UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

For the quarterly period ended September 30, 2020

Commission file number: 1-11416

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 ☒ 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 ☒ 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 ☒
Non-accelerated filer ☐	Smaller reporting company ☒
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 ☒

As of October 28, 2020 the registrant had 22,565,112 common shares outstanding.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q
For the Quarterly Period Ended September 30, 2020

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	September 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$ 11,253	$ 5,295
Restricted cash and equivalents	200,912	135,537
Finance receivables measured at fair value	1,540,955	1,444,038
Finance receivables	577,281	897,530
Less: Allowance for finance credit losses	(94,218)	(11,640)
Finance receivables, net	483,063	885,890
Furniture and equipment, net	988	1,512
Deferred tax assets, net	31,026	15,480
Accrued interest receivable	6,291	11,645
Other assets	34,744	39,852
Total Assets	$ 2,309,232	$ 2,539,249
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 49,056	$ 47,077
Warehouse lines of credit	31,201	134,791
Residual interest financing	32,000	39,478
Securitization trust debt	2,048,089	2,097,728
Subordinated renewable notes	20,242	17,534
Total Liabilities	2,180,588	2,336,608
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; 22,508,862 and 22,530,918 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	72,197	71,257
Retained earnings	64,868	139,805
Accumulated other comprehensive loss	(8,421)	(8,421)
Total stockholders' equity	128,644	202,641
Total liabilities and stockholders' equity	$ 2,309,232	$ 2,539,249

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,	
	2020	**2019**	**2020**	**2019**
Revenues:				
Interest income	$ 72,582	$ 82,924	$ 227,271	$ 253,218
Mark to finance receivables measured at fair value	(3,152)	604	(23,051)	604
Other income	1,239	1,994	4,508	6,255
Total revenues	70,669	85,522	208,728	260,077
Expenses:				
Employee costs	19,155	20,251	60,826	59,030
General and administrative	7,846	8,185	24,352	25,109
Interest	24,901	27,940	78,377	82,933
Provision for credit losses	7,400	19,874	14,113	64,319
Sales	3,202	4,407	10,710	13,877
Occupancy	1,838	1,760	5,362	5,745
Depreciation and amortization	438	276	1,344	789
Total operating expenses	64,780	82,693	195,084	251,802
Income before income tax expense (benefit)	5,889	2,829	13,644	8,275
Income tax expense (benefit)	2,121	991	(3,888)	2,898
Net income	$ 3,768	$ 1,838	$ 17,532	$ 5,377
Earnings per share:				
Basic	$ 0.17	$ 0.08	$ 0.77	$ 0.24
Diluted	0.16	0.08	0.74	0.22
Number of shares used in computing earnings per share:				
Basic	22,666	22,526	22,630	22,378
Diluted	23,908	24,066	23,825	24,102

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,	
	2020	**2019**	**2020**	**2019**
Net income	$ 3,768	$ 1,838	$ 17,532	$ 5,377
Other comprehensive income/(loss); change in funded status of pension plan	–	–	–	–
Comprehensive income	$ 3,768	$ 1,838	$ 17,532	$ 5,377

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, 2020	Nine Months Ended September 30, 2019
Cash flows from operating activities:		
Net income	$ 17,532	$ 5,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Accretion of deferred acquisition fees and origination costs	910	1,374
Net interest income accretion on fair value receivables	98,060	64,131
Depreciation and amortization	1,344	789
Amortization of deferred financing costs	6,128	6,226
Mark to finance receivables measured at fair value	23,051	(604)
Provision for credit losses	14,113	64,319
Stock-based compensation expense	1,437	1,496
Changes in assets and liabilities:		
Accrued interest receivable	5,354	19,240
Deferred tax assets, net	18,985	3,063
Other assets	1,673	2,708
Accounts payable and accrued expenses	1,979	1,870
Net cash provided by operating activities	190,566	169,989
Cash flows from investing activities:		
Payments received on finance receivables held for investment	260,804	379,365
Purchases of finance receivables measured at fair value	(572,938)	(756,555)
Payments received on finance receivables at fair value	354,910	200,889
Change in repossessions held in inventory	3,435	(733)
Purchase of furniture and equipment	(820)	(654)
Net cash provided by (used in) investing activities	45,391	(177,688)
Cash flows from financing activities:		
Proceeds from issuance of securitization trust debt	714,543	726,188
Proceeds from issuance of subordinated renewable notes	5,120	1,452
Payments on subordinated renewable notes	(2,412)	(3,213)
Net advances (repayments) of warehouse lines of credit	(104,685)	20,914
Repayment of residual interest financing debt	(7,757)	–
Repayment of securitization trust debt	(764,075)	(723,205)
Payment of financing costs	(4,861)	(6,099)
Purchase of common stock	(967)	(1,440)
Exercise of options and warrants	470	347
Net cash provided by (used in) financing activities	(164,624)	14,944
Increase in cash and cash equivalents	71,333	7,245
Cash and restricted cash at beginning of period	140,832	130,110
Cash and restricted cash at end of period	$ 212,165	$ 137,355
Supplemental disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ 72,565	$ 76,269
Income taxes	$ (17,561)	$ (3,231)
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,	
	2020	**2019**	**2020**	**2019**
Common Stock (Shares Outstanding)				
Balance, beginning of period	22,715	22,526	22,531	22,422
Common stock issued upon exercise of options and warrants	13	–	269	483
Repurchase of common stock	(219)	–	(291)	(379)
Balance, end of period	22,509	22,526	22,509	22,526
Common Stock				
Balance, beginning of period	$ 72,402	$ 70,299	$ 71,257	$ 70,273
Common stock issued upon exercise of options and warrants	18	–	470	347
Repurchase of common stock	(762)	–	(967)	(1,440)
Stock-based compensation	539	377	1,437	1,496
Balance, end of period	$ 72,197	$ 70,676	$ 72,197	$ 70,676
Retained Earnings				
Balance, beginning of period	$ 61,100	$ 137,938	$ 139,805	$ 134,399
Cumulative change in accounting principle (Note 2)	–	–	(92,469)	–
Balance, beginning of period (as adjusted for change in accounting principle)	$ 61,100	$ 137,938	$ 47,336	$ 134,399
Net income	3,768	1,838	17,532	5,377
Balance, end of period	$ 64,868	$ 139,776	$ 64,868	$ 139,776
Accumulated Other Comprehensive Loss				
Balance, beginning of period	$ (8,421)	$ (7,554)	$ (8,421)	$ (7,554)
Pension benefit obligation	–	–	–	–
Balance, end of period	$ (8,421)	$ (7,554)	$ (8,421)	$ (7,554)
Total Shareholders' Equity	$ 128,644	$ 202,898	$ 128,644	$ 202,898

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands)

(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, 2020 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, 2019.

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 recorded value of the receivables.

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 recorded value, an adjustment would be required. Results for the third quarter include the estimated potential effect on credit performance resulting from the COVID-19 pandemic. We recorded a $3.2 million mark down to the recorded value of the portion of the receivables portfolio accounted for at fair value in the third quarter, $9.5 million in the second quarter, and $10.4 million in the first quarter. The mark down is reflected as a reduction in revenue for each period.

