UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______ to _______

Commission file number: 1-11416

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

CALIFORNIA	33-0459135
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
16355 LAGUNA CANYON ROAD, IRVINE, CALIFORNIA	92618
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (949) 753-6800

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes /x / No / /

As of August 20, 1999, the registrant had 20,107,501 common shares outstanding.

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PART I - FINANCIAL INFORMATION

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	June 30, 1999	December 31, 1998
ASSETS		
Cash	$ 899	$ 1,940
Restricted cash	1,619	1,619
Contracts held for sale (note 2)	90,851	165,582
Servicing fees receivable	5,830	11,148
Residual interest in securitizations (note 3)	220,378	217,848
Furniture and equipment, net	3,663	4,272
Deferred financing costs	2,819	2,817
Investment in unconsolidated affiliates	2,154	4,145
Related party receivables	1,031	3,268
Other assets	31,433	19,323
	$ 360,677	$ 431,962
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable & accrued expenses	$ 18,365	$ 9,267
Warehouse line of credit	72,801	151,857
Taxes payable	22,471	29,068
Capital lease obligation	1,839	2,132
Notes payable	3,644	2,557
Residual financing	31,625	33,000
Subordinated debt	70,000	65,000
Related party debt	20,000	20,000
	240,745	312,881
SHAREHOLDERS' EQUITY		
Preferred stock, $1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, $1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 20,107,501 and 15,658,501 shares issued and outstanding at June 30, 1999 and December 31, 1998, respectively	62,421	52,533
Retained earnings	57,511	66,548
	119,932	119,081
	$ 360,677	$ 431,962

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
REVENUES:				
Gain (loss) on sale of contracts, net (note 4)	$ (4,877)	$ 9,093	$ (6,436)	$ 19,337
Interest income (note 5)	10,730	14,524	25,331	23,596
Servicing fees	8,029	5,896	15,947	10,992
Other income (loss)	(476)	211	(611)	581
	13,406	29,724	34,231	54,506
EXPENSES:				
Employee costs	7,850	6,954	16,094	12,350
General and administrative	4,799	5,044	10,555	9,576
Interest	10,407	4,614	17,674	8,529
Marketing	1,103	2,085	2,986	2,533
Occupancy	734	498	1,444	979
Depreciation and amortization	361	270	894	603
Related party consulting fees	77	19	175	38
	25,331	19,484	49,822	34,608
Income (loss) before income taxes	(11,925)	10,240	(15,591)	19,898
Income taxes	(5,015)	4,315	(6,554)	8,370
Net income (loss)	$ (6,910)	$ 5,925	$ (9,037)	$ 11,528
Earnings (loss) per share (note 6):				
Basic	$ (0.37)	$ 0.39	$ (0.52)	$ 0.76
Diluted	$ (0.37)	$ 0.36	$ (0.52)	$ 0.70
Number of shares used in computing earnings (loss)per share (note 6):				
Basic	18,773	15,215	17,224	15,215
Diluted	18,773	16,762	17,224	16,683

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Six Months Ended June 30, 1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (9,037)	$ 11,528
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	894	603
Amortization of NIRs	14,790	10,424
Amortization of deferred financing costs	310	162
Provision for credit losses	2,593	10,004
NIR gains recognized	--	(22,885)
Gain on sale of subsidiary	--	(56)
Equity net (income) loss in unconsolidated affiliates	1,012	(322)
Net deposits into trusts	(17,321)	(26,979)
Changes in assets and liabilities:		
Purchases of contracts held for sale	(217,454)	(592,624)
Liquidation of contracts held for sale	289,592	413,982
Net change in warehouse lines of credit	(79,056)	171,559
Other assets	2,795	(6,161)
Accrued taxes and expenses	2,500	14,394
Net cash used in operating activities	(8,382)	(16,371)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment in unconsolidated affiliate	979	--
Related party receivables	(11)	(1,113)
Repayment of related party receivables	2,248	165
Investment in unconsolidated affiliate	--	(65)
Purchases of furniture and equipment	(27)	(1,157)
Net cash from sale of subsidiary	--	381
Net cash provided by (used in) investing activities	3,189	(1,789)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in residual financing	--	16,000
Issuance of subordinated debt	5,000	--
Issuance of notes payable	1,395	1,453
Repayment of residual financing debt	(1,375)	--
Repayment of capital lease obligations	(292)	(267)
Repayment of notes payable	(308)	(332)
Payment of financing costs	(312)	--
Issuance of common stock	44	--
Exercise of options and warrants	--	543
Net cash provided by financing activities	4,152	17,397
Decrease in cash	(1,041)	(763)
Cash at beginning of period	1,940	1,745
Cash at end of period	$ 899	$ 982
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 16,634	$ 7,842
Income taxes	$ 43	$ 860
Supplemental disclosure of non-cash investing and financing activities:		
Furniture and equipment acquired through capital leases	$ --	$ 482
Issuance and revaluation of common stock warrants	9,844	--
Sale of PIC Leasing, Inc.		
Net assets sold	$ --	$ 705
Net assets retained	--	(155)
Gain on sale of subsidiary	--	56
Cash received from sale of subsidiary	--	606
Less: cash relinquished upon disposition	--	(225)
Net cash received from sale of subsidiary	$ --	$ 381

See accompanying notes to condensed consolidated financial statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments that are, in the opinion of management, 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. In addition, certain items in prior period financial statements have been reclassified for comparability to current period presentation. Results for the three and six month periods ended June 30, 1999, 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 generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Alton Receivables Corp., CPS Receivables Corp., CPS Marketing, Inc., CPS Funding Corp., and CPS Warehouse Corp. The consolidated financial statements also include the accounts of SAMCO Acceptance Corp. ("SAMCO"), LINC Acceptance Company, LLC ("LINC") and CPS Leasing, Inc., each of which is 80% owned by the Company. All significant intercompany transactions and balances have been eliminated. Investments in affiliates that are not majority owned are reported using the equity method. During the six month period ended June 30, 1999, the Company terminated all operations of SAMCO and LINC.

CONTRACTS HELD FOR SALE

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

ALLOWANCE FOR CREDIT LOSSES

The Company provides an allowance for credit losses that management believes provides adequately for known and inherent losses that may develop in the Contracts held for sale. Provision for losses are charged to gain on sale of Contracts. Charge-offs, net of recoveries, are charged to the allowance. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of underlying collateral, and general economic conditions and trends.

CONTRACT ACQUISITION FEES AND DISCOUNTS

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

RESIDUAL INTEREST IN SECURITIZATIONS AND GAIN ON SALE OF CONTRACTS

The Company historically has purchased Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. The securitizations generally have been structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998 and have recently been decreased. See note 7 - "Liquidity" for a discussion of certain pre-conditions to the effectiveness of such decrease.

At the closing of each securitization, the Company removes from its consolidated balance sheet the Contracts held for sale and adds to its consolidated balance sheet (i) the cash received and (ii) the estimated fair value of the ownership interest that the Company retains in Contracts sold in securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the estimated discounted cash flows to be received from the Trust in the future, net of principal and interest payable with respect to the Certificates, and certain expenses. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

The Company allocates its basis in the Contracts between the Certificates and the Residuals retained based on the relative fair values of those portions on the date of the sale. The Company recognizes gains or losses attributable to the change in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as "held-for-trading" securities. The Company is not aware of an active market for the purchase or sale of interests such as the Residuals, and accordingly, the Company determines the estimated fair value of the Residuals by discounting the amount and timing of anticipated cash flows released from the Spread Account (the cash out method), using a discount rate that the Company believes is appropriate for the risks involved. For that valuation, the Company has used an effective discount rate of approximately 14% per annum.

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay principal and interest on the Certificates, the base servicing fees, and certain other fees (such as trustee and custodial fees). At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other

fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and the related Spread Account is at its required level, the excess is released to the Company or in certain cases is transferred to other Spread Accounts that may be below their required levels. Pursuant to certain Servicing Agreements, excess cash collected during the period is used to make accelerated principal paydowns on certain Certificates to create over-collateralization. If the Spread Account balance is not at the required credit enhancement level, then the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Servicing Agreements. Spread Account balances are held by the Trusts on behalf of the Company as the owner of the Residuals.

The annual percentage rate payable on the Contracts is significantly greater than the pass through rate on the Certificates. Accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they affect the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effects of trends in the industry. The Company has used a constant prepayment estimate of approximately 4% per annum. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. In valuing the Residuals, the Company estimates that losses as a percentage of the original principal balance will total approximately 14% cumulatively over the lives of the related Contracts.

In future periods, the Company could recognize additional revenue from the Residuals if the actual performance of the Contracts were to be better than the original estimate, or the Company could increase the estimated fair value of the Residuals. If the actual performance of the Contracts were to be worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required. Due to the inherent uncertainty of the future performance of the underlying Contracts, the Company during 1998 established a $7.8 million allowance for losses on the Residuals, which did not change during the six month period ended June 30, 1999.

