes greater than 90 days past due, it is not likely that the delinquency will be resolved and will ultimately result in a charge-off. As a result, we do not recognize any interest income for contracts that are greater than 90 days past due.

If a contract exceeds the 90 days past due threshold at the end of one period, and then makes the necessary payments such that it becomes less than or equal to 90 days delinquent at the end of a subsequent period, it would be restored to full accrual status for our financial reporting purposes. At the time a contract is restored to full accrual in this manner, there can be no assurance that full repayment of interest and principal will ultimately be made. However, we monitor each obligor's payment performance and are aware of the severity of his delinquency at any time. The fact that the delinquency has been reduced below the 90-day threshold is a positive indicator. Should the contract again exceed the 90-day delinquency level at the end of any reporting period, it would again be reflected as a non-accrual account.

Our policy for placing a contract on non-accrual status is independent of our policy to grant an extension. In practice, it would be an uncommon circumstance where an extension was granted and the account remained in a non-accrual status, since the goal of the extension is to bring the contract current (or nearly current).

Liquidity and Capital Resources

Our business requires substantial cash to support our purchases of automobile contracts and other operating activities. Our primary sources of cash have been cash flows from the proceeds from term securitization transactions and other sales of automobile contracts, amounts borrowed under various revolving credit facilities (also sometimes known as warehouse credit facilities), customer payments of principal and interest on finance receivables, fees for origination of automobile contracts, and releases of cash from securitization transactions and their related spread accounts. Our primary uses of cash have been the purchases of automobile contracts, repayment of amounts borrowed under lines of credit, securitization transactions and otherwise, operating expenses such as employee, interest, occupancy expenses and other general and administrative expenses, the establishment of spread accounts and initial overcollateralization, if any, the increase of credit enhancement to required levels in securitization transactions, and income taxes. There can be no assurance that internally generated cash will be sufficient to meet our cash demands. The sufficiency of internally generated cash will depend on the performance of securitized pools (which determines the level of releases from those pools and their related spread accounts), the rate of expansion or contraction in our managed portfolio, and the terms upon which we are able to acquire and borrow against automobile contracts.

Net cash provided by operating activities for the nine-month period ended September 30, 2019 was \$170.0 million, an increase of \$11.4 million, compared to net cash provided by operating activities for the nine-month period ended September 30, 2018 of \$158.6 million. Net cash from operating activities is generally provided by net income from operations adjusted for significant non-cash items such as our provision for credit losses and interest accretion on fair value receivables.

Net cash used in investing activities for the nine-month period ended September 30, 2019 was \$177.7 million compared to net cash used in investing activities of \$157.7 million in the prior year period. Cash provided by investing activities primarily results from principal payments and other proceeds received on finance receivables. Cash used in investing activities generally relates to purchases of automobile contracts. Purchases of finance receivables excluding acquisition fees were \$755.3 million and \$650.6 million during the first nine months of 2019 and 2018, respectively.

Net cash provided by financing activities for the nine months ended September 30, 2019 was \$14.9 million compared to net cash used in financing activities of \$4.6 million in the prior year period. Cash provided by financing activities is primarily related to the issuance of securitization trust debt, reduced by the amount of repayment of securitization trust debt and net proceeds or repayments on our warehouse lines of credit and other debt. In the first nine months of 2019, we issued \$726.2 million in new securitization trust debt compared to \$622.1 million in the same period of 2018. We repaid \$723.2 million in securitization trust debt in the nine months ended September 30, 2019 compared to repayments of securitization trust debt of \$671.7 million in the prior year period. In the nine months ended September 30, 2019, we had net advances on warehouse lines of credit of \$20.9 million, compared to net advances of \$15.0 million in the prior year's period. On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations.

We purchase automobile contracts from dealers for a cash price approximately equal to their principal amount, adjusted for an acquisition fee which may either increase or decrease the automobile contract purchase price. Those automobile contracts generate cash flow, however, over a period of years. We have been dependent on warehouse credit facilities to purchase automobile contracts and our securitization transactions for long term financing of our contracts. In addition, we have accessed other sources, such as residual financings and subordinated debt in order to finance our continuing operations.

The acquisition of automobile contracts for subsequent financing in securitization transactions, and the need to fund spread accounts and initial overcollateralization, if any, and increase credit enhancement levels when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of our automobile contract purchases, the required level of initial credit enhancement in securitizations, and the extent to which the previously established trusts and their related spread accounts either release cash to us or capture cash from collections on securitized automobile contracts. Of those, the factor most subject to our control is the rate at which we purchase automobile contracts.