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 recorded 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, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Direct mail revenues	$ 760	$ 1,121	$ 2,444	$ 3,508
Convenience fee revenue	280	600	1,340	1,870
Recoveries on previously charged-off contracts	4	30	79	132
Sales tax refunds	192	200	601	631
Other	3	43	44	114
Other income for the period	$ 1,239	$ 1,994	$ 4,508	$ 6,255

Leases

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:

	September, 2020	December 31, 2019
	(In thousands)	
Operating Leases		
Operating lease right-of-use assets	$ 23,735	$ 23,735
Less: Accumulated amortization right-of-use assets	(11,280)	(6,600)
Operating lease right-of-use assets, net	$ 12,455	$ 17,135
Operating lease liabilities	$ (13,698)	$ (18,527)
Finance Leases		
Property and equipment, at cost	$ 3,352	$ 876
Less: Accumulated depreciation	(945)	(150)
Property and equipment, net	$ 2,407	$ 726
Finance lease liabilities	$ (2,457)	$ (718)
Weighted Average Discount Rate		
Operating lease	5.0%	5.0%
Finance lease	6.5%	6.4%

Maturities of lease liabilities were as follows:

(In thousands) Year Ending December 31,	Operating Lease	Finance Lease
2020 (excluding the nine months ended September 30, 2020)	$ 1,959	$ 305
2021	7,458	1,217
2022	6,066	1,038
2023	1,397	71
2024	419	14
Thereafter	282	–
Total undiscounted lease payments	17,581	2,645
Less amounts representing interest	(4,524)	(188)
Lease Liability	$ 13,698	$ 2,457

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Operating lease cost	$ 1,885	$ 1,884	$ 5,654	$ 5,659
Finance lease cost	299	46	871	90
Total lease cost	$ 2,184	$ 1,930	$ 6,525	$ 5,749

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:	(In thousands)		(In thousands)	
Operating cash flows from operating leases	$ 1,945	$ 1,901	$ 5,803	$ 5,678
Operating cash flows from finance leases	256	37	737	73
Financing cash flows from finance leases	42	9	133	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, 2020, we recorded stock-based compensation costs in the amount of $539,000 and $1.4 million respectively. These stock-based compensation costs were $377,000 and $1.5 million for the three and nine months ended September 30, 2019. As of September 30, 2020, unrecognized stock-based compensation costs to be recognized over future periods equaled $3.7 million. This amount will be recognized as expense over a weighted-average period of 2.4 years.

The following represents stock option activity for the nine months ended September 30, 2020:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at the beginning of period	15,348	$ 4.59	N/A
Granted	1,600	2.47	N/A
Exercised	(269)	1.75	N/A
Forfeited	(215)	5.55	N/A
Options outstanding at the end of period	16,464	$ 4.41	3.07 years
Options exercisable at the end of period	12,816	$ 4.78	2.30 years

At September 30, 2020, the aggregate intrinsic value of options outstanding and exercisable was $5.5 million and $4.1 million, respectively. There were 269,100 options exercised for the nine months ended September 30, 2020 compared to 482,500 for the comparable period in 2019. The total intrinsic value of options exercised was $308,000 and $1.4 million for the nine-month periods ended September 30, 2020 and 2019. There were 72,581 shares available for future stock option grants under existing plans as of September 30, 2020.

Purchases of Company Stock

The table below describes the purchase of our common stock for the nine-month ended September 30, 2020 and 2019:

	Nine Months Ended			
	September 30, 2020		September 30, 2019	
	Shares	Avg. Price	Shares	Avg. Price
Open market purchases	44,247	$ 2.94	335,546	$ 3.95
Shares redeemed upon net exercise of stock options	46,909	2.86	18,424	3.76
Other purchases	200,000	3.51	24,500	4.20
Total stock purchases	291,156	$ 3.32	378,470	$ 3.97

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, 2020, 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.

Adoption of New Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2016-13, which changes the criteria under which credit losses on financial instruments (such as the Company’s finance receivables) are measured. ASU 2016-3 introduces a new credit reserving model known as the Current Expected Credit Loss (“CECL”) model, which replaces the incurred loss impairment methodology previously used under U.S. GAAP with a methodology that records currently the expected lifetime credit losses on financial instruments. To establish such lifetime credit loss estimates, consideration of a broadened range of reasonable and supportable information to establish credit loss estimates is required. 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, with early adoption permitted.

Effective January 1, 2020, the Company adopted the CECL model. The adoption of CECL required that we establish an allowance for the remaining expected lifetime credit losses on the portion of the Company’s receivable portfolio for which the Company was not already using fair value accounting. We refer to that portion, which is those receivables that were originated prior to January 2018, as our “legacy portfolio”. To comply with CECL, the Company recorded an addition to its allowance for finance credit losses of $127.0 million. In accordance with the rules for adopting CECL, the offset to the addition to the allowance for finance credit losses was a tax affected reduction to retained earnings using the modified retrospective method, and not a current period expense.

Coronavirus Pandemic

In December 2019, a new strain of coronavirus (the “COVID-19 virus”) originated in Wuhan, China. Since its discovery, the COVID-19 virus has spread throughout the world, and the outbreak has been declared to be a pandemic by the World Health Organization. We refer from time to time in this report to the outbreak and spread of the COVID-19 virus as “the pandemic.”

Results for the nine-month period ending September 30, 2020 include the estimated potential effect on credit performance resulting from the pandemic. We recorded a $14.1 million charge to the provision for credit losses for the legacy portfolio accounted for under CECL and a $23.1 million mark down to the recorded value of the finance receivables measured at fair value.

The pandemic itself, if sufficient numbers of people were to be afflicted, could cause obligors under our automobile contracts to be unable to pay their contractual obligations. As the future course of the COVID-19 pandemic is as yet unknown, its direct effect on future obligor payments is likewise uncertain.

The mandatory shutdown of large portions of the United States economy pursuant to emergency restrictions has impaired and will impair the ability of obligors under our automobile contracts to pay their contractual obligations. The extent to which that ability will be impaired, and the extent to which public ameliorative measures such as stimulus payments and enhanced unemployment benefits may restore such ability, cannot be estimated.

We measure our portfolio of finance receivables carried at fair value with consideration for unobservable inputs that 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. The pandemic and the adverse effect it may have on the U.S. economy and our obligors may cause us to consider significant changes in any of those inputs, which in turn may have a significant effect on our fair value measurement.

(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, 2020	December 31, 2019
	(In thousands)	
Finance receivables		
Automobile finance receivables, net of unearned interest	$ 576,227	$ 895,566
Unearned acquisition fees and originations costs	1,054	1,964
Finance receivables	$ 577,281	$ 897,530

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, 2020 and December 31, 2019:

	September 30, 2020		December 31, 2019	
	(In thousands)			
Delinquency Status				
Current	$	490,096	$	698,870
31 - 60 days		57,463		107,951
61 - 90 days		21,760		57,395
91 + days		6,908		31,350
	$	576,227	$	895,566

Finance receivables totaling $6.9 million and $31.4 million at September 30, 2020 and December 31, 2019, respectively, including all receivables greater than 90 days delinquent, have been placed on non-accrual status as a result of their delinquency status.

Allowance for Credit Losses – Finance Receivables

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of finance receivables to present the net amount expected to be collected. Charge offs are deducted from the allowance when management believes that collectability is unlikely.

Management estimates the allowance using relevant available information, from internal and external sources, relating to past events, current conditions and, reasonable and supportable forecasts. We believe our historical credit loss experience provides the best basis for the estimation of expected credit losses. Consequently, we use historical loss experience for older receivables, aggregated into vintage pools based on their calendar quarter of origination, to forecast expected losses for less seasoned quarterly vintage pools.

We measure the weighted average monthly incremental change in cumulative net losses for the vintage pools in the relevant historical period. For the pools in the relevant historical period, we consider each pool’s performance from its inception through the end of the current period. We then apply the results of the historical analysis to less seasoned vintage pools beginning with each vintage pool’s most recent actual cumulative net loss experience and extrapolating from that point based on the historical data. We believe the pattern and magnitude of losses on older vintages allows us to establish a reasonable and supportable forecast of less seasoned vintages.

Our contract purchase guidelines are designed to produce a homogenous portfolio. For key credit characteristics of individual contracts such as obligor credit history, job stability, residence stability and ability to pay, there is relatively little variation from the average for the portfolio. Similarly, for key structural characteristics such as loan-to-value, length of contract, monthly payment and amount financed, there is relatively little variation from the average for the portfolio. Consequently, we do not believe there are significant differences in risk characteristics between various segments of our portfolio.

Our methodology incorporates historical pools that are sufficiently seasoned to capture the magnitude and trends of losses within those vintage pools. Furthermore, the historical period encompasses a substantial volume of receivables over periods that include fluctuations in the competitive landscape, the Company’s rates of growth, size of our managed portfolio and fluctuations in economic growth and unemployment.

In consideration of the depth and breadth of the historical period, and the homogeneity of our portfolio, we generally do not adjust historical loss information for differences in risk characteristics such as credit or structural composition of segments of the portfolio or for changes in environmental conditions such as changes in unemployment rates, collateral values or other factors. However, we have considered how certain qualitative factors may affect future credit losses and have incorporated our judgement of the effect of such factors into our estimates.