(2) CONTRACTS HELD FOR SALE

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

	June 30, 1999	December 31, 1998
	(in thousands)	
Gross receivable balance	$ 98,158	$ 183,876
Unearned finance charges	(3,814)	(10,949)
Deferred acquisition fees and discounts	(2,108)	(4,594)
Allowance for credit losses	(1,385)	(2,751)
Net contracts held for sale	$ 90,851	$ 165,582

(3) RESIDUAL INTEREST IN SECURITIZATIONS

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

	June 30, 1999	December 31, 1998
	(in thousands)	
Cash, commercial paper, US government securities and other qualifying investments (Spread Account)	$ 146,574	$ 130,394
NIRs	40,010	54,800
Over collateralization	33,080	31,836
Funds held by investor	511	480
Investment in subordinated certificates	203	338
Residual interest in securitizations:	$ 220,378	$ 217,848

The following table presents the activity of the NIRs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Balance, beginning of period	$ 44,530	$ 50,910	$ 54,800	$ 45,112
NIR gains recognized	--	12,135	--	22,885
Amortization of NIRs	(4,520)	(5,472)	(14,790)	(10,424)
Balance, end of period	$ 40,010	$ 57,573	$ 40,010	$ 57,573

The following table presents estimated remaining undiscounted credit losses included in the fair value estimated of the Residuals as a percentage of the Company's servicing portfolio subject to recourse provisions:

	June 30, 1999	December 31, 1998
	(in thousands)	
Undiscounted estimated credit losses	$ 119,369	$ 169,110
Servicing subject to recourse provisions	$ 1,077,069	$ 1,362,801
Undiscounted estimated credit loses as percentage of servicing subject to recourse Provisions	11.08%	12.41%

(4) GAIN ON SALE OF CONTRACTS

The following table presents components of net gain (loss) on sale of Contracts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Gains (loss) recognized on sale........	$ (9,273)	$ 12,135	$ (9,273)	$ 22,885
Deferred acquisition fees and discounts	5,851	5,386	5,851	8,311
Expenses related to sales.............	(240)	(961)	(421)	(1,855)
Provision for credit losses...........	(1,215)	(7,467)	(2,593)	(10,004)
Net gain (loss) on sale of contracts...	$ (4,877)	$ 9,093	$ (6,436)	$ 19,337

(5) INTEREST INCOME

The following table presents the components of interest income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Interest on Contracts held for sale	$ 11,859	$ 10,793	$ 24,518	$ 18,632
Residual interest income.........	3,391	9,203	15,603	15,388
Amortization of NIRs............	(4,520)	(5,472)	(14,790)	(10,424)
Net interest income.............	$ 10,730	$ 14,524	$ 25,331	$ 23,596

(6) EARNINGS (LOSS) PER SHARE

Diluted loss per share for the three and six month periods ended June 30, 1999, was calculated using the weighted average number of shares outstanding for the related period. Diluted earnings per share for the three and six month periods ending June 30, 1998, was calculated using the weighted average number of diluted common shares outstanding including common stock equivalents which consist of certain outstanding dilutive stock options and warrants and incremental shares attributable to conversion of certain subordinated debt. The following table reconciles the number of shares used in the computations of basic and diluted earnings (loss) per share for the three and six month periods ended June 30, 1999 and 1998:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share	18,773	15,215	17,224	15,215
Incremental common shares attributable to exercise of outstanding options and..............................	- -	801	- -	722
Incremental common shares attributable to conversion of subordinated debt....................................	- -	746	- -	746
Number of common shares used to compute diluted earnings (loss) per share................................	18,773	16,762	17,224	16,683

If the anti-dilutive effects of common stock equivalents were not considered, additional shares included in diluted loss per share calculation for the three and six month periods ended June 30, 1999, would have included an additional 1.0 million and 378,000, respectively, from outstanding stock options and warrants and an additional 2.4 million from incremental shares attributable to the conversion of certain subordinated debt, for an aggregate total of approximately 22.2 million diluted shares for the three month period ending June 30, 1999 and 20.0 million diluted shares for the six month period ending June 30, 1999.

(7) LIQUIDITY

The Company's business requires substantial cash to support its operating activities. The Company's primary sources of cash from operating activities have been amounts borrowed under its various warehouse lines, servicing fees on portfolios of Contracts previously sold, proceeds from the sales of Contracts, customer payments of principal and interest on Contracts held for sale, and releases of cash from Spread Accounts. The Company's primary uses of cash have been the purchases of Contracts, repayment of amounts borrowed under its various warehouse lines, operating expenses such as employee, interest, and occupancy expenses, the establishment of and further contributions to Spread Accounts and income taxes. As a result, the Company has been dependent on its warehouse lines of credit to purchase Contracts, and on the availability of capital from outside sources in order to finance its continued operations. As of the date of this report, the Company is unable to borrow under any warehouse line of credit (due to certain defaults discussed below), and has not received any material releases of cash from Spread Accounts since June 1998. The inability to borrow and lack of releases have resulted in a liquidity deficiency. The Company's plans for remedying that deficiency are discussed below, after a review of the operating sources and uses of cash for the six month period ended June 30, 1999.

Net cash used in operating activities was $8.4 million during the six month period ended June 30, 1999, compared to $16.4 million for the six month period ended June 30, 1998. Net cash deposited into trusts was $17.3 million, a decrease of $9.7 million, or 35.8%, over net cash deposited into trusts in the six month period ended June 30, 1998.

During the six month period ended June 30, 1999, the Company did not complete a securitization transaction, and therefore, did not use any cash for initial deposits to Spread Accounts, compared to $17.1 million used during the six month period ended June 30, 1998. Cash used for subsequent deposits to Spread Accounts for the six month period ended June 30, 1999, was $18.0 million, a decrease of $7.7 million, or 30.0%, over cash used for subsequent deposits to Spread Accounts in the six month period ended June 30, 1998. Such subsequent deposits into Spread Accounts in the six month period ended June 30, 1999, include $1.2 million of cash used to pay down certain senior series of Certificates to create over-collateralization. "Over-collateralization," as used herein, means that the principal amount payable on the underlying automobile purchase contracts is greater than the total principal amount payable on the Certificates issued by the Trust. Cash released from Spread Accounts for the six month period ended June 30, 1999, was $665,000, a decrease of $15.2 million, or 95.8%, over cash released from Spread Accounts in the six month period ended June 30, 1998. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

As of June 30, 1999, 15 of the 21 Trusts had incurred cumulative net losses as a percentage of the original Contract balance or average delinquency ratios in excess of the predetermined levels specified in the respective Servicing Agreements. Accordingly, pursuant to the Servicing Agreements, the specified levels applicable to the Company's Spread Accounts were increased. Due to cross collateralization provisions of the Servicing Agreements, the increased specified levels are applicable to 19 of the Company's 21 Trusts. The higher requisite Spread Account levels range from 30% to 100% of the outstanding principal balance of the Certificates issued by the related Trusts. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, some of which have been waived on a monthly basis by the Certificate Insurer. Increased specified levels for the Spread Accounts have been in effect from time to time in the past, including the entire period from June 1998 to the present. As a result of the increased Spread Account specified levels and cross collateralization provisions, excess cash flows that would otherwise have been released to the Company instead have been retained in the Spread Accounts to bring the balance

of those Spread Accounts up to a higher level. Due to the increase in the Spread Account requirements, there have been no significant releases of cash from the Trusts since June 1998. Funding such balance increases has materially increased the Company's capital requirements, while the absence of cash releases has materially decreased its liquidity. As a result of the increased specified levels applicable to the Spread Accounts, approximately $47.7 million of cash that would otherwise have been available to the Company has been delayed and retained in the Spread Accounts as of June 30, 1999.

The acquisition of Contracts for subsequent sale in securitization transactions, and the need to fund Spread Accounts 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 the Company's Contract purchases (other than flow purchases discussed below), the required level of initial Spread Account deposits, and the extent to which the Spread Accounts either release cash to the Company or capture cash from collections on sold Contracts. As noted above, the absence of any significant releases of cash from Spread Accounts since June 1998 has materially impaired the Company's ability to meet such capital requirements. To reduce its capital requirements and to meet those requirements, the Company in November 1998 began to implement a three-part plan: the plan includes (i) issuance of debt and equity securities, (ii) agreements with the Certificate Insurer to reduce the level of initial Spread Account deposits, and to reduce the maximum levels of the Spread Accounts, and (iii) a reduction in the rate of Contract purchases.

As the first step in the plan, the Company in November 1998 and April 1999 issued $25.0 million and $5.0 million, respectively, of subordinated promissory notes (collectively, the "LLCP Notes"), to Levine Leichtman Capital Partners, L.P. ("LLCP"). The LLCP Notes are due in 2004, and bear interest at the rate of 14.5% per annum. Net proceeds received from the issuances were approximately $28.5 million. In conjunction with the LLCP Notes, the Company issued warrants to purchase up to 4,450,000 shares of common stock at $0.01 per share, 3,115,000 and 1,334,000 of which were exercised in April 1999 and May 1999, respectively. The effective cost of this new capital represents a material increase in the cost of capital to the Company. As part of the agreements for issuance of the LLCP Notes, Stanwich Financial Services Corp. ("SFSC") agreed to purchase an additional $15.0 million of notes (at least $7.5 million by July 31, 1999 and the remainder by August 31, 1999), and the Company agreed to sell such notes. The chairman and the president of the Company are the principal shareholders of SFSC, and the Company's chairman is the chief executive officer of SFSC. The terms of such additional notes are to be not less favorable to the Company than (i) those that would be available in a transaction with a non-affiliate, and (ii) those applicable to the LLCP Notes. Sale of such additional notes would likely therefore involve some degree of equity participation, which could be dilutive to other holders of the Company's common stock. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, $5.0 million of the LLCP Notes have been personally guaranteed by the chairman of the Company's board of directors and the president of the Company. As of the date of this report, SFSC has not purchased any of such additional notes.

Also in November 1998, as the second step in its plan, the Company reached an agreement with the Certificate Insurer regarding initial cash deposits. In this agreement, the Certificate Insurer committed to insure asset-backed securities issued by the Trusts with respect to at least $560.0 million of Contracts, while requiring an initial cash deposit of 3% of principal. The commitment is subject to underwriting criteria and market conditions. Of the $560.0 million committed, $310.0 million was used in the Company's December 1998 securitization transaction. The Company's agreement with the Certificate Insurer also required that the Company issue to the Certificate Insurer or its designee warrants to purchase 2,525,114 shares of the Company's common stock at $3.00 per share, exercisable through the fifth anniversary of the warrants' issuance. The number of shares issuable is subject to standard anti-dilution adjustments.

In April 1999 the Company entered into an amendment agreement (the "Amendment") with the Certificate Insurer of the Company's asset-backed securities to cap the amount of cash retained in the Spread Accounts at 21% of the outstanding securities balance for 19 of the Company's 21 securitized pools, computed on a pool by pool basis. The Amendment is subject to certain performance measures that may result in an increase in the maximum level to 25% of the outstanding principal balance of such Certificates. The effectiveness of

the Amendment is contingent upon approval by the holders of the subordinated Certificates issued by the related Trusts, and certain other conditions. As of July 31, 1999, the aggregate Spread Account balance of the related 19 Trusts was 19.2% of the outstanding principal balance of the securities. That percentage should increase as additional collections are deposited into the Spread Accounts, and as the principal of the related asset-backed securities is paid down. The Company is in discussions with the Certificate Insurer regarding proposed revisions to the Amendment, which would clarify its effect, and provide assurances requested by certain holders of the subordinated Certificates. There can be no assurance that such revisions will be agreed to.

As a third part of its plan, the Company reduced its planned level of Contract purchases initially to not more than $200.0 million per quarter beginning November 1998. In the first quarter of 1999, the Company purchased $158.0 million of Contracts. During the second quarter of 1999, the Company purchased $59.1 million of Contracts, of which $20.3 million was on a flow basis, as discussed below, and expects to purchase Contracts only on a flow basis in the remainder of 1999. The reduction in the amount of Contracts purchased for the Company's own account has materially reduced the Company's capital requirements.