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of September 30, 2019, we had unrestricted cash of \$8.8 million and \$142.8 million aggregate available borrowings under our three warehouse credit facilities (assuming the availability of sufficient eligible collateral). As of September 30, 2019, we had approximately \$19.7 million of such eligible collateral. During the nine-month period ended September 30, 2019, we completed three securitizations aggregating \$726.2 million of notes sold. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, as appropriate, minimizing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income could decrease.

Our liquidity will also be affected by releases of cash from the trusts established with our securitizations. While the specific terms and mechanics of each spread account vary among transactions, our securitization agreements generally provide that we will receive excess cash flows, if any, only if the amount of credit enhancement has reached specified levels and the delinquency or net losses related to the automobile contracts in the pool are below certain predetermined levels. In the event delinquencies or net losses on the automobile contracts exceed such levels, the terms of the securitization may require increased credit enhancement to be accumulated for the particular pool. There can be no assurance that collections from the related trusts will continue to generate sufficient cash.

Our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain of our debt agreements other than our term securitizations contain cross-default provisions. Such cross-default provisions would allow the respective creditors to declare a default if an event of default occurred with respect to other indebtedness of ours, but only if such other event of default were to be accompanied by acceleration of such other indebtedness. As of September 30, 2019, we were in compliance with all such financial covenants.

We have and will continue to have a substantial amount of indebtedness. At September 30, 2019, we had approximately \$2,279.1 million of debt outstanding. Such debt consisted primarily of \$2,066.5 million of securitization trust debt and \$157.8 million of debt from warehouse lines of credit. Our securitization trust debt has increased by \$32.2 million while our warehouse lines of credit debt has increased by \$30.1 million since September 30, 2018 (each net of deferred financing costs). Since 2005, we have offered renewable subordinated notes to the public on a continuous basis, and such notes have maturities that range from six months to 10 years. We had \$15.5 million and \$16.9 million in subordinated renewable notes outstanding at September 30, 2019 and 2018, respectively. On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. At September 30, 2019, \$40.0 million of this residual interest financing debt remains outstanding (\$39.4 million net of deferred financing costs).

Although we believe we are able to service and repay our debt, there is no assurance that we will be able to do so. If our plans for future operations do not generate sufficient cash flows and earnings, our ability to make required payments on our debt would be impaired. If we fail to pay our indebtedness when due, it could have a material adverse effect on us and may require us to issue additional debt or equity securities.

Forward Looking Statements

This report on Form 10-Q includes certain “forward-looking statements.” Forward-looking statements may be identified by the use of words such as “anticipates,” “expects,” “plans,” “estimates,” or words of like meaning. Our provision for credit losses is a forward-looking statement, as it is dependent on our estimates as to future chargeoffs and recovery rates. Factors that could affect charge-offs and recovery rates include changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of automobile contracts, changes in laws respecting consumer finance, which could affect our ability to enforce rights under automobile contracts, and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect our revenues in the current year include the levels of cash releases from existing pools of automobile contracts, which would affect our ability to purchase automobile contracts, the terms on which we are able to finance such purchases, the willingness of dealers to sell automobile contracts to us on the terms that we offer, and the terms on which and whether we are able to complete term securitizations once automobile contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel and interest rates (which affect the rates that we pay on notes issued in our securitizations).

Item 4. Controls and Procedures

We maintain a system of internal controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. As of the end of the period covered by this report, we evaluated the effectiveness of the design and operation of such disclosure controls and procedures. Based upon that evaluation, the principal executive officer (Charles E. Bradley, Jr.) and the principal financial officer (Jeffrey P. Fritz) concluded that the disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, material information relating to us that is required to be included in our reports filed under the Securities Exchange Act of 1934. There has been no change in our internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

The information provided under the caption “Legal Proceedings,” Note 8 to the Unaudited Condensed Consolidated Financial Statements, included in Part I of this report, is incorporated herein by reference.

Item 1A. *Risk Factors*

We remind the reader that risk factors are set forth in Item 1A of our report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 13, 2019. Where we are aware of material changes to such risk factors as previously disclosed, we set forth below an updated discussion of such risks. The reader should note that the other risks identified in our report on Form 10-K remain applicable.

We have substantial indebtedness.