The following table presents the amortized cost basis of our finance receivables by annual vintage as of September 30, 2020 and December 31, 2019.

Annual Vintage Pool	September 30, 2020	December 31, 2019
	(In thousands)	
2012 and prior	$ 851	$ 2,432
2013	6,212	15,489
2014	29,878	61,290
2015	95,522	162,242
2016	190,788	292,360
2017	252,976	361,753
	$ 576,227	$ 895,566

At the adoption of CECL, the Company recorded an addition to its allowance for finance credit losses of $127.0 million. In accordance with the rules for adopting CECL, the offset to the addition to the allowance for finance credit losses was a tax affected reduction to retained earnings using the modified retrospective method.

In consideration of the uncertainty associated with the pandemic, the Company made additional provision for credit losses on finance receivables for the for the three-month and nine-month periods ended September 30, 2020, in the amounts of $7.4 million and $14.1 million, respectively.

The following table presents a summary of the activity for the allowance for finance credit losses for the three-month and nine-month periods ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 98,602	$ 32,664	$ 11,640	$ 67,376
Early adoption of CECL	–	n/a	127,000	n/a
Provision for credit losses on finance receivables	7,400	19,874	14,113	64,319
Charge-offs	(15,574)	(46,118)	(73,096)	(149,038)
Recoveries	3,790	6,320	14,561	30,083
Balance at end of period	$ 94,218	$ 12,740	$ 94,218	$ 12,740

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, 2020	December 31, 2019
	(In thousands)	
Gross balance of repossessions in inventory	$ 17,005	$ 28,933
Allowance for losses on repossessed inventory	(12,896)	(21,389)
Net repossessed inventory included in other assets	$ 4,109	$ 7,544

(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, 2020 (2)	Initial Principal	Outstanding Principal at September 30, 2020	Outstanding Principal at December 31, 2019	Weighted Average Contractual Interest Rate at September 30, 2020
		(Dollars in thousands)				
CPS 2014-C	December 2021	$ –	$ 273,000	$ –	$ 19,758	–
CPS 2014-D	March 2022	–	267,500	–	23,755	0.00%
CPS 2015-A	June 2022	14,892	245,000	13,337	26,713	5.95%
CPS 2015-B	September 2022	22,065	250,000	21,661	36,338	5.71%
CPS 2015-C	December 2022	33,602	300,000	33,634	53,579	6.44%
CPS 2016-A	March 2023	41,934	329,460	44,498	71,599	6.87%
CPS 2016-B	June 2023	53,268	332,690	53,973	82,667	7.30%
CPS 2016-C	September 2023	54,865	318,500	54,750	83,696	7.31%
CPS 2016-D	April 2024	44,381	206,325	42,622	65,021	5.63%
CPS 2017-A	April 2024	49,404	206,320	47,265	71,450	5.58%
CPS 2017-B	December 2023	61,113	225,170	47,090	76,201	4.82%
CPS 2017-C	September 2024	63,388	224,825	54,006	80,315	4.68%
CPS 2017-D	June 2024	65,532	196,300	55,937	83,801	4.16%
CPS 2018-A	March 2025	70,923	190,000	60,777	91,258	3.98%
CPS 2018-B	December 2024	84,265	201,823	76,306	111,188	4.39%
CPS 2018-C	September 2025	98,583	230,275	87,227	130,064	4.51%
CPS 2018-D	June 2025	116,839	233,730	101,011	149,470	4.45%
CPS 2019-A	March 2026	147,942	254,400	130,663	186,900	4.28%
CPS 2019-B	June 2026	143,956	228,275	134,066	184,308	3.84%
CPS 2019-C	September 2026	167,813	243,513	158,699	216,650	3.18%
CPS 2019-D	December 2026	212,273	274,313	202,755	265,035	2.73%
CPS 2020-A	March 2027	210,936	260,000	207,905	–	2.72%
CPS 2020-B	June 2027	203,947	202,343	179,851	–	2.92%
CPS 2020-C (3)	November 2027	193,242	252,200	252,200	–	1.58%
		$ 2,155,163	$ 5,945,962	$ 2,060,233	$ 2,109,766	

(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 $225.1 million in 2020, $717.6 million in 2021, $510.7 million in 2022, $396.7 million in 2023, $92.0 million in 2024, $86.8 million in 2025, and $18.7 million in 2026.*

(2) *Includes repossessed assets that are included in Other assets on our Unaudited Condensed Consolidated Balance Sheet.*

(3) *An additional $63.7 million of receivables were pledged to CPS 2020-C in October 2020.*

Debt issuance costs of $12.1 million and $12.0 million as of September 30, 2020 and December 31, 2019, 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, 2020, 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, 2020, restricted cash under the various agreements totaled approximately $200.91 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 September 15, 2020 we completed our third securitization transaction of 2020. In the transaction, qualified institutional buyers purchased $252.2 million of asset-backed notes secured by $260 million in automobile receivables purchased by us. The sold notes, issued by CPS Auto Receivables Trust 2020-C, consist of six classes. Ratings of the notes were provided by Moody’s and DBRS, 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 2.39%.

(4) ***Debt***

The terms and amounts of our other debt outstanding at September 30, 2020 and December 31, 2019 are summarized below:

			Amount Outstanding at	
			September 2020	December 31, 2019
			(In thousands)	
Description	Interest Rate	Maturity		
Warehouse lines of credit	5.50% over one month Libor (Minimum 6.50%)	February 2021	$ 11,539	$ 40,558
	3.00% over one month Libor (Minimum 3.75%)	November 2020	20,559	96,225
	4.00% over a commercial paper rate (Minimum 5.00%)	December 2021	–	–
Residual interest financing	8.60%	January 2026	32,243	40,000
Subordinated renewable notes	Weighted average rate of 10.24% and 9.75% at September 30, 2020 and December 31, 2019 , respectively	Weighted average maturity of December 2022 and April 2022 at September 30, 2020 and December 31, 2019, respectively	20,242	17,534
			$ 84,583	$ 194,317

Unamortized debt issuance costs of $243,000 and $522,000 as of September 30, 2020 and December 31, 2019, respectively, have been excluded from the amount reported above for residual interest financing. Similarly, unamortized debt issuance costs of $897,000 and $2.0 million as of September 30, 2020 and December 31, 2019, 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.

(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,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Interest on finance receivables	$ 29,753	$ 49,912	$ 101,333	$ 167,862
Interest on finance receivables at fair value	42,808	32,903	125,273	83,696
Mark to finance receivables measured at fair value	(3,152)	–	(23,051)	–
Other interest income	21	713	665	2,264
Interest income	$ 69,430	$ 83,528	$ 204,220	$ 253,822

The following table presents the components of interest expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Securitization trust debt	$ 21,605	$ 24,208	$ 67,770	$ 72,662
Warehouse lines of credit	1,856	2,407	6,294	6,387
Residual interest financing	876	956	2,734	2,867
Subordinated renewable notes	564	369	1,579	1,017
Interest expense	$ 24,901	$ 27,940	$ 78,377	$ 82,933

(6) ***Earnings Per Share***

Earnings per share for the three-month and nine-month periods ended September 30, 2020 and 2019 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-month and nine-month periods ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	22,666	22,526	22,630	22,378
Incremental common shares attributable to exercise of outstanding options and warrants	1,242	1,540	1,195	1,724
Weighted average number of common shares used to compute diluted earnings per share	23,908	24,066	23,825	24,102

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, 2020 would have included an additional 14.2 million and 13.5 million shares, respectively, attributable to the exercise of outstanding options and warrants. For the three-month and nine-month periods ended September 30, 2019, an additional 10.6 million and 10.6 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.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was adopted, providing wide ranging economic relief for individuals and businesses. One component of the CARES Act provides the Company with an opportunity to carry back net operating losses (“NOLs”) arising from 2018, 2019 and 2020 to the prior five tax years. The Company has such NOLs reflected on its balance sheet as a portion of deferred tax assets. The Company has previously valued its NOLs at the federal corporate income tax rate of 21%. However, the provisions of the CARES Act provide for NOL carryback claims to be calculated based on a rate of 35%, which was the federal corporate tax rate in effect for the carryback years. Consequently, the Company has revalued the benefit from its NOLs to reflect a 35% tax rate. The result of the revaluation of NOLs and other tax adjustments is a net tax benefit of $8.8 million, which is reflected in income taxes for the nine-month period ending September 30, 2020.