Since late May 1999, the Company has purchased Contracts from Dealers without use of warehouse lines of credit, in a "flow purchase" arrangement with a third party. Under the flow purchase arrangement, the Company purchases Contracts from Dealers and sells such Contracts outright to the third party.

Purchase of Contracts on a flow basis, as compared with purchase of Contracts for the Company's own account, has materially reduced the Company's cash requirements. The Company's plan for meeting its immediate liquidity needs is (1) to liquidate its existing portfolio of Contracts held for sale, (2) to increase the quantity of Contracts that it purchases and sells on a flow basis, thus increasing the fees that it receives in connection with such purchases and sales, and (3) to await releases of cash from its Spread Accounts, pursuant to the Amendment. There can be no assurance that this plan will be successful.

During the second quarter, the Company sold, on a servicing released basis, $234.4 million of its Contracts held for sale. As of the date of this report, the Company is engaged in negotiations regarding the sale of all or substantially all of its remaining Contracts held for sale. Such sales are expected to be on a servicing released basis, and the Company will recognize a loss upon such sales. The Company expects to effect such sales at an aggregate cash price in excess of the indebtedness outstanding under its warehouse line of credit. To the extent that it is successful in doing so, the sales would release cash to the Company, which would be applied to meet in part the Company's liquidity and capital requirements identified herein. Substantially all of the Contracts that the Company proposes to sell are pledged to the lender under the Company's warehouse line of credit. That lender on August 4, 1999, declared the line to be in default, and has taken the position that it is not obligated to release its interest in any of the pledged Contracts unless it receives adequate assurances that it will be repaid all of the indebtedness outstanding under the warehouse line. Under the terms of the agreements related to the LLCP Notes and certain outstanding senior secured indebtedness of the Company (the "Senior Secured Line"), the consent of those respective lenders is also required to a sale by the Company of any material assets outside the ordinary course of business. Such lenders' consents to the proposed sales of Contracts may or may not be granted, depending on such lenders' evaluation of the proposed sale. Although the Company believes that the lenders will consent to the sales as proposed by the Company, there can be no assurance that such consents will be forthcoming.

The Company's ability to increase the quantity of Contracts that it purchases and sells on a flow basis will be subject to general competitive conditions and other factors.

Obtaining release of cash from the Spread Accounts is dependent on the Amendment's becoming effective, and on collections from the related Trusts generating sufficient cash to bring the Spread Accounts to the amended specified levels. Effectiveness of the Amendment, in turn, is dependent on the Company's obtaining consents from holders of the subordinated Certificates issued by the related Trusts, and on certain other conditions. The existing terms of the Senior Secured Line require that any such releases be used to repay principal outstanding under that line. The Company has commenced discussions with the holders of the subordinated Certificates and with the senior secured lenders regarding the consents and amendments that would be necessary to allow the Company to receive cash released from the Spread Accounts, but there can be no assurance that the necessary consents and amendments will be obtained and agreed to.

The Company is also exploring additional financing possibilities, focussing on issuance of additional secured debt. Although such explorations have involved discussions with, and expressions of interest from, various investment banks, there can be no assurance that any such transactions will take place.

(8) SUBSEQUENT EVENTS

On July 22, 1999, Bank of America commenced a lawsuit against the Company in the Superior Court of California, Orange County, seeking repayment of approximately $3 million advanced to the Company under an overdraft line of credit, plus interest, costs and attorneys' fees. The Company and Bank of America have entered into a settlement agreement, pursuant to which the Company shall repay all amounts owing, in specified installments through November 1999.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Consumer Portfolio Services, Inc. and its subsidiaries (collectively, the "Company") primarily engage in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by automobile dealers ("Dealers") located throughout the United States. In recent months, the Company has suspended its solicitation of Contract purchases in 20 states, and as of the date of this report is active in 29 states. There can be no assurance as to resumption of Contract purchasing activities in other states. Through its purchase of Contracts, the Company provides indirect financing to Dealer customers with limited credit histories, low incomes or past credit problems, who generally would not be expected to qualify for financing provided by banks or by automobile manufacturers' captive finance companies.

The major components of the Company's revenue are gains recognized on the sale or securitization of its Contracts, servicing fees earned on Contracts sold in securitizations, interest earned on Contracts held for sale, and fees earned upon sale of Contracts that were purchased on a flow basis. Because the servicing fees are dependent in part on the collections received on sold Contracts, the Company's income is affected by losses incurred on Contracts, whether such Contracts are held for sale or have been sold in securitizations.

The Company has purchased Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. From late May 1999 to the present, the Company has purchased Contracts on a flow basis for a third party; that is, the Company purchases a Contract from a Dealer, and sells the Contract the next day to the third party for the same price the Company paid. The Company also receives from the third party a fee for its services. The Company retains no interest in such Contracts, and neither services such Contracts nor earns a servicing fee.

Although the Company has been unable to sell Contracts in a securitization transaction since December 1998, it does plan to securitize in the future, as to which there can be no assurance. The Company's securitization structure has been as follows:

First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in a principal amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998. The Company and the Certificate Insurer have entered into an agreement to decrease such levels, as is discussed under the heading "Liquidity and Capital Resources." There can be no assurance that such agreement will take effect.

At the closing of each securitization, the Company removes from its consolidated balance sheet the Contracts held for sale and adds to its consolidated balance sheet (i) the cash received and (ii) the estimated fair value of the ownership interest that the Company retains in the Contracts sold in the securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the estimated discounted cash flows to be received by the Trust in the future, net of principal and interest payable with respect to the Certificates, and certain expenses. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

The Company allocates its basis in the Contracts between the Certificates and the Residuals retained based on the relative fair values of those portions on the date of the sale. The Company recognizes gains or losses attributable to the change in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as "held-for-trading" securities. The Company is not aware of an active market for the purchase or sale of interests such as the Residuals, and accordingly, the Company determines the estimated fair value of the Residuals by discounting the amount and timing of anticipated cash flows released from the Spread Account (the cash out method), using a discount rate that the Company believes is appropriate for the risks involved. For that valuation, the Company has used an effective discount rate of approximately 14% per annum.

The Company receives periodic base servicing fees for the servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay principal and interest on the Certificates, the base servicing fees, and certain other fees (such as trustee and custodial fees). At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees such as trustee and custodial fees for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company, or in certain cases is transferred to other Spread Accounts that may be below their required levels. Pursuant to certain Servicing Agreements, excess cash collected during the period is used to make accelerated principal paydowns on certain Certificates to create over-collateralization, that is, to reduce the aggregate principal balance of outstanding Certificates below the aggregate principal amount of the related automotive receivables. If the Spread Account balance is not at the required credit enhancement level, then the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Servicing Agreements. Spread Account balances are held by the Trusts on behalf of the Company as the owner of the Residuals.

The annual percentage rate payable on the Contracts is significantly greater than the rates payable on the Certificates. Accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they affect the amount and timing of the estimated cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effect of trends in the industry. The Company has used a constant prepayment estimate of approximately 4% per annum. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. In valuing the Residuals, the Company estimates that losses as a percentage of the original principal balance will total approximately 14% cumulatively over the lives of the related Contracts.

In future periods, the Company could recognize additional revenue from the Residuals if the actual performance of the Contracts were to be better than originally estimated, or the Company could increase the estimated fair value of the Residuals. If the actual performance of the Contracts were to be worse than the original estimate, then a downward adjustment to the carrying value of the Residuals would be required. Due to the inherent uncertainty of the future performance of the underlying Contracts, the Company has established a provision for future losses on the Residuals.

The structure described above is applicable to securitization transactions conducted at least once quarterly from June 1994 through December 1998. The Company did not sell any Contracts in securitization transactions during the six month period ended June 30, 1999, and there can be no assurance as to when it will next sell Contracts using the structure described above.

During the quarter ended June 30, 1999, the Company has changed its basic system of doing business. Previously, the Company would acquire Contracts for its own account, borrowing from 88% to 97% of the principal balance of such Contracts under "warehouse" lines of credit. Periodically (approximately once every quarter) the Company would then sell most or all of the recently acquired Contracts in a securitization transaction as described above. In such a sale, the Company would retain (1) a residual ownership interest in the Contracts sold, (2) the obligation to service the Contracts sold, and (3) the right to receive servicing fees. At the end of March 1999, the Company learned that it would be unable to sell Contracts in securitization transactions for an indeterminate period. Accordingly, the Company commenced purchasing Contracts for immediate re-sale to a third party, which third party purchases the Contracts in turn on a daily basis. In this arrangement, the Company retains no residual interest in the Contracts, has no servicing obligation, and receives no servicing fee. For its services in acquiring Contracts for purchase, the Company receives a per-Contract fee from the third party.

RESULTS OF OPERATIONS

The three month period ended June 30, 1999 compared to the three month period ended June 30, 1998

REVENUES. During the three months ended June 30, 1999, revenues decreased $16.3 million, or 54.9%, compared to the three month period ended June 30, 1998. Gain on sale of Contracts decreased by $14.0 million, or 153.6%, from a $9.1 million gain on sale in the second quarter of 1998 to a $4.9 million loss in the second quarter of 1999. The decrease in gain on sale is due to the Company selling Contracts only on a servicing released basis and thus not recording any NIR gains during the period. During the three month period ended June 30, 1999, the Company sold $234.4 million of Contracts on a servicing released basis, that is, with no residual interest retained, with no servicing obligation, and with no right to receive a servicing fee. That sale resulted in a net loss of approximately $9.3 million. Expenses of approximately $240,000 were incurred related to previous securitization transactions, including the amortization of a warrant issued to the Certificate Insurer in November 1998. In addition, for the three month periods ended June 30, 1999 and 1998, the Company charged against gain on sale $1.2 million and $7.5 million, respectively, of provision for losses on Contracts held for sale. The Company plans to sell, within the third quarter of 1999 and on a servicing released basis, substantially all of the remainder of its portfolio of Contracts held for sale. Although there can be no assurance as to whether such sales will take place or the exact terms thereof, the Company anticipates that it will incur a loss on such sales. Interest income decreased by $3.8 million, or 26.1%, and represented 79.9% of total revenues for the three month period ended June 30, 1999. The decrease is primarily due to the Company not selling any Contracts in securitization structures and an increase in the amortization of NIRs in accordance with the seasoning of the underlying securitized pools, as compared to the same period in the prior year. That decrease in average aggregate balance, in turn, was due primarily to the Company selling the majority of its Contracts held for sale during the second quarter. As that sale took place in the latter part of the quarter, and as the Company anticipates selling most or all of its remaining Contracts held for sale in the third quarter, interest income can be expected to decrease further in future quarters.