We have and will continue to have a substantial amount of indebtedness. At September 30, 2019, we had approximately \$2,279.1 million of debt outstanding. Such debt consisted primarily of \$2,066.5 million of securitization trust debt and \$157.8 million of debt from warehouse lines of credit. Our securitization trust debt has increased by \$32.2 million while our warehouse lines of credit debt has increased by \$30.1 million since September 30, 2018 (each net of deferred financing costs). Since 2005, we have offered renewable subordinated notes to the public on a continuous basis, and such notes have maturities that range from six months to 10 years. We had \$15.5 million and \$16.9 million in subordinated renewable notes outstanding at September 30, 2019 and 2018, respectively. On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. At September 30, 2019, \$40.0 million of this residual interest financing debt remains outstanding (\$39.4 million net of deferred financing costs). Our substantial indebtedness could adversely affect our financial condition by, among other things:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing amounts available for working capital, capital expenditures and other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors that have less debt; and
- limiting our ability to borrow additional funds.

Although we believe we are able to service and repay such debt, there is no assurance that we will be able to do so. If we do not generate sufficient operating profits, our ability to make required payments on our debt would be impaired. Failure to pay our indebtedness when due could have a material adverse effect.

Forward-Looking Statements

Discussions of certain matters contained in this report may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act, and as such, may involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the business environment in which we operate, projections of future performance, perceived opportunities in the market and statements regarding our mission and vision. You can generally identify forward-looking statements as statements containing the words "will," "would," "believe," "may," "could," "expect," "anticipate," "intend," "estimate," "assume" or other similar expressions. Our actual results, performance and achievements may differ materially from the results, performance and achievements expressed or implied in such forward-looking statements. The discussion under "Risk Factors" identifies some of the factors that might cause such a difference, including the following:

- changes in general economic conditions;
- our ability or inability to obtain necessary financing, and the terms of any such financing;
- changes in interest rates, especially as applicable to securitization trust debt;
- our ability to generate sufficient operating and financing cash flows;
- competition;
- level of future provisioning for receivables losses;
- the levels of actual losses on receivables; and
- regulatory requirements.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Actual results may differ from expectations due to many factors beyond our ability to control or predict, including those described herein, and in documents incorporated by reference in this report. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

We undertake no obligation to publicly update any forward-looking information. You are advised to consult any additional disclosure we make in our periodic reports filed with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2019, we did not repurchase shares in the open market.

Issuer Purchases of Equity Securities

<u>Period(1)</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)</u>
July 2019	–	\$ –	–	\$ 6,144,520
August 2019	–	\$ –	–	\$ 6,144,520
September 2019	–	\$ –	–	\$ 6,144,520
Total	–	\$ –	–	–

(1) Each monthly period is the calendar month.

(2) Through September 30, 2019, our board of directors had authorized the purchase of up to \$74.5 million of our outstanding securities, under a program first announced in our annual report for the year 2002, filed on June 26, 2003. All purchases described in the table above were under the program announced in June 2003, which has no fixed expiration date.

Item 6. Exhibits

The Exhibits listed below are filed with this report.

- 4.14 Instruments defining the rights of holders of long-term debt of certain consolidated subsidiaries of the registrant are omitted pursuant to the exclusion set forth in subdivisions (b)(iv)(iii)(A) and (b)(v) of Item 601 of Regulation S-K (17 CFR 229.601). The registrant agrees to provide copies of such instruments to the United States Securities and Exchange Commission upon request.
- 31.1 [Rule 13a-14\(a\) Certification of the Chief Executive Officer of the registrant.](#)
- 31.2 [Rule 13a-14\(a\) Certification of the Chief Financial Officer of the registrant.](#)
- 32 [Section 1350 Certifications.*](#)

* These Certifications shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. These Certifications shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registration statement specifically states that such Certifications are incorporated therein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

Date: November 12, 2019

By: /s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 12, 2019

By: /s/ JEFFREY P. FRITZ
Jeffrey P. Fritz
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

I, Charles E. Bradley, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2019 of Consumer Portfolio Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr. Chief Executive Officer

CERTIFICATION

I, Jeffrey P. Fritz, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended September 30, 2019 of Consumer Portfolio Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ JEFFREY P. FRITZ
Jeffrey P. Fritz, Chief Financial Officer

**Certification Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report on Form 10-Q of Consumer Portfolio Services, Inc. (the "Company") for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Charles E. Bradley, Jr., as Chief Executive Officer of the Company, and Jeffrey P. Fritz, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ CHARLES E. BRADLEY, JR.

Charles E. Bradley, Jr.
Chief Executive Officer

/s/ JEFFREY P. FRITZ

Jeffrey P. Fritz
Chief Financial Officer

This certification accompanies each Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