As of September 30, 2020, and December 31, 2019, 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.

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 $31.0 million as of September 30, 2020 is more likely than not based on forecasted future net earnings. Our net deferred tax asset of $31.0 million consists of approximately $20.3 million of net U.S. federal deferred tax assets and $10.7 million of net state deferred tax assets.

Income tax expense was $2.1 million for the three months ended September 30, 2020. Income tax benefit was $3.9 million (3,888) for the nine months ended September 30, 2020, which includes net tax benefits of $8.8 million. Excluding the tax benefit, income tax expense would have been $8.7 million for the nine months ended September 30, 2020, representing an effective income tax rate of 36%. For the prior year period, 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%.

(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.

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, 2020, our best estimate of probable incurred losses for legal contingencies, including the matters identified above, and consumer claims. 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, 2020 is immaterial, and that the range of reasonably possible losses for the legal proceedings and contingencies we face, including those described or identified above, as of September 30, 2020 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 effect on our fair value measurement.

For the period ended September 30, 2020, the Company considered the effect of the pandemic on the portfolio of finance receivables carried at fair value and recorded a mark down to that portfolio of $23.1 million.

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)		(In thousands)	
Balance at beginning of period	$ 1,537,649	$ 1,158,365	$ 1,444,038	$ 821,066
Finance receivables at fair value acquired during period	173,209	261,929	572,938	756,555
Payments received on finance receivables at fair value	(132,847)	(83,384)	(354,910)	(200,889)
Net interest income accretion on fair value receivables	(33,904)	(24,309)	(98,060)	(64,131)
Mark to fair value	(3,152)	604	(23,051)	604
Balance at end of period	$ 1,540,955	$ 1,313,205	$ 1,540,955	$ 1,313,205

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

	September 30, 2020		December 31, 2019	
	Contractual Balance	Fair Value	Contractual Balance	Fair Value
	(In thousands)			
Finance receivables measured at fair value	$ 1,658,662	$ 1,540,955	$ 1,492,803	$ 1,444,038

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

Financial Instrument	Fair Values as of			Inputs as of	
	September 30, 2020	December 31, 2019	Unobservable Inputs	September 30, 2020	December 31, 2019
	(In thousands)				
Assets:					
Finance receivables measured at fair value	$ 1,540,955	$ 1,444,038	Discount rate	10.5% - 11.1%	8.9% - 11.1%
			Cumulative net losses	16.4% - 18.4%	15.0% - 16.1%

The following table summarizes the delinquency status of these finance receivables measured at fair value as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
	(In thousands)	
Delinquency Status		
Current	$ 1,530,301	$ 1,344,883
31 - 60 days	76,208	81,262
61 - 90 days	27,616	34,280
91 + days	9,159	15,167
Repo	15,378	17,211
	$ 1,658,662	$ 1,492,803

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, 2020 the finance receivables related to the repossessed vehicles in inventory totaled $17.0 million. We have applied a valuation adjustment, or loss allowance, of $12.9 million, which is based on a recovery rate of approximately 24.2%, resulting in an estimated fair value and carrying amount of $4.1 million. The fair value and carrying amount of the repossessed inventory at December 31, 2019 was $7.5 million after applying a valuation adjustment of $21.4 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, 2020 and 2019.

The estimated fair values of financial assets and liabilities at September 30, 2020 and December 31, 2019, were as follows:

Financial Instrument	As of September 30, 2020 (In thousands)				
	Carrying Value	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$ 11,253	$ 11,253	$ –	$ –	$ 11,253
Restricted cash and equivalents	200,912	200,912	–	–	200,912
Finance receivables, net	483,063	–	–	450,325	450,325
Accrued interest receivable	6,291	–	–	6,291	6,291
Liabilities:					
Warehouse lines of credit	$ 31,201	$ –	$ –	$ 31,201	$ 31,201
Accrued interest payable	4,937	–	–	4,937	4,937
Residual interest financing	32,000	–	–	32,000	32,000
Securitization trust debt	2,048,089	–	–	2,137,877	2,137,877
Subordinated renewable notes	20,242	–	–	20,242	20,242

Financial Instrument	As of December 31, 2019 (In thousands)				
	Carrying Value	Fair Value Measurements Using: Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$ 5,295	$ 5,295	$ –	$ –	$ 5,295
Restricted cash and equivalents	135,537	135,537	–	–	135,537
Finance receivables, net	885,890	–	–	841,160	841,160
Accrued interest receivable	11,645	–	–	11,645	11,645
Liabilities:					
Warehouse lines of credit	$ 134,791	$ –	$ –	$ 134,791	$ 134,791
Accrued interest payable	5,254	–	–	5,254	5,254
Residual interest financing	39,478	–	–	39,478	39,478
Securitization trust debt	2,097,728	–	–	2,116,520	2,116,520
Subordinated renewable notes	17,534	–	$ –	17,534	17,534

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, 2020, we have originated a total of approximately $16.8 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:

	$ in thousands	
Period	**Contracts Purchased in Period**	**Managed Portfolio at Period End**
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
2019	1,002,782	2,416,042
Nine months ended September 30, 2020	575,876	2,250,395

Since April 2020, due to the onset of the pandemic, we have seen a decrease in the monthly volumes of our contract purchases compared to the prior year period and also compared to our first quarter of 2020.

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 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. For contracts acquired before 2018, we adopted CECL on January 1, 2020 and we may, as circumstances warrant, record as expense provisions for credit losses, as we did during the three-month and nine-month periods ended September 30, 2020 as a result of the uncertainty related to the pandemic.

Since 1994 we have conducted 87 term securitizations of automobile contracts that we originated. As of September 30, 2020, 22 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:

Recent Asset-Backed Term Securitizations

	$ in thousands	
Period	**Number of Term Securitizations**	**Receivables Pledged in Term Securitizations**
2015	3	$ 795,000
2016	4	1,214,997
2017	4	870,000
2018	4	883,452
2019	4	1,014,124
Nine months ended September 30, 2020	3	741,867

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. The revolving period for this facility was extended to November 2020. 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 and again in December 2019, extending the revolving period to December 2021, followed by an amortization period to December 2023.

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, 2020, we were in compliance with all such covenants.

Results of Operations

Comparison of Operating Results for the three months ended September 30, 2020 with the three months ended September 30, 2019

Revenues. During the three months ended September 30, 2020, our revenues were $70.7 million, a decrease of $14.9 million, or 17.4%, from the prior year revenue of $85.5 million. The primary reason for the decrease in revenues is a decrease in interest income and a mark down to the recorded value of the portion of the receivables portfolio accounted for at fair value. Interest income for the three months ended September 30, 2020 decreased $10.9 million, or 13.1%, to $72.6 million from $83.5 million in the prior year. The primary reason for the decrease in interest income is the continued runoff of our portfolio of finance receivables originated prior to January 2018, which accrued interest at an average of 18.5%, which is offset only in part by the increase in our portfolio of receivables measured at fair value, which are those originated since January 2018. 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 the two components of our loan portfolio for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30,					
	2020			2019		
	(Dollars in thousands)					
	Average Balance	Interest	Interest Yield	Average Balance	Interest	Interest Yield
Interest Earning Assets						
Finance receivables	$ 624,532	$ 29,775	19.1%	$ 1,105,087	$ 50,625	18.3%
Finance receivables measured at fair value	1,646,022	42,807	10.4%	1,304,012	32,903	10.1%
Total	$ 2,270,554	$ 72,582	12.8%	$ 2,409,099	$ 83,528	13.9%

Revenues for the third quarter of 2020 include a $3.2 million mark down to the recorded value of the finance receivables measured at fair value. The mark down is an estimate based on our evaluation of the appropriate fair value and future earnings rate of existing receivables compared to recently acquired receivables and our assessment of potential additional future net losses arising from the pandemic.