Servicing fees increased by $2.1 million, or 36.2%, and represented 59.9% of total revenues. The increase in servicing fees is due to the increase in the servicing portfolio. As of June 30, 1999, the Company was earning servicing fees on 128,150 sold Contracts with aggregate outstanding principal balances approximating $1,307.9 million, compared to 98,772 Contracts with aggregate outstanding principal balances approximating $1,048.6 million as of June 30, 1998. In addition to the $1,307.9 million in sold Contracts, on which servicing fees were earned, the Company was holding for sale and servicing an additional $98.8 million in Contracts, for an aggregate total servicing portfolio of $1.4 billion. The Company is not currently acquiring Contracts for its servicing portfolio, and is actively seeking to sell those Contracts in its servicing portfolio that it holds for its own account. In addition, those Contracts that remain in the Company's servicing portfolio are self-amortizing, and the aggregate principal balance of the servicing portfolio therefore decreases over time. Accordingly, the Company expects that its servicing portfolio will continue to decrease throughout 1999, and that servicing fees to be earned in the remainder of 1999 will therefore also decrease.

EXPENSES. During the three month period ended June 30, 1999, operating expenses increased $5.8 million, or 30.0%, compared to the three month period ended June 30, 1998. Employee costs increased by $896,000, or 12.9%, and represented 31.0% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the increase in the Company's servicing portfolio, to increases in the cost of fringe benefits provided to employees, and to increases in salaries of existing staff. General and administrative expenses decreased by $245,000, or 4.9% and represented 18.9% of total operating expenses.

Interest expense increased $5.8 million, or 125.6%, and represented 41.1% of total operating expenses. See "Liquidity and Capital Resources." The increase is primarily due to the interest paid on an additional $35.0 million in subordinated debt securities and $33.0 million of senior secured debt (the "Senior Secured Line"), most of which was issued by the Company at various times after June 30, 1998, or had a higher outstanding balance during 1999, and was outstanding throughout most of the second quarter of 1999. Interest expense has also been increased by the Company's being required to pay higher interest rates on money borrowed in the current period, as compared with the prior year's period.

The Company expects to purchase and hold for sale fewer Contracts in 1999 than it did in 1998, which would be expected to result in a decrease in interest earned on Contracts held for sale, and a decrease in interest expense incurred.

The six month period ended June 30, 1999, compared to the six month period ended June 30, 1998

REVENUES. During the six months ended June 30, 1999, revenues decreased $20.3 million, or 37.2%, compared to the six month period ended June 30, 1998. Net gain on sale of Contracts decreased by $25.8 million, or 133.3%, for the six month period ended June 30, 1999.

Interest income increased by $1.7 million, or 7.4%, and represented 74% of total revenues for the six month period ended June 30, 1999. The increase is primarily due to a higher average balance of Contracts held for sale during the six month period ending June 30, 1999.

Servicing fees increased by $5.0 million, or 45.1%, and represented 46.6% of total revenues. The increase in servicing fees is due to the increase in the Company's servicing portfolio over the prior year's period.

EXPENSES. During the six month period ended June 30, 1999, operating expenses increased $15.2 million, or 44.0%, compared to the six month period ended June 30, 1998. Employee costs increased by $3.7 million, or 30.3%, and represented 32.3% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the increase in the Company's servicing portfolio and increases in salaries of existing staff. General and administrative expenses increased by $979,000, or 10.2%, and represented 21.2% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of the increase in the Company's servicing portfolio.

Interest expense increased $9.1 million, or 107.2%, and represented 35.5% of total operating expenses. See "Liquidity and Capital Resources." The increase is primarily due to the interest paid on an additional $35.0 million in subordinated debt securities and $33.0 million borrowed under the Senior Secured Line. Most of such debt was issued by the Company at various times after June 30, 1998, or had a higher outstanding balance during 1999, and was outstanding throughout most of the second quarter of 1999. Interest expense has also been increased by the Company being required to pay higher interest rates on money borrowed in the current period, as compared with the prior year's period.

LIQUIDITY AND CAPITAL RESOURCES

The Company's business requires substantial cash to support its operating activities. The Company's primary sources of cash from operating activities have been amounts borrowed under its various warehouse lines, servicing fees on portfolios of Contracts previously sold, proceeds from the sales of Contracts, customer payments of principal and interest on Contracts held for sale, and releases of cash from Spread Accounts. The Company's primary uses of cash have been the purchases of Contracts, repayment of amounts borrowed under its various warehouse lines, operating expenses such as employee, interest, and occupancy expenses, the establishment of and further contributions to Spread Accounts and income taxes. As a result, the Company has been dependent on its warehouse lines of credit to purchase Contracts, and on the availability of capital from outside sources in order to finance its continued operations. As of the date of this report, the Company is unable to borrow under any warehouse line of credit (due to certain defaults discussed below), and has not received any material releases of cash from Spread Accounts since June 1998. The inability to borrow and lack of releases has resulted in a liquidity deficiency. The Company's plans for remedying that deficiency are discussed below, after a review of the operating sources and uses of cash for the six month period ended June 30, 1999.

Net cash used in operating activities was $8.4 million during the six month period ended June 30, 1999, compared to $16.4 million for the six month period ended June 30, 1998. Net cash deposited into trusts was $17.3 million, a decrease of $27.0 million, or 35.8%, over net cash deposited into trusts in the six month period ended June 30, 1998.

During the six month period ended June 30, 1999, the Company did not complete a securitization transaction, and therefore, did not use any cash for initial deposits to Spread Accounts, compared to $17.1 million used during the six month period ended June 30, 1998. Cash used for subsequent deposits to Spread Accounts for the six month period ended June 30, 1999, was $18.0 million, a decrease of $7.7 million, or 30.0%, from cash used for subsequent deposits to Spread Accounts in the six month period ended June 30, 1998. Such subsequent deposits into Spread Accounts in the six month period ended June 30, 1999, include $1.2 million of cash used to pay down certain senior series of Certificates to create over-collateralization. "Over-collateralization," as used herein, means that the principal amount payable on the underlying automobile purchase contracts is greater than the total principal amount payable on the Certificates issued by the Trust. Cash released from Spread Accounts for the six month period ended June 30, 1999, was $665,000, a decrease of $15.2 million, or 95.8%, from cash released from Spread Accounts in the six month period ended June 30, 1998. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

As of June 30, 1999, 15 of the 21 Trusts had incurred cumulative net losses as a percentage of the original Contract balance or average delinquency ratios in excess of the predetermined levels specified in the respective Servicing Agreements. Accordingly, pursuant to the Servicing Agreements, the specified levels applicable to the Company's Spread Accounts were increased. Due to cross collateralization provisions of the Servicing Agreements, the increased specified levels are applicable to 19 of the Company's 21 Trusts. The higher requisite Spread Account levels range from 30% to 100% of the outstanding principal balance of the Certificates issued by the related Trusts. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, some of which have been waived on a monthly basis by the Certificate Insurer. Increased specified levels for the Spread Accounts have been in effect from time to time in the past, including the entire period from June 1998 to the present. As a result of the increased Spread Account specified levels and cross collateralization provisions, excess cash flows that would otherwise have been released to the Company instead have been retained in the Spread Accounts to bring the balance of those Spread Accounts up to a higher level. Due to the increase in the Spread Account requirements, there have been no significant releases of cash from the Trusts since June 1998. Funding such balance increases has materially increased the Company's capital requirements, while the absence of cash releases has materially decreased its liquidity. As a result of the increased specified levels applicable to the Spread Accounts, approximately $47.7 million of cash that would otherwise have been available to the Company has been delayed and retained in the Spread Accounts as of June 30, 1999.

The acquisition of Contracts for subsequent sale in securitization transactions, and the need to fund Spread Accounts 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 the Company's Contract purchases (other than flow purchases), the required level of initial credit enhancement in securitizations, and the extent to which the Spread Accounts either release cash to the Company or capture cash from collections on sold Contracts. As noted above, the absence of any significant releases of cash from Spread Accounts since June 1998 has materially impaired the Company's ability to meet such capital requirements. To reduce its capital requirements and to meet those requirements, the Company in November 1998 began to implement a three-part plan: the plan includes (i) issuance of debt and equity securities, (ii) agreements with the Certificate Insurer to reduce the level of initial Spread Account deposits, and to reduce the maximum levels of the Spread Accounts, and (iii) a reduction in the rate of Contract purchases.

As the first step in the plan, the Company in November 1998 and April 1999 issued $25.0 million and $5.0 million, respectively, of subordinated promissory notes (collectively, the "LLCP Notes"), to Levine Leichtman Capital Partners, L.P. ("LLCP"). The LLCP Notes are due in 2004, and bear interest at the rate of 14.5% per annum. Net proceeds received from the issuances were approximately $28.5 million. In conjunction with the LLCP Notes, the Company issued warrants to purchase up to 4,450,000 shares of common stock at $0.01 per share, 3,115,000 and 1,334,000 of which were exercised in April 1999 and May 1999, respectively. The effective cost of this new capital represents a material increase in the cost of capital to the Company. As part of the agreements for issuance of the LLCP Notes, Stanwich Financial Services Corp. ("SFSC") agreed to purchase an additional $15.0 million of notes (at least $7.5 million by July 31, 1999, and the remainder by August 31, 1999), and the Company agreed to sell such notes. The chairman and the president of the Company are the principal shareholders of SFSC, and the Company's chairman is the chief executive officer of SFSC. The terms of such additional notes are to be not less favorable to the Company than (i) those that would be available in a transaction with a non-affiliate, and (ii) those applicable to the LLCP Notes. Sale of such additional notes would likely therefore involve some degree of equity participation, which could be dilutive to other holders of the Company's common stock. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, $5.0 million of the LLCP Notes have been personally guaranteed by the chairman of the Company's board of directors and the president of the Company. As of the date of this report, SFSC has not purchased any of such additional notes.

Also in November 1998, as the second step in its plan, the Company reached an agreement with the Certificate Insurer regarding initial cash deposits. In this agreement, the Certificate Insurer committed to insure asset-backed securities issued by the Trusts with respect to at least $560.0 million of Contracts, while requiring an initial cash deposit of 3% of principal. The commitment is subject to underwriting criteria and market conditions. Of the $560.0 million committed, $310.0 million was used in the Company's December 1998 securitization transaction. The Company's agreement with the Certificate Insurer also required that the Company issue to the Certificate Insurer or its designee warrants to purchase 2,525,114 shares of the Company's common stock at $3.00 per share, exercisable through the fifth anniversary of the warrants' issuance. The number of shares issuable is subject to standard anti-dilution adjustments.

In April 1999, the Company entered into an amendment agreement (the "Amendment") with the Certificate Insurer of the Company's asset-backed securities. The Amendment by its terms would cap the amount of cash retained in the Spread Accounts for 19 of the Company's 21 securitization Trusts. The amended maximum would be 21% of the outstanding principal balance of the Certificates issued by such Trusts, computed on a pool by pool basis. The Amendment is subject to certain performance measures that may result in an increase in the maximum level to 25% of the outstanding principal balance of such Certificates. The effectiveness of the Amendment is contingent upon approval by the holders of the subordinated Certificates issued by the related Trusts, and certain other conditions. As of July 31, 1999, the aggregate Spread Account balance of the related 19 Trusts was 19.2% of the outstanding principal balance of the related Certificates. That percentage should increase as additional collections are deposited into the Spread Accounts, and as the principal of the related Certificates is paid down. The Company is in discussions with the Certificate Insurer regarding proposed revisions to the Amendment, which would clarify its effect, and provide assurances requested by certain holders of the subordinated Certificates. There can be no assurance that such revisions will be agreed to.

As a third part of its plan, the Company reduced its planned level of Contract purchases initially to not more than $200.0 million per quarter beginning November 1998. In the first quarter of 1999, the Company purchased $158.0 million of Contracts. During the second quarter of 1999, the Company purchased $59.1 million of Contracts, of which $20.3 million was on a flow basis, as discussed below. The Company expects to purchase Contracts only on a flow basis in the remainder of 1999. The reduction in the amount of Contracts purchased for the Company's own account has materially reduced the Company's capital requirements

Since late May 1999, the Company has purchased Contracts from Dealers without use of warehouse lines of credit, in a "flow purchase" arrangement with a third party. Under the flow purchase arrangement, the Company purchases Contracts from Dealers and sells such Contracts outright to the third party.

Purchase of Contracts on a flow basis, as compared with purchase of Contracts for the Company's own account, has materially reduced the Company's cash requirements. The Company's plan for meeting its immediate liquidity needs is (1) to liquidate its existing portfolio of Contracts held for sale, (2) to increase the quantity of Contracts that it purchases and sells on a flow basis, thus increasing the fees that it receives in connection with such purchases and sales, and (3) to await releases of cash from its Spread Accounts, pursuant to the Amendment. There can be no assurance that this plan will be successful.

During the second quarter, the Company sold, on a servicing released basis, $234.4 million of its Contracts held for sale. As of the date of this report, the Company is engaged in negotiations regarding the sale of all or substantially all of its remaining Contracts held for sale. Such sales are expected to be on a servicing released basis, and the Company will recognize a loss upon such sales. The Company expects to effect such sales at an aggregate cash price in excess of the indebtedness outstanding under its warehouse line of credit. To the extent that it is successful in doing so, the sales would release cash to the Company, which would be applied to meet in part the Company's liquidity and capital requirements identified herein. Substantially all of the Contracts that the Company proposes to sell are pledged to the lender under the Company's warehouse line of credit. That lender on August 4, 1999, declared the line to be in default, and has taken the position that it is not obligated to release its interest in any of the pledged Contracts unless it receives adequate assurances that it will be repaid all of the indebtedness outstanding under the warehouse line. Under the terms of the agreements related to the LLCP Notes and the Senior Secured Line, the consent of those respective lenders is also required to a sale by the Company of any material assets outside the ordinary course of business. Such lenders' consents to the proposed sales of Contracts may or may not be granted, depending on such lenders' evaluation of the proposed sale. Although the Company believes that the lenders will consent to the sales as proposed by the Company, there can be no assurance that such consents will be forthcoming.

The Company's ability to increase the quantity of Contracts that it purchases and sells on a flow basis will be subject to general competitive conditions and other factors.

Obtaining releases of cash from the Spread Accounts is dependent on the Amendment's becoming effective, and on collections from the related Trusts generating sufficient cash to bring the Spread Accounts to the amended specified levels. Effectiveness of the Amendment, in turn, is dependent on the Company's obtaining consents from holders of the subordinated Certificates issued by the related Trusts, and on certain other conditions. The existing terms of the Senior Secured Line require that any such releases be used to repay principal outstanding under that line. The Company has commenced discussions with the holders of the subordinated Certificates and with the senior secured lenders regarding the consents and amendments that would be necessary to allow the Company to receive cash released from the Spread Accounts, but there can be no assurance that the necessary consents and amendments will be obtained and agreed to.

The Company is also exploring additional financing possibilities, focussing on issuance of additional secured debt. Although such explorations have involved discussions with, and expressions of interest from, various investment banks, there can be no assurance that any such transactions will take place.

YEAR 2000

OVERVIEW. The Year 2000 issue is predicated on the concept that some database files may contain date fields that will not support century functions and that some programs may not support century functions even if the date fields are present. With the change of millennium, the inability to properly process century functions may create halts or sort/calculation errors within programs that use century information in calculation and functions.

The Company predominantly uses accounting and installment loan application processing software against defined relational database files. Most financial software has long ago been forced to deal with a four byte date field due to long term maturity dates, bond yield calculations and mortgage amortization schedules. The Company has been cognizant of Year 2000 considerations since late 1994, when contracts with maturity dates in the year 2000 were first purchased.

PLAN. The Company's plan to assess the Year 2000 issue consists of a three-phase process. The first phase of the process, which has been completed, consisted of assessing all user programs of the Company's mainframe computer. Those user programs that were not compliant were either corrected or the necessary software patches have been identified and ordered. There were no critical user programs identified that could not be modified to be compliant. In addition, the Company's mainframe computer's operating system was also tested and was deemed to be compliant as well.

The second phase of the Company's testing consisted of testing all personal computers for compliance. An outside specialist was engaged to administer the testing of hardware and software. This testing was completed in April, 1999. Corrective measures have been put into place for any personal computer and its software not in compliance at that time.

The third and final stage of testing consists of identifying key vendors of the Company's operations and requesting that those vendors complete a Year 2000 compliance questionnaire. Any vendors found to be non-compliant will be continuously monitored for progress towards compliance. The Company estimates this phase of testing will also be completed by September 30, 1999.

COSTS. As the majority of the testing was performed internally by the Company's information systems department, the Company estimates the costs to complete all phases of testing, including any necessary modifications, to be insignificant to the results of operations.

At this time, the risks associated with the Company's Year 2000 issues, both internally and as related to third party business partners and suppliers are not completely known. Through the Company's plan of analysis and identification, it expects to identify substantially all of its Year 2000 related risks. Although the risks have not been completely identified, the Company believes that the most realistic worst case scenario would be that the Company would suffer from full or intermittent power outages at some or all of

its locations. Depending upon the locations affected and estimated duration, this would entail recovery of the main application server systems at other locations and or move to manual processes. Manual processes have been developed as part of the overall contingency plan. In relation to this, complete system data dumps are scheduled to take place prior to the millennium date change to ensure access to all Company mission critical data should any system not be accessible for any reason.

FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains certain "forward-looking statements," including, without limitation, the statements to the effect that the Company expects that (i) the Amendment will take effect, the Spread Account Balances will reach the amended specified levels, and that the lenders under the Senior Secured Line will agree to such modifications as will permit the Company to receive material cash releases prior to such lenders being repaid in full, (ii) it plans to securitize Contracts in the future, (iii) it will sell Contracts on a servicing-released basis in the third quarter in transactions that would yield cash to the Company, over and above the warehouse indebtedness secured by such Contracts, and (iv) forbearances and waivers will be granted, and amendments agreed to, with respect to defaults under existing indebtedness. All of these expectations are based on the Company's assessment of the decisions likely to be made by third parties, over which the Company has no control.

Specifically, the reader should bear in mind the following considerations: As to the Amendment, and release of cash from Spread Accounts, the effectiveness of the Amendment is dependent on the consent of certain holders of subordinated interest in the related securitization trusts, on the performance of the receivables included in such trusts, and on certain other conditions. Such holders may give or withhold such consent in their discretion, and may or may not agree that it is in their best interest to do so. The performance of the receivables in the trusts is dependent on various factors, including their inherent credit quality and the effectiveness of the Company's collection efforts. The Company's liquidity shortage identified herein could impair the effectiveness of its collection efforts. Should the Amendment take effect, the existing terms of the Senior Secured Line require that all outstanding indebtedness thereunder (approximately $31.6 million) be repaid prior to the Company's receiving any portion of such cash; accordingly, an amendment of such terms would be required for the Company to receive any such cash in the current year. The lenders under the Senior Secured Line will determine whether to agree to such an amendment based on their independent evaluation of their best interest, which in turn may depend on the Company's short-term liquidity and on the availability of consents and waivers from other lenders to the Company. The liquidity shortage identified in this report could adversely influence the willingness of all such lenders (under the Senior Secured Line and others) to grant such waivers or agree to such amendments.

As to future securitization, there can be no assurance that the Company will have the liquidity or capital resources to enable it to post the reserves required for credit enhancement of such a transaction, or that the securitization markets will be receptive at the time that the Company seeks to engage in such a transaction.

As to the intended sale of Contracts in the third quarter, although the Company plans to sell the remainder of its portfolio of Contracts held for sale, servicing-released, in the third quarter in transactions that would release cash to the Company, definitive agreements relating to such transactions have been executed only with respect to a portion of such Contracts. The lender to which such Contracts are pledged has declared a default under, and accelerated the indebtedness outstanding under, the related warehouse line of credit. The intended sales will not take place unless that lender receives assurances that it deems adequate that it will be repaid in full from the proceeds of such sales. The prospective purchasers might decline to purchase sufficient Contracts to repay such indebtedness, or the prices on which the Company and such purchasers may agree may be inadequate to provide for repayment in full of such indebtedness, or some combination of those factors may apply. As to the Contracts for which no definitive agreement has been reached, the prospective purchasers may decline to proceed with such transactions in their discretion, or the Company and the purchasers might be unable to reach mutually acceptable terms. Furthermore, the terms of the Company's Senior Secured Line and of the LLCP Notes require that such lenders consent to the Company's sale of such Contracts. The Company is in default with respect to its indebtedness to such lenders, which may adversely affect their willingness to grant such consents.