In the three months ended September 30, 2020, other income of $1.2 million decreased by $755,000, or 37.9% compared to the prior year. The three-month period ended September 30, 2020 includes a decrease of $361,000 in revenues associated with direct mail and other related products and services that we offer to our dealers and a decrease of $320,000 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 internal rate of return or the recorded value 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 purchased 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 $64.8 million for the three months ended September 30, 2020, compared to $82.7 million for the prior period, a decrease of $17.9 million, or 21.7%. The decrease is primarily due to a decrease in provision for credit losses.

Employee costs decreased by $1.1 million or 5.4%, to $19.2 million during the three months ended September 30, 2020, representing 29.6% of total operating expenses, from $20.3 million for the prior year, or 24.5% 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, 2020 and 2019:

	September 30, 2020	September 30, 2019
	Amount	Amount
	($ in millions)	
Contracts purchased (dollars)	$ 174.0	$ 262.1
Contracts purchased (units)	9,106	14,353
Managed portfolio outstanding (dollars)	$ 2,250.4	$ 2,412.6
Managed portfolio outstanding (units)	168,071	177,575
Number of Originations staff	161	203
Number of Sales staff	94	118
Number of Servicing staff	472	622
Number of other staff	73	75
Total number of employees	800	1,018

During the second quarter, we laid off 114 staff members due to the decrease in our business caused by the pandemic. Throughout the third quarter we experienced further staff reductions due in part to the fact that our contract purchases have not returned to pre-pandemic levels. If our contract purchase volumes remain at current levels, we expect somewhat lower employee costs in future periods.

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 $7.8 million, a decrease from $8.2 million in the previous year and represented 12.1% of total operating expenses.

Interest expense for the three months ended September 30, 2020 were $24.9 million and represented 38.4% of total operating expenses, compared to $27.9 million in the previous year, when it was 33.8% of total operating expenses.

Interest on securitization trust debt decreased by $2.6 million for the three months ended September 30, 2020 compared to the prior period. The average balance of securitization trust debt decreased to $1,979.5 million for the three months ended September 30, 2020 compared to $2,165.9 million for the three months ended September 30, 2019. The blended interest rates on new term securitizations have generally increased in 2017 and 2018 before declining in 2019 and 2020. 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%
October 2019	2.95%
January 2020	3.08%
June 2020	4.09%
September 2020	2.39%

The annualized average rate on our securitization trust debt was 4.4% for the three months ended September 30, 2020 compared to 4.5% in the prior year period. The annualized average rate is influenced by the manner in which the underlying securitization trust bonds are repaid. The rate tends to increase over time on any particular securitization since the structures of our securitization trusts generally provide for sequential repayment of the shorter term, lower interest rate bonds before the longer term, higher interest rate bonds.

Interest expense on subordinated renewable notes increased by $194,000. The average balance of the outstanding subordinated debt increased 30.4% to $19.7 million for the three months ended September 30, 2020 compared to $15.1 million for the three months ended September 30, 2019. The average yield of subordinated notes increased to 11.4% in the three-month period ended September 30, 2020 compared to 9.8% in the prior period.

Interest expense on warehouse debt decreased by $550,000 to $1.9 million for the three months ended September 30, 2020 compared to $2.4 million in the prior year period. The average rate on the debt also declined to 8.2% for the third quarter of 2020 compared to 9.8% for the same quarter in 2019.

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 $876,000 for the three months ended September 30, 2020 compared to $956,000 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, 2020 and 2019:

	Three Months Ended September 30,					
	2020			2019		
	(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)	$ 624,532	$ 29,775	19.1%	$ 1,105,087	$ 50,625	18.3%
Finance receivables at fair value	1,646,022	42,807	10.4%	1,304,012	32,903	10.1%
	2,270,554	72,582	12.8%	2,409,099	83,528	13.9%
Interest Bearing Liabilities						
Warehouse lines of credit	$ 90,697	1,857	8.2%	$ 98,520	2,407	9.8%
Residual interest financing	36,407	876	9.6%	40,000	956	9.6%
Securitization trust debt	1,979,491	21,605	4.4%	2,165,927	24,208	4.5%
Subordinated renewable notes	19,737	563	11.4%	15,133	369	9.8%
	$ 2,126,332	24,901	4.7%	$ 2,319,580	27,940	4.8%
Net interest income/spread		$ 47,681			$ 55,588	
Net interest yield (3)			8.1%			9.1%
Ratio of average interest earning assets to average interest bearing liabilities			107%			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, 2020 Compared to September 30, 2019		
	Total Change	Change Due to Volume	Change Due to Rate
	(In thousands)		
Interest Earning Assets			
Finance receivables gross	$ (20,850)	$ (22,099)	$ 1,249
Finance receivables at fair value	9,904	8,669	1,235
	(10,946)	(13,430)	2,484
Interest Bearing Liabilities			
Warehouse lines of credit	(550)	(187)	(363)
Residual interest financing	(80)	(80)	–
Securitization trust debt	(2,603)	(2,108)	(495)
Subordinated renewable notes	194	115	79
	(3,039)	(2,260)	(779)
Net interest income/spread	$ (7,907)	$ (11,170)	$ 3,263

The reduction in the annualized yield on our finance receivables for the three months ended September 30, 2020 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 $1,646.0 million for the three months ended September 30, 2020 compared to $1,304.0 million in the prior year period.

Effective January 1, 2020, the Company adopted *Accounting Standards Update 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments.* The amendment introduces a new credit reserving model known as the Current Expected Credit Loss model, generally referred to as CECL. Adoption of CECL required the establishment of an allowance for the remaining expected lifetime credit losses on the portion of the Company's receivable portfolio that was originated prior to January 2018. To comply with CECL, the Company recorded an addition to its allowance for finance credit losses of $127.0 million. In accordance with the rules for adopting CECL, the offset to the addition to the allowance for finance credit losses was a tax affected reduction to retained earnings using the modified retrospective method.

Provision for credit losses was $7.4 million for the three months ended September 30, 2020. The provision represents our estimate of additional forecasted losses that may be incurred on the portfolio of finance receivables resulting from the pandemic. Such losses were not considered in our initial estimate of remaining lifetime losses that we recorded with the adoption of CECL in January 2020. In the prior year period, prior to the adoption of CECL, provision for credit losses was $19.9 million.

The allowance applies only to our finance receivables originated through December 2017, which we refer to as our legacy portfolio. 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 decreased by $1.2 million to $3.2 million during the three months ended September 30, 2020 and represented 4.9% of total operating expenses. We purchased $174.0 million of new contracts during the three months ended September 30, 2020 compared to $262.1 million in the prior year period. In our second quarter of 2020, we experienced a significant reduction in contract purchases due to the pandemic and partial shutdown of the economy. In our third quarter our contract purchase volumes increased but have not recovered to pre-pandemic levels.

Occupancy expenses was $1.8 million for the three months ending September 30, 2020 and 2019.

Depreciation and amortization expenses increased to $438,000 compared to $276,000 in the previous year and represented 0.7% of total operating expenses.

For the three months ended September 30, 2020 we recorded income tax expense of $2.1 million, representing a 36% effective tax rate. In the prior year period, we our income tax expense was $991,000, for an effective income tax rate of 35%.

Comparison of Operating Results for the nine months ended September 30, 2020 with the nine months ended September 30, 2019

Revenues. During the nine months ended September 30, 2020, our revenues were $208.7 million, a decrease of $51.3 million, or 19.7%, from the prior year revenue of $260.1 million. The primary reason for the decrease in revenues is a decrease in interest income and a mark down to the recorded value of the portion of the receivables portfolio accounted for at fair value. Interest income for the nine months ended September 30, 2020 decreased $26.5 million, or 10.5%, to $227.3 million from $253.8 million in the prior year. The primary reason for the decrease in interest income is the continued runoff of our portfolio of finance receivables originated prior to January 2018, which accrued interest at an average of 18.5%, which is offset only in part by the increase in our portfolio of receivables measured at fair value, which are those originated since January 2018. 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 nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,					
	2020			2019		
	(Dollars in thousands)					
	Average Balance	Interest	Interest Yield	Average Balance	Interest	Interest Yield
Interest Earning Assets						
Finance receivables	$ 734,195	$ 101,998	18.5%	$ 1,268,190	$ 170,126	17.9%
Finance receivables measured at fair value	1,619,399	125,273	10.3%	1,131,888	83,696	9.9%
Total	$ 2,353,594	$ 227,271	12.9%	$ 2,400,078	$ 253,822	14.1%

Revenues for the nine months ended September 30, 2020 include a $23.1 million mark down to the recorded value of the finance receivables measured at fair value. The mark down is an estimate based on our evaluation of the appropriate fair value and future earnings rate of existing receivables compared to recently acquired receivables and our assessment of potential additional future net losses arising from the pandemic.