As to defaults under existing indebtedness, the Company's ability to cure such defaults and ultimately repay such debt is dependent on the willingness of the various lenders and the Certificate Insurer to agree to a number of waivers and amendments. Although the lenders under the Company's Senior Secured Line, its warehouse line of credit, the LLCP Notes and certain other indebtedness may agree to grant such waivers and execute such amendments, their decisions will be determined by their evaluation of their own interest, and there can be no assurance that any such waivers will be granted. Certain of such lenders have indicated that their willingness to grant waivers or to agree to amendments (such as a re-scheduling of principal repayment) may be dependent on other lenders' or the Certificate Insurer's also agreeing to waive certain rights. There can be no assurance that such mutually acceptable agreements will be reached.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

The Company's funding strategy is largely dependent upon acquiring interest-bearing assets (the Contracts), issuing interest bearing asset-backed securities and incurring debt. Therefore, upward fluctuations in interest rates may adversely affect the Company's profitability, while downward fluctuations may improve the Company's profitability. The Company uses several strategies to minimize the risk of interest rate fluctuations, including offering only fixed rate contracts to obligors, regular sales of auto Contracts to the Trusts, and pre-funding securitizations, whereby the amount of asset-backed securities issued in a securitization exceeds the amount of Contracts initially sold to the Trusts. The proceeds from the pre-funded portion are held in an escrow account until the Company sells the additional Contracts to the Trust in amounts up to the balance of the pre-funded escrow account. In pre-funded securitizations, the Company locks in the borrowing costs with respect to the loans it subsequently delivers to the Trust. However, the Company incurs an expense in pre-funded securitizations equal to the difference between the money market yields earned on the proceeds held in escrow prior to subsequent delivery of Contracts and the interest rate paid on the asset-backed securities outstanding. As the Company has not sold any Contracts in a securitization transaction, all strategies related to securitizations have not been applied in the current period.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On May 18, 1999, Kevin Gilmore commenced a lawsuit against the Company in the Superior Court of California, San Francisco County. The lawsuit alleges certain defects in repossession notices used by the Company in the State of California, and seeks injunctive relief, including "restitution" of an unspecified amount. The Company has not been required to respond to this lawsuit as of the date of this report, and has not yet evaluated the amount of "restitution" that it could be required to pay, should the plaintiff be successful. It is possible that such liability could be material. The Company plans to contests vigorously this litigation.

On July 22, 1999, Bank of America commenced a lawsuit against the Company in the Superior Court of California, Orange County, seeking repayment of approximately $3 million advanced to the Company under an overdraft line of credit, plus interest, costs and attorneys' fees. The Company and Bank of America have entered into a settlement agreement, pursuant to which the Company shall repay all amounts owing, in specified installments through November 1999.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company's having incurred a loss in two consecutive quarters has placed it in default under its Senior Secured Line. The Company's failure to obtain at least $7.5 million of the $15.0 million of capital committed by SFSC has placed it in default under the LLCP Notes.

On August 4, 1999, General Electric Capital Corporation ("GECC") notified the Company that GECC was declaring a default under the Company's warehouse line of credit, and that the approximately $69 million of indebtedness then outstanding was immediately due and payable. GECC declared there to be multiple defaults under the warehouse line, including (i) failure of SFSC to provide capital to the Company, (ii) outstanding indebtedness under the warehouse line in excess of borrowing base formula, and (iii) failure to deliver a covenant compliance certificate for the month of June 1999. The Company, as of the date of this report, has not been able to repay the warehouse indebtedness in favor of GECC; accordingly, the cross-default provisions of other outstanding indebtedness of the Company have been triggered. The Company is therefore also in default with respect to (i) $31.6 million of outstanding indebtedness in favor of a group of lenders represented by State Street Bank and Trust, and (ii) $30 million in total of indebtedness to Levine Leichtman Capital Partners, L.P. Furthermore, should such defaults not be cured within 30 days, the Company would also be in default with respect to (i) its $20 million of Rising Interest Subordinated Redeemable Securities due 2006, and (ii) its Participating Equity Notes (subordinated partially convertible debt securities) due 2004. There can be no assurance that the Company will be successful in curing its existing defaults or averting any such further defaults.

The Company is seeking waivers and/or forbearance agreements from the lenders of all such defaulted indebtedness, but there can be no assurance that its efforts to obtain such waivers and/or forbearance agreements will be successful. Failure to obtain such waivers and/or forbearance agreements could have a material adverse effect on the Company's ability to continue its regular business operations.

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

The annual meeting of shareholders of the Company was held on May 26, 1999. At the meeting, each of the six nominees to the Board of Directors was elected for a one-year term by the shareholders. The directors elected were the incumbent members of the board, Charles E. Bradley, Sr., Charles E. Bradley, Jr., Thomas L. Chrystie, John G. Poole, William B. Roberts, and Robert A. Simms. The shareholders also approved each other proposal placed before the annual meeting. Such proposals were (i) approval of the issuance of a warrant initially exercisable to purchase 1,335,000 shares of common stock, granted as a condition of the issuance of $5 million of debt, and (ii) ratification of the appointment of KPMG LLP as independent auditors of the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are filed as a part of this report.

10.40 Agreement dated May 20, 1999 for Sale of Contracts on a Flow Basis

27 Financial Data Schedule

During the quarter for which this report is filed, the Company filed three reports on Form 8-K. Such reports were dated April 15, May 15 and June 15, 1999. Each was filed solely to include as an exhibit thereto, Item 7, the Company's monthly Servicer Report with respect to certain securitization trusts. The assets of such trusts consist of automotive receivables serviced by the Company. No financial statements were filed with any of such reports.

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: August 23, 1999

/s/ Charles E. Bradley, Jr.

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

Date: August 23, 1999

/s/ James L. Stock

James L. Stock, Acting Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

10.40	Agreement dated May 20, 1999 for Sale of Contracts on a Flow Basis
27	Financial Data Schedule

CONTRACT SALE AGREEMENT

DATED AS OF MAY ___, 1999

BY AND BETWEEN

CONSUMER PORTFOLIO SERVICES, INC.

AND

FAIRLANE CREDIT, L.L.C.

CONTRACT SALE AGREEMENT (the "Sale Agreement"), dated as of May __, 1999 by and between CONSUMER PORTFOLIO SERVICES, INC. (the "Seller") a California Corporation, its successors and permitted assigns and FAIRLANE CREDIT LLC (the "Purchaser") a Delaware limited liability company, its successors and assigns.

W I T N E S S E T H:

WHEREAS, the Seller purchases from Dealers certain retail installment sales contracts secured by new and used automobiles and light-duty trucks ("Contracts");

WHEREAS, the Seller desires to purchase Contracts in accordance with terms of the Originator's Manual, as described in Exhibit A, for sale and assignment to the Purchaser;

WHEREAS, the Seller intends to sell and the Purchaser intends to purchase, certain of such Contracts together with all of its rights thereunder, as described herein;

NOW, THEREFORE, the parties agree as follows:

SECTION 1. DEFINITIONS.

"Adverse Claim" means a claim of ownership or any lien, security interest, title retention, trust or other charge or encumbrance, either legal or in equity, or other type of preferential arrangement having the effect of a lien or security interest upon or with respect to the Sold Program Contracts or Purchased Assets other than in favor of the Purchaser with respect to this Sale Agreement.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Amount Financed" has the meaning ascribed thereto in the applicable Truth-in-Lending disclosure in the Program Contract given to the Obligor.

"Automobiles" means new and used automobiles and light-duty trucks, the purchase of which the Obligors financed by the Program Contracts.

"Business Day" means any day other than a Saturday or a Sunday, or another day on which banks in the State of Colorado are required, or authorized by law to close.

"Buy Rate" means with respect to any Sold Program Contract the rate specified as such in Exhibit A in effect on the Closing Date.

"Closing Date" means ________________, 1999.

"Contract File" means those documents described in Exhibit C. Seller

may modify the content of Exhibit C with prior written approval from
Purchaser.

"Contract Rate" means with respect to any Sold Program Contract, the interest rate on such Sold Program Contract as disclosed as the Annual Percentage Rate.

"Dealer" means a franchise automobile dealer, or its Affiliate, who has entered into a Dealer Agreement with the Seller with respect to, among other things, the origination of the Sold Program Contracts.

"Dealer Agreement" means an agreement between the Seller and a Dealer setting forth the terms for the purchase of Contracts by the Seller.

"Debt" means (a) indebtedness of the Seller for borrowed money, (b) obligations of the Seller evidenced by bonds, debentures, notes or other similar instruments, (c) obligations of the Seller to pay the deferred purchase price of property or services, (d) obligations of the Seller as lessee under leases which have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases, (e) obligations secured by any lien or through the Seller, even though Seller has not assumed or become liable for the payment of such obligations, (f) obligations of the Seller under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to ensure a creditor against loss in respect of indebtedness or obligations of others of the kinds referred to in clause (a) through (e) above, and (g) liabilities in respect of unfunded vested benefits under plans covered by the ERISA, as amended, and regulations promulgated thereunder.

"Eligible Program Contracts" means all Program Contracts which, in the sole judgment of the Purchaser, comply with the representations and warranties set forth in Section 5(b) of this Sale Agreement, including Program Contracts that, as of the Closing Date, have not been funded and the Obligor's first payment is not yet due or Obligor's first payment is included in the Contract File endorsed in favor of Purchaser.

"ERISA" means the Employment Retirement Income Security Act of 1974, as amended.

"Event of Purchase Termination" has the meaning ascribed thereto in Section 9 of this Sale Agreement.

"Fee Schedule" means the schedule agreed to between the Seller and the Purchaser in the form of Exhibit D hereto, which schedule the Seller and Purchaser may modify and which modification shall be effective with respect to Sold Program Contracts having Sale Dates ten (10) Business Days following the receipt of such acknowledged notice by the Seller of such modification.

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

"Indemnified Amounts" means any and all amounts necessary to indemnify such Indemnified Party from and against any and all claims, losses and liabilities and related costs and expenses, including reasonable attorneys' fees and disbursements and any court costs.

"Indemnified Party" means the Purchaser or any employee, officer or agent thereof.

"Obligor" means, with respect to any Program Contract, the Persons obligated to make payments in respect thereto.

"Officer's Certificate" (Exhibit E) means, with respect to any Person, a certificate signed by the Chairman of the Board, Vice Chairman of the Board, the President, a Vice President, the Treasurer, the secretary, or any other duly authorized officer of such Person.

"Originator's Manual" shall mean the materials provided by Seller to Purchaser as Exhibit A setting forth, among other things, Dealer Agreements, Schedule A and its Exhibit A, rate participation, Buy Rate and Contract Rate schedule, and Approval Authority Summary for Eligible Program Contracts. Seller may modify the Originator's Manual with written approval to be given by Purchaser within ten (10) business days from the date of request.

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

"Principal Balance" of a Program Contract means, on any date of determination, the Amount Financed reduced by that portion of all prior payments received by the Purchaser with respect to such Program Contract allocable to principal as reflected on the records maintained by the Purchaser.

"Program Contracts" means Contracts originated by Seller pursuant to Section 2 hereof and in accordance with the Originator's Manual

"Purchased Assets" means (a) with respect to each Sold Program Contract, all of the Seller's right, title and interest in and to (i) the Program Contract (including its interest in the proceeds of such Sold Program Contract), including all payments on or with respect to such Sold Program Contract after the Sale Date (ii) the security interests in the Automobiles granted to the Seller by the Dealer pursuant to the Sold Program Contract and to the Purchaser pursuant to this Sale Agreement, (iii) any proceeds with respect to the Sold Program Contract from recourse to the Dealer, if any, under the related Dealer Agreement, (iv) any documents in the Contract File for such Sold Program Contract, (v) the proceeds of any insurance policies maintained with respect to the Automobile and Sold Program Contract, (vi) all income and proceeds of the foregoing or relating thereto, and (vii) with respect to each Sold Program Contract, all of the Seller's rights against the Dealer as described in the Dealer Agreement .

"Purchase Price" means with respect to any Eligible Program Contract the Amount Financed including rate participation minus any dealer discount or fee, as described in Exhibit A.

"Repurchase Price" means with respect to any Sold Program Contract which the Seller is obligated to repurchase, an amount equal to the sum of (a) the outstanding Principal Balance of such Program Contract plus rate participation and fees paid to Seller by Purchaser, as set forth in Exhibit D, less any dealer discount or fee(b) any accrued but unpaid interest up to 180 days in respect thereof, and (c) any other amounts owing to Purchaser by Obligor under the Sold Program Contract for collection, repossession or other costs related to the enforcement of Purchaser's security interest in the Vehicle or collection under the account, minus (c) all payments received by the Purchaser but not applied as a reduction with respect to such Sold Program Contract.

"Sale" means a sale of a Program Contract from the Seller to the Purchaser pursuant to this Sale Agreement.

"Sale Agreement" means this Contract Sale Agreement including the Originator's Manual and any other exhibits to this Sale Agreement.

"Sale Assignment" means, with respect to any Sold Program Contract, the assignment in the form of Exhibit F hereto.

"Sale Date" means the date on which each Sold Program Contract is sold pursuant to this Sale Agreement.

"Sales Finance Company License" means a current license issued to the Seller authorizing it to purchase and sell consumer Contracts in each state in which such license is required.

"Securities" has the meaning ascribed thereto in Section 6(g).

"Sold Program Contract" means a Program Contract sold by the Seller pursuant to Section 2 of this Sale Agreement.

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

"Termination Date" has the meaning specified in Section 8.

"UCC" means the Uniform Commercial Code as in effect in the state where the Program Contract is originated.

SECTION 2. SALE OF PROGRAM CONTRACTS. (a) From time to time, Seller shall offer to sell to the Purchaser, subject to the terms and conditions of this Sale Agreement, Eligible Program Contracts from Dealers and the Purchaser agrees to purchase Eligible Program Contracts from the Seller subject to the terms and conditions hereof. During the term of this Agreement, the Seller shall sell, on the terms and conditions herein, to the Purchaser Eligible Program Contracts which meets the underwriting criteria set out in the Originator's Manual and Seller's credit scoring criteria, such criteria as mutually agreed upon between Seller and Purchaser. Seller shall begin offering Program Contracts commencing on the Closing Date and continuing at least every third Business Day thereafter.

(b) In offering an Eligible Program Contract for sale to the Purchaser pursuant to this Section 2,, the Seller shall deliver to the Purchaser, on a Business Day (i) the Contract File, (ii) a copy of the consumer credit report, (iii) a fully executed Sale Assignment in respect of such Program Contracts, and (iv) a copy of the buy sheet evidencing the all amounts paid by Seller to Dealer. Each Sale from the Seller to the Purchaser shall be subject to the effectiveness of this Sale Agreement in accordance with the provisions of Section 4(a) hereof and the satisfaction of the conditions precedent specified in Section 4(b). Upon receipt of the complete Contract File and the duly executed Sale Assignment by the Purchaser and subject to the terms of this Sale Agreement, the Purchaser will pay the Purchase Price with respect to such Program Contracts within 48 hours following the receipt of each Contract File (or, if such day is not a Business Day by 5:00 p.m. California time on the second Business Day following the receipt of such Contract File). Notwithstanding the provision of this Section 2, Purchaser may decline to purchase a Program Contract if Purchaser determines that it has not received the entire Contract File with respect to such Program Contract.

(c) The Purchaser shall pay the Seller the Purchase Price and the Fee, as described in Exhibit D hereunder, by electronic funds transfer and check, respectively, to an account designated by the Seller in writing from time to time, acceptable to the Purchaser. The Purchaser shall pay the Seller the Purchase Price with respect to each Sold Program Contract within the time period specified in Section 2 (b).

(d) Following payment of the Purchase Price and execution of the Sale Assignment, the ownership of each Sold Program Contract specified in such Sale Assignment and the Purchased Assets shall be vested in the Purchaser, and the Seller shall not take any action inconsistent with such ownership and shall not claim any ownership interest in any such Sold Program Contract.

(e) The Seller shall indicate in its records that ownership of each Sold Program Contract and the Purchased Assets is held by the Purchaser or its assignee. In addition, the Seller shall respond to any inquiries with respect to ownership of any Sold Program Contract by stating that it is no longer the owner of such Sold Program Contract and that ownership of such Sold Program Contract is held by Purchaser or its assignee. Seller agrees to hold in trust for Purchaser any cash payments received in connection with a Sold Program Contract and shall remit such funds by wire transfer or in the form received within twenty-four hours of their receipt to an account established by Purchaser.

(f) The Seller agrees that, from time to time, at its expense, it will promptly execute and deliver all further instruments, notices and documents, and take all further action, that may be necessary or appropriate, or that the Purchaser may reasonably request, in order to perfect, protect or more fully evidence the transfer of ownership of the Sold Program Contracts or to enable the Purchaser or its assignee to exercise or enforce any of its rights hereunder or under any Sale Assignment. Without limiting the generality of the forgoing, the Seller will promptly, upon the request of the Purchaser, execute and file or cause to be filed such financing or continuation statements, certificates of title or other title documentation in support of the lien of the Purchaser's assignee in the related Automobile, or amendments thereto or assignments thereof. The Seller hereby authorizes the Purchaser to file one or more financing or continuation statements, and amendments thereto and assignments thereof, relating to all or any of the Sold Program Contracts and proceeds thereof without the signature of the Seller. Seller also hereby constitutes Purchaser, its permitted successors and assigns, as Seller's true and lawful attorneys, with full power of substitution, in the name of Seller or otherwise, whether in relation to tangible or intangible property, to transfer all right title, title and interest in and to any Automobile, to execute and deliver any and all certificates, instruments and other documents necessary to effect such transfer of title, to endorse and collect any checks or other payments owed to Purchaser under the Sold Program Contract, to discharge any liens on Automobiles and to modify or change or request modification or change of, the loss payee or additional insured endorsement with respect to any insurance policy on an Automobile. Seller also grants Purchaser the right to use its name to collect from Dealers refundable insurance and warranty premiums included in the Amount Financed. Seller will provide Purchaser with its logo and any applicable trademarks for use on documents seeking collection of these amounts. Seller agrees that the foregoing powers are irrevocable notwithstanding any reason whatsoever, including without limitation Seller's dissolution, merger, consolidation or any other change in Seller. Seller will, at Purchaser's reasonable request, execute appropriate separate instruments evidencing the forgoing powers. Purchaser will indemnify and hold Seller harmless from any claims or liabilities arising from Purchaser's exercise of the powers granted in this Section. A copy of that Power of Attorney is attached hereto as Exhibit G.

(g) Notwithstanding any other rights or remedies afforded to Purchaser under this Agreement, Purchaser may either terminate this Agreement pursuant to Section 9 or require that the parties renegotiate the Fee, if during any calendar month the aggregate random samples of Purchased Contracts during that calendar month indicate that less than 90% of the Purchased Contracts fail to meet the purchasing requirements in Section 2. Before Purchaser may exercise any rights under this subsection (g), Seller shall have the opportunity to cure the non-conforming Purchased Contracts during the next calendar month. If Purchaser elects to renegotiate the Fee, such reestablished Fee must be mutually agreed upon by the parties within 10 days of Seller's receipt of a notice from Purchaser indicating Purchaser's intent to renegotiate the Fee. If the parties fail to renegotiate the fee, then Purchaser may terminate this Agreement.

SECTION 3. INTENDED CHARACTERIZATION; GRANT OF SECURITY INTEREST. It is the intention of the parties hereto that each transfer of Sold Program Contracts to be made hereunder shall constitute a purchase and sale and not a loan. In the event, however, that a court of competent jurisdiction were to hold that the transaction evidenced hereby constitutes a loan and not a purchase and sale, or a Governmental Authority determines that the Purchaser may not purchase or acquire Program Contracts, it is the intention of the parties hereto that this Sale Agreement shall constitute as security agreement under applicable law and that the Seller shall be deemed to have granted to the Purchaser as of the date hereof a first priority security interest in all of the Seller's right, title and interest in, to and under each Sold Program Contract, and all proceeds thereof.

SECTION 4. CONDITIONS PRECEDENT TO EFFECTIVENESS OF SALE AGREEMENT AND TO EACH SALE. (a) The effectiveness of this Sale Agreement is subject to the conditions precedent that the Purchaser shall have satisfactorily completed its due diligence review of the Seller and its operations and that the Purchaser shall have received the following, in form and substance satisfactory to the Purchaser, within 30 days of the Closing Date. In the event Seller has not provided the following as set forth herein, an Event of Purchase Termination shall automatically occur.

(i) the articles of incorporation of the Seller certified, as of a date no more than ten days prior to the Closing Date, by the Secretary of State of California.