In the nine months ended September 30, 2020, other income of $4.5 million decreased by $1.7 million, or 27.9% compared to the prior year. The nine-month period ended September 30, 2020 includes a decrease of $1.3 million in revenues associated with direct mail and other related products and services that we offer to our dealers and a decrease of $530,000 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 internal rate of return or the recorded value 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 purchased 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 $195.1 million for the nine months ended September 30, 2020, compared to $251.8 million for the prior period, a decrease of $56.7 million, or 22.5%. The decrease is primarily due to a decrease in provision for credit losses.

Employee costs increased by $1.8 million or 3.0%, to $60.8 million during the nine months ended September 30, 2020, representing 31.2% of total operating expenses, from $59.0 million for the prior year, or 23.4% 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 nine-month periods ended, September 30, 2020 and 2019:

	September 30, 2020	September 30, 2019
	Amount	Amount
	($ in millions)	
Contracts purchased (dollars)	$ 575.9	$ 755.3
Contracts purchased (units)	31,475	42,534
Managed portfolio outstanding (dollars)	$ 2,250.4	$ 2,412.6
Managed portfolio outstanding (units)	168,071	177,575
Number of Originations staff	161	203
Number of Sales staff	94	118
Number of Servicing staff	472	622
Number of other staff	73	75
Total number of employees	800	1,018

In the first Quarter of 2020, prior to the onset of the pandemic, our employee costs were greater than in the first quarter of 2019. Those increases have been partially offset by decreases since the first quarter of 2020, which are the result of staff reductions due in part to the fact that our contract purchases have not returned to pre-pandemic levels. If our contract purchase volumes remain at current levels, we expect somewhat lower employee costs in future periods.

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 $24.4 million, a decrease from $25.1 million in the previous year and represented 12.5% of total operating expenses.

Interest expense for the nine months ended September 30, 2020 were $78.4 million and represented 40.2% of total operating expenses, compared to $82.9 million in the previous year.

Interest on securitization trust debt decreased by $4.9 million for the nine months ended September 30, 2020 compared to the prior period. The average balance of securitization trust debt decreased to $2,058.1 million for the nine months ended September 30, 2020 compared to $2,178.4 million for the nine months ended September 30, 2019. The blended interest rates on new term securitizations have generally increased in 2017 and 2018 before declining in 2019 and 2020. 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%
October 2019	2.95%
January 2020	3.08%
June 2020	4.09%
September 2020	2.39%

The annualized average rate on our securitization trust debt was 4.4% for the nine months ended September 30, 2020 and 2019. The annualized average rate is influenced by the manner in which the underlying securitization trust bonds are repaid. The rate tends to increase over time on any particular securitization since the structures of our securitization trusts generally provide for sequential repayment of the shorter term, lower interest rate bonds before the longer term, higher interest rate bonds.

Interest expense on subordinated renewable notes increased by $563,000. The average balance of the outstanding subordinated debt increased 30.0% to $18.8 million for the nine months ended September 30, 2020 compared to $14.5 million for the nine months ended September 30, 2019. The average yield of subordinated notes increased to 11.2% in the nine-month period ended September 30, 2020 compared to 9.3% in the prior period.

Interest expense on warehouse debt decreased by $93,000 for the nine months ended September 30, 2020 compared to the prior period. The average rate on the debt was 7.8% in 2020 compared to 10.0% in the prior year while the average balance of the warehouse debt increased to $107.4 million from $85.3 million.

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 $2.7 million for the current year period and $2.9 million in the prior year period as the average outstanding balance has decreased.

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, 2020 and 2019:

	Nine Months Ended September 30,					
	2020			2019		
	(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)	$ 734,195	$ 101,998	18.5%	$ 1,233,413	$ 170,125	18.4%
Finance receivables at fair value	1,619,399	125,273	10.3%	1,131,888	83,696	9.9%
	2,353,594	227,271	12.9%	2,365,301	253,821	14.3%
Interest Bearing Liabilities						
Warehouse lines of credit	$ 107,388	6,294	7.8%	$ 85,289	6,387	10.0%
Residual interest financing	37,959	2,734	9.6%	40,000	2,867	9.6%
Securitization trust debt	2,058,110	67,770	4.4%	2,178,437	72,662	4.4%
Subordinated renewable notes	18,847	1,580	11.2%	14,513	1,017	9.3%
	$ 2,222,304	78,378	4.7%	$ 2,318,239	82,933	4.8%
Net interest income/spread		$ 148,893			$ 170,888	
Net interest yield (3)			8.2%			9.5%
Ratio of average interest earning assets to average interest bearing liabilities			106%			102%

(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, 2020 Compared to September 30, 2019		
	Total Change	Change Due to Volume	Change Due to Rate
	(In thousands)		
Interest Earning Assets			
Finance receivables gross	$ (68,127)	$ (69,033)	$ 906
Finance receivables at fair value	41,577	34,867	6,710
	(26,550)	(34,166)	7,616
Interest Bearing Liabilities			
Warehouse lines of credit	(93)	2,254	(2,347)
Residual interest financing	(133)	(133)	–
Securitization trust debt	(4,892)	(4,695)	(197)
Subordinated renewable notes	563	209	354
	(4,555)	(2,365)	(2,190)
Net interest income/spread	$ (21,995)	$ (31,801)	$ 9,806

The reduction in the annualized yield on our finance receivables for the nine months ended September 30, 2020 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 $1,619.4 million for the nine months ended September 30, 2020 compared to $1,131.9 million in the prior year period.

Effective January 1, 2020, the Company adopted *Accounting Standards Update 2016-13 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments.* The amendment introduces a new credit reserving model known as the Current Expected Credit Loss model, generally referred to as CECL. Adoption of CECL required the establishment of an allowance for the remaining expected lifetime credit losses on the portion of the Company's receivable portfolio that was originated prior to January 2018. To comply with CECL, the Company recorded an addition to its allowance for finance credit losses of $127.0 million. In accordance with the rules for adopting CECL, the offset to the addition to the allowance for finance credit losses was a tax affected reduction to retained earnings using the modified retrospective method.

Provision for credit losses was $14.1 million for the nine months ended September 30, 2020. The provision represents our estimate of additional losses that may be incurred on the portfolio of finance receivables resulting from the pandemic. Such losses were not considered in our initial estimate of remaining lifetime losses that we recorded with the adoption of CECL in January 2020. In the prior year period, prior to the adoption of CECL, provision for credit losses was $64.3 million.

The allowance applies only to our finance receivables originated through December 2017, which we refer to as our legacy portfolio. 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 decreased by $3.2 million to $10.7 million during the nine months ended September 30, 2020 and represented 5.5% of total operating expenses. We purchased $575.9 million of new contracts during the nine months ended September 30, 2020 compared to $755.3 million in the prior year period. In our second quarter of 2020, we experienced a significant reduction in contract purchases due to the pandemic and partial shutdown of the economy. In our third quarter our contract purchase volumes increased but have not recovered to pre-pandemic levels.

Occupancy expenses decreased by $383,000 or 6.7%, to $5.4 million compared to $5.7 million in the previous year and represented 2.7% of total operating expenses.

Depreciation and amortization expenses increased to $1.3 million compared to $789,000 in the previous year and represented 0.7% of total operating expenses.

Income tax benefit was $3.9 million for the nine months ended September 30, 2020, which includes an $8.8 million tax benefit. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was passed into law, providing wide ranging economic relief for individuals and businesses. One component of the CARES Act provides the Company with an opportunity to carry back net operating losses ("NOLs") arising from 2018, 2019 and 2020 to the prior five tax years. The Company has previously valued its NOLs at the federal corporate income tax rate of 21%. However, the CARES Act provides for NOL carryback claims to be calculated based on a rate of 35%, which was the federal corporate tax rate in effect for the carryback years. The result of the revaluation of NOLs and other tax adjustments is a net tax benefit of $8.8 million. Excluding the tax benefit, income tax expense would have been $4.9 million, representing an effective income tax rate of 36%. For the prior year period, income tax expense was $2.9 million, which represents an effective income tax rate of 35%.

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. Recent effects of the pandemic include higher volumes of payment extensions requested by our customers and, in some states, temporary suspension of our rights to repossess automobiles. The pandemic will likely have a negative effect on our delinquency and charge off experience in the future, which is not yet reflected in the tables below.

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

	September 30, 2020			September 30, 2019			December 31, 2019		
	Contracts		Amount	Contracts		Amount	Contracts		Amount
	(Dollars in thousands)								
Delinquency Experience									
Gross servicing portfolio (1)	168,071	$	2,250,395	177,575	$	2,412,638	177,604	$	2,416,042
Period of delinquency (2)									
31-60 days	9,883	$	133,671	14,071	$	195,016	13,737	$	189,214
61-90 days	3,771		49,376	6,909		94,603	6,695		91,675
91+ days	1,413		16,067	3,059		39,476	3,530		46,516
Total delinquencies (2)	15,067		199,114	24,039		329,095	23,962		327,405
Amount in repossession (3)	2,733		32,383	4,047		50,779	3,779		46,144
Total delinquencies and amount in repossession (2)	17,800	$	231,497	28,086	$	379,874	27,741	$	373,549
Delinquencies as a percentage of gross servicing portfolio	9.0%		8.8%	13.5%		13.6%	13.5%		13.6%
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	10.6%		10.3%	15.8%		15.7%	15.6%		15.5%
Extension Experience									
Contracts with one extension, accruing	30,912	$	441,306	25,036	$	337,383	27,677	$	385,673
Contracts with two or more extensions, accruing	56,204		675,607	54,182		681,939	54,440		673,918
	87,116		1,116,913	79,218		1,019,322	82,117		1,059,591
Contracts with one extension, non-accrual (4)	761		9,872	1,084		13,636	1,130		14,528
Contracts with two or more extensions, non-accrual (4)	2,505		28,126	4,435		56,347	4,441		55,436
	3,266		37,998	5,519		69,983	5,571		69,964
Total contracts with extensions	90,382	$	1,154,911	84,737	$	1,089,305	87,688	$	1,129,555

(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

	Finance Receivables Portfolio		
	September 30, 2020	September 30, 2019	December 31, 2019
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 624,532	$ 1,105,087	$ 1,192,484
Annualized net charge-offs as a percentage of average servicing portfolio (2)	14.1%	13.0%	12.2%

	Fair Value Receivables Portfolio		
	September 30, 2020	September 30, 2019	December 31, 2019
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 1,646,022	$ 1,304,012	$ 1,212,226
Annualized net charge-offs as a percentage of average servicing portfolio (2)	3.5%	3.9%	3.8%

	Total Managed Portfolio		
	September 30, 2020	September 30, 2019	December 31, 2019
	(Dollars in thousands)		
Average servicing portfolio outstanding	$ 2,270,554	$ 2,409,099	$ 2,404,710
Annualized net charge-offs as a percentage of average servicing portfolio (2)	6.4%	8.1%	8.0%

(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, 2020 and September 30, 2019 percentages represent three months ended September 30, 2020 and September 30, 2019 annualized. December 31, 2019 represents 12 months ended December 31, 2019.

Extensions

In certain circumstances we will grant obligors one-month payment extensions to assist them with temporary cash flow problems. In general, we are bound by our securitization agreements to refrain from agreeing to more than two such extensions in any 12-month period and to 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. Because financial regulatory authorities have encouraged obligors to expect payment deferrals as a response to the pandemic, we may seek amendments or waivers of our securitization agreements to relax the limits on extensions; however, we have not sought such changes in terms as of the date of this report, and if we do seek such changes, there can be no assurance that the other parties to our securitization agreements will agree to such amendments or waivers, nor as to the effect on credit performance that may result if such amendments or waivers are agreed to.

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, 2020, for accounts that received extensions from 2008 through 2019 (2020 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, 2020	% Active or Paid Off at September 30, 2020	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%	16,170	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	10,974	58.4%	6,880	36.6%	932	5.0%	19
2012	18,783	11,322	60.3%	6,665	35.5%	796	4.2%	18
2013	23,398	11,197	47.9%	11,225	48.0%	976	4.2%	23
2014	25,773	10,707	41.5%	14,240	55.3%	826	3.2%	24
2015	53,319	23,602	44.3%	28,635	53.7%	1,082	2.0%	24
2016	80,897	40,998	50.7%	37,966	46.9%	1,933	2.4%	22
2017	133,881	71,590	53.5%	55,331	41.3%	6,926	5.2%	18
2018	121,531	78,883	64.9%	36,641	30.1%	6,007	4.9%	14
2019	71,548	61,493	85.9%	8,113	11.3%	1,942	2.7%	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, 2020. 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,
	2020	2019	2019
Average number of extensions granted per month	7,256	5,152	5,962
Average number of outstanding accounts	174,549	177,094	177,256
Average monthly extensions as % of average outstandings	4.2%	2.9%	3.4%

Note: Table excludes portfolios originated and owned by third parties

	September 30, 2020		September 30, 2019		December 31, 2019	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Contracts with one extension	31,673	$ 451,178	26,120	$ 351,019	28,807	$ 400,202
Contracts with two extensions	19,028	252,189	17,816	228,337	17,895	229,555
Contracts with three extensions	13,228	161,303	14,611	187,088	14,423	181,896
Contracts with four extensions	11,281	130,279	12,372	157,264	12,367	153,170
Contracts with five extensions	8,801	95,481	8,507	104,396	8,742	103,989
Contracts with six extensions	6,371	64,481	5,311	61,201	5,454	60,743
	90,382	$ 1,154,911	84,737	$ 1,089,305	87,688	$ 1,129,555
Managed portfolio (excluding originated and owned by 3rd parties)	168,071	$ 2,250,395	177,575	$ 2,412,638	177,604	$ 2,416,042

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. During our second quarter we granted significantly more extensions than normal due to the onset of the pandemic. During our third quarter, extensions reverted to pre-pandemic levels.

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, 2020 was $190.6 million, an increase of $20.6 million, compared to net cash provided by operating activities for the nine-month period ended September 30, 2019 of $170.0 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 provided by investing activities for the nine-month period ended September 30, 2020 was $45.4 million compared to net cash used in investing activities of $177.7 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 $572.9 million and $755.3 million during the first nine months of 2020 and 2019, respectively.

Net cash used in financing activities for the nine months ended September 30, 2020 was $164.6 million compared to net cash provided by financing activities of $14.9 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 2020, we issued $714.5 million in new securitization trust debt compared to $726.2 million in the same period of 2019. We repaid $764.1 million in securitization trust debt in the nine months ended September 30, 2020 compared to repayments of securitization trust debt of $723.2 million in the prior year period. In the nine months ended September 31, 2020, we had net repayments on warehouse lines of credit of $104.7 million, compared to net advances of $20.9 million in the prior year's period.

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. Since approximately April 1, 2020, due to the onset of the pandemic, we have seen a decrease in the number of purchased 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, 2020, we had unrestricted cash of $11.3 million and $268.8 million aggregate available borrowings under our three warehouse credit facilities (assuming the availability of sufficient eligible collateral). As of September 30, 2020, we had approximately $37.2 million of such eligible collateral. 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. During the nine-month period ended September 30, 2020, we completed three securitizations aggregating $714.5 million of notes sold. We generally complete one securitization each calendar quarter and have completed four securitizations every year since 2012, except for 2015 in which we completed three. We had planned to complete a securitization in April 2020 but chose to delay it because the market for asset-backed securities had been significantly interrupted in April due to the pandemic. We have since securitized receivables in June and September 2020. The terms available to us in June were inferior to those available in September, both as to the interest rates payable on the issued bonds, and as to the aggregate amount of such bonds that we were able to sell on acceptable terms, measured as a fraction of our cost basis in the underlying receivables. If the securitization markets were to return to an unfavorable state similar to June 2020, that could have a material adverse effect on our liquidity, on our capital requirements, and on our results of operations. There is no assurance that the markets will not return to such an unfavorable state, in which case we may be required to further reduce our automobile contract purchases, win turn would cause our interest income and other portfolio related income to 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 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, 2020, we were in compliance with all such financial covenants.

We have and will continue to have a substantial amount of indebtedness. At September 30, 2020, we had approximately $2,131.5 million of debt outstanding. Such debt consisted primarily of $2,048.1 million of securitization trust debt and $31.2 million of debt from warehouse lines of credit. Our securitization trust debt has decreased by $49.6 million while our warehouse lines of credit debt has decreased by $103.6 million since December 30, 2019 (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 $20.2 million and $17.5 million in subordinated renewable notes outstanding at September 30, 2020 and 2019, respectively. On May 16, 2018, we completed a $40.0 million securitization of residual interests from previously issued securitizations. At September 30, 2020, $32.2 million of this residual interest financing debt remains outstanding ($32.0 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. Our valuation of receivables measured at fair value is a forward-looking statement, as it is dependent, among other things, on our estimates of cash to be received in the future with respect to such receivables. Each of the factors listed above as affecting charge-offs and recovery rates could have a similar effect on cash to be received in the future with respect to receivables measured at fair value. 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). The factors identified in this and other reports as "Risk Factors" could affect our revenues, expenses, liquidity and financial condition, and the timing and amount of cash received with respect to our automobile contracts.

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 16, 2020. 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.

The COVID-19 pandemic and public authorities’ responses to the pandemic have materially and adversely affected our business, and the continuation or intensification of the pandemic or of public authorities’ responses may materially affect our financial condition, liquidity and results of operations.

An outbreak of a novel strain of coronavirus (“COVID-19”) has spread throughout the world, including in the United States. The outbreak has been declared a pandemic by the World Health Organization, the president of the United States has declared a national emergency, and governments in a substantial majority of the states of the United States have imposed emergency restrictions, of varying kind and detail, on economic activity. Such restrictions have included outright bans on the conduct of business not deemed essential by the respective governments.

The pandemic itself, if sufficient numbers of people were to be afflicted, could cause obligors under our automobile contracts to be unable to pay their contractual obligations. As the future course of the COVID-19 pandemic is as yet unknown, its direct effect on future obligor payments is likewise uncertain, but we believe it may be material.

The mandatory shutdown of large portions of the United States economy pursuant to emergency restrictions has impaired and will impair the ability of obligors under our automobile contracts to pay their contractual obligations. The extent to which that ability will be impaired, and the extent to which public ameliorative measures such as stimulus payments and enhanced unemployment benefits may restore such ability, cannot be estimated, but we believe it may be material.

Obligors’ willingness to pay may be impaired as a result of any combination of the following:

- actual losses of income, resulting from emergency shutdowns, or general economic conditions, or both
- obligors’ perception of increased risk that they may suffer a loss of income in the future
- encouragement on the part of officials and others to expect deferrals and other accommodations from creditors
- emergency or permanent limitations on our ability to enforce our automobile contracts.

The extent to which these or other factors may increase obligors’ refusal to pay in accordance with the terms of our automobile contracts cannot be estimated, but we believe it may be material.

Emergency regulations in some states mandate that we refrain from enforcing our automobile contacts by repossession or by legal process. The effective dates of such mandates vary from state to state, and we expect that the effective dates will change in the future. In addition to the emergency regulations in effect as of the date of this report, federal and state governments may impose further restrictions on servicing practices, such as requiring forbearance for affected borrowers or prohibiting repossession. The effect of existing emergency mandates, and the extent and effect of any such further restrictions is uncertain, but may be material.

The pandemic itself (if sufficient numbers of people are afflicted) may adversely affect, and actions taken in response to the pandemic on a national and local level by governmental authorities have adversely affected, general and local economic conditions. We expect that such adverse effects on the economy generally will have an adverse effect on payments that we will receive in the future on our automobile contracts. Such adverse effect may be material.

Further, a general decline in economic activity, should it occur, may adversely affect the availability of automobile contracts for our purchase. We have seen a material decrease in the availability of contracts for purchase since April 2020. We are unable to predict the extent to which such a decrease may reverse, intensify or persist, nor whether or when such a decrease may end. A material and continued decrease would cause the size of our portfolio of automobile contracts to be reduced, which in turn would decrease the revenue that we may receive in the future from our portfolio of automobile contracts, in an amount that we cannot estimate at this time, but which may be material.

We measure our portfolio of finance receivables carried at fair value with consideration for unobservable inputs that 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. The pandemic and the adverse effect it may have on the U.S. economy and our obligors may cause us to consider significant changes in any of those inputs, which in turn may a significant effect on our fair value measurement.

We have substantial indebtedness.

We have and will continue to have a substantial amount of indebtedness. At September 30, 2020, we had approximately $2,131.5 million of debt outstanding. Such debt consisted primarily of $2,048.1 million of securitization trust debt and $31.2 million of debt from warehouse lines of credit. Our securitization trust debt has decreased by $49.6 million while our warehouse lines of credit debt has decreased by $103.6 million since December 31, 2019 (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 $20.2 million and $17.5 million in subordinated renewable notes outstanding at September 30, 2020 and December 31, 2019, respectively. On May 16, 2018, we completed a $40.0 million securitization of residual interests from previously issued securitizations. At September 30, 2020, $32.2 million of this residual interest financing debt remains outstanding ($32.0 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 in this report also include our recorded figures representing allowances for remaining expected lifetime credit losses, our markdown of the recorded value for the portion of our portfolio accounted for at fair value, our charge to the provision for credit losses for the our legacy portfolio, our estimates of fair value (most significantly for our receivables accounted for at fair value), our entries offsetting the preceding, and figures derived from any of the preceding. In each case, such figures are forward-looking statements because they are dependent on our estimates of cash to be received and losses to be incurred in the future. The accuracy of such estimates may be adversely affected by various factors, which include (in addition to risks relating to the COVD-19 pandemic and to the economy generally) the following: possible increased delinquencies; repossessions and losses on retail installment contracts; incorrect prepayment speed and/or discount rate assumptions; possible unavailability of qualified personnel, which could adversely affect our ability to service our portfolio; possible increases in the rate of consumer bankruptcy filings, which could adversely affect our rights to collect payments from our portfolio; other changes in government regulations affecting consumer credit; possible declines in the market price for used vehicles, which could adversely affect our realization upon repossessed vehicles; and economic conditions in geographic areas in which the Company's business is concentrated. The accuracy of such estimates may also be affected by the effects of the COVID-19 pandemic and of governmental responses to said pandemic, which have included prohibitions on certain means of enforcement of receivables, and may include additional restrictions, as yet unknown, in the future. Any or all of such factors also may affect our future financial results, as to which there can be no assurance. Any implication that past results or past consecutive earnings are indicative of future results or future earnings is disclaimed, and the reader should draw no such inference. Factors such as those identified above in relation to losses to be incurred in the future may affect future performance.

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, 2020, we repurchased 219,134 shares from existing shareholders, as reflected in the table below.

Issuer Purchases of Equity Securities

Period(1)	Total Number of Shares Purchased	Average Price Paid per Share		Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (2)	
July 2020	14,128	$	3.01	14,128	$	6,030,388
August 2020	–	$	–	–	$	6,030,388
September 2020	205,006	$	3.50	205,006	$	5,312,224
Total	219,134	$	3.47	219,134		

(1) *Each monthly period is the calendar month.*
(2) *Through September 30, 2020, 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 2, 2020

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

Date: November 2, 2020

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

Exhibit 31.1

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, 2020 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 2, 2020

/s/ CHARLES E. BRADLEY, JR.

Charles E. Bradley, Jr. Chief Executive Officer

Exhibit 31.2

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, 2020 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 2, 2020

/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, 2020, 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 2, 2020

/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.