(ii) a good standing certificate, dated no later than March, 1999, from its jurisdiction of organization and each state in which the Seller is required to qualify to do business;

(iii) a copy of each Sales Finance Company License;

(iv) a certificate of the Secretary or Assistant Secretary of the Seller (on which certificate the Purchaser may conclusively rely until such time as it shall receive from the Seller a revised certificate meeting the requirements of the subsection) certifying as of the Closing Date: (A) the names and true signature of the officers authorized on its behalf to sign this Sale Agreement, (B) a copy of the Seller's articles of incorporation and bylaws, and (C) a copy of the resolutions of the board of directors of the Seller approving this Sale Agreement and the transactions contemplated thereby;

(v) an Officer's Certificate in the form of Exhibit E hereto;

(vi) acknowledgment copies of proper financing statements (Form UCC-1), duly filed, in respect of Sold Program Contracts, naming the Seller as the debtor and the Purchaser as the secured party, or other, similar instruments or documents, as may be necessary or, in the opinion of the Purchaser, desirable under the UCC of all appropriate jurisdictions or any comparable law to perfect the Purchaser's ownership interests in all Sold Program Contracts in which an interest may be assigned hereunder;

(vii) the favorable opinion of Seller's outside counsel satisfactory to the Purchaser in form and substance satisfactory to the Purchaser;

(viii) such other approvals, consents, opinions, documents and instruments, as the Purchaser may reasonably request.

Upon the receipt by the Purchaser of the items referred to in paragraphs (i) through (viii) of this section 4(a), the Purchaser shall notify the Seller in writing that the conditions precedent to the effectiveness of this Sale Agreement have been satisfied and that this Sale Agreement is effective as of the date and time specified in such notice.

(b) Each Sale from the Seller to the Purchaser shall be subject to the further conditions precedent that on the related date of such Sale, the Seller shall have certified in the related Sale Assignment that, (except as specifically disclosed in such Sale Assignment or in writing) and specifically consented to by the Purchaser in its sole discretion (provided, that no such consent shall be given as to any of the Events of Purchase Termination described in subsections (c) and (h) of section 9):

(i) the representations and warranties of the Seller set forth in Section 5 are true and correct on and as of such date, before and after giving effect to such Sale and to the application of the proceeds therefrom, as though made on and as of such date;

(ii) no event has occurred, or would result from such sale or from the application of the proceeds therefrom, which constitutes an Event of Purchase Termination or would constitute an Event of Purchase Termination under Section 9 but for the requirement that notice be given or time elapse or both; and

(iii) the Seller is in compliance with each of its covenants set forth herein;

(iv) the Termination Date shall not have occurred;

(v) each Program Contract submitted by the Seller for purchase is an Eligible Program Contract; and

(vi) the Seller shall have taken such other actions, including delivery to the Purchaser of such approvals, consents, opinions, additional information with respect to the Seller, documents and instruments, as the Purchaser may reasonably request.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE SELLER. The Seller represents and warrants to the Purchaser, as of the date hereof and on each subsequent date on which a Sale is made, as follows:

(a) With respect to the Seller:

(i) the Seller is a corporation duly organized, validly existing and in good standing under the laws of California, is duly qualified to do business and is in good standing in every jurisdiction in which the nature of its business requires it to be so qualified and which failure to qualify could have a material adverse affect on Seller;

(ii) the Seller has the power and authority to own and convey all of its properties and assets and to execute and deliver this Sale Agreement and to perform the transactions contemplated hereby;

(iii) the execution, delivery and performance by the Seller of this Sale Agreement and the transactions contemplated hereby, (A) have been duly authorized by all necessary action on the part of the Seller, (B) do not contravene or cause the Seller to be in default under (1) the Seller's articles of incorporation and bylaws, (2) any contractual restriction with respect to any debt of the Seller or contained in any indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note, or other agreement or instrument binding on or affecting the Seller or its property or (3) any law, rule, regulation, order, writ, judgment, award, injunction or decree applicable to, binding on or affecting the Seller or its property, and (C) do not result in or require the creation of any Adverse Claim;

(iv) each of this Sale Agreement and each Sale Assignment executed on or prior to the Closing Date or the related Sale Date has each been duly executed and delivered on behalf of the Seller;

(v) no consent of, or other action by, and no notice to or filing with, any Governmental Authority or any other party, is required for the due execution, delivery and performance by the Seller of this Sale Agreement or for the perfection of or the exercise by the Purchaser of any of its rights or remedies thereunder, each of which has been obtained and complete copies of which have been provided to the Purchaser;

(vi) each Sale Agreement and each Sale Assignment delivered by the Seller is (or will be if not executed and delivered as of the date hereof) the legal, valid and binding obligation of the Seller enforceable against the Seller in accordance with their respective terms;

(vii) there is no pending or threatened action, suit or proceeding, against or affecting the Seller, its Affiliates, its officers , or the property of the Seller, in any court or tribunal, or before any arbitrator of any kind or before or by any Governmental Authority (A) asserting the invalidity of this Sale Agreement, (B) seeking to prevent the sale and assignment of any Program Contract or the consummation of any of the transactions contemplated thereby, (C) seeking any determination or ruling that might materially and adversely affect (1) the performance by this Sale Agreement, (2) the validity or enforceability of this Sale Agreement, (3) any Program Contract or (4) the federal income tax attributes of the Sales.

(viii) no injunction, writ, restraining order or other order of any material nature adverse to the Seller or the conduct of its business or which is inconsistent with the due consummation of the transactions contemplated by this Sale Agreement has been issued by a Governmental Authority;

(ix) no defaulted Debt exists under any instrument or agreement evidencing, securing or providing for the issuance of Debt of the Seller;

(x) the principal place of business and chief executive office of the Seller are located at the address of the Seller set forth in the designated space beneath its signature line in this Sale Agreement and, there are now no, and during the past four months there have not been, any other locations where the Seller is located (as that term is used in the UCC in the state of such location) except that, with respect to such changes occurring after the date of this Sale Agreement, as shall have been specifically disclosed to the Purchaser in writing;

(xi) the legal name of the Seller is as set forth at the beginning of this Sale Agreement and the Seller has not changed its name in the last six years, and during such period, the Seller did not use, nor does the Seller now use any trade-names, fictitious names, assumed names or "doing business as" names except that, with respect to such changes occurring after the date of this Sale Agreement, as shall have been specifically disclosed to the Purchaser in writing;

(xii) the Seller is solvent and will not become insolvent after giving effect to the transactions contemplated by this Sale Agreement; the Seller is paying its debts as they mature; the Seller has not sold any Program Contract to the Purchaser with intent to hinder, delay or defraud any entity to which the Seller was, or became, after the date that such transfer was made, indebted; the Seller's sales of the Program Contract to the Purchaser have been and will be made for reasonably equivalent value and fair consideration; the Seller has not incurred debts beyond its ability to pay as they mature; and the Seller, after giving effect to the transactions contemplated by this Sale Agreement, will have an adequate

amount of capital to conduct its business in the foreseeable
future;

(xiii) for federal income tax, reporting and accounting purposes, the Seller will treat the sale of each Sold Program Contract sold pursuant to this Sale Agreement as a sale, or absolute assignment, of its full right, title and ownership interest in such Sold Program Contract to the Purchaser, and the Seller has not and will not account for or treat the transactions contemplated by this Sale Agreement in any other manner;

(xiv) the Seller has and maintains all permits, licenses, authorizations, registrations, approvals and consents of Governmental Authorities (including, without limitation, Sales Finance Company Licenses, if any, necessary for (A) the activities and business of the Seller as currently conducted and as proposed to be conducted, (B) the ownership, use, operation and maintenance of its properties, facilities and assets and (C) the performance by the Seller of this Sale Agreement;

(xv) the Seller has filed on a timely basis all tax returns (federal, state, and local) required to be filed and has paid or made adequate provisions for the payment of all taxes, assessments and other governmental charges due from the Seller;

(xvi) each pension plan or profit sharing plan to which the Seller is a party has been fully funded in accordance with the obligations of the Seller set forth in such plan;

(xvii) with respect to the Seller, there has occurred no event which has or is reasonably likely to have a material adverse effect on its ability to perform its obligations under this Sale Agreement;

(xviii) the consolidated balance sheets of the Seller and its consolidated Subsidiaries as of the date of its most recently completed fiscal year and the related statements of income and shareholders' equity of the Seller and its consolidated Subsidiaries for the fiscal year then ended, and commencing with the fiscal year ending December 31, 1999 certified by an independent certified public accountant together with all quarterly reports with respect to completed fiscal quarters occurring after such fiscal year until the date of this representation and warranty, copies of which have been furnished to the Purchaser, fairly present the consolidated financial condition, business and operations of the Seller and its consolidated Subsidiaries as at such date and the consolidated results of operations of the Seller and its consolidated Subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied, and since such date there has been no material adverse change in any such condition, business or operations;

(xix) the Seller has valid business reasons for selling its interests in the Sold Program Contracts rather than obtaining a loan with the Sold Program Contracts as collateral;

(xx) the Seller has not disclosed and will not disclose to any Dealer or Obligor under a Program Contract the existence of any insurance which has been or may be purchased by the Purchaser to protect its interests under the Program Contracts,

(xxi) all information heretofore or hereafter furnished with respect to the Seller to the Purchaser in connection with any transaction contemplated by this Sale Agreement is and will be true and complete in all material respects and does not and will not omit to state a material fact necessary to make the statements contained therein not misleading.

(b) with respect to each Program Contract sold pursuant to this Sale Agreement, Seller shall represent and warrant to Purchaser as follows on such Sale Date:

(i) Each Program Contract (1) arises from the sale of an Automobile and which delivery and acceptance has been fully performed by the Obligor and the Dealer party thereto, (2) arises from the normal course of the Dealer's business, (3) the Obligor of which is a natural person residing in any state, (4) the Obligor of which is not a government or a governmental subdivision or agency, (5) the Obligor of which is not a minor and has full power and capacity to enter into such Program Contract, (6) is denominated and payable in dollars in the United States, (7) is in full force and effect and constitutes the legal, valid and binding obligation of the Obligor in accordance with its terms, (8) is not subject to any dispute, litigation, counterclaim or defense, or any offset, right of offset, and any exercisable right of rescission, (9) has an original term to maturity of not less than 24 nor more than 72 months, (10) provides for equal monthly payments which will cause the Program Contract to fully amortize during its term (11) has an Amount Financed that has been fully disbursed of not less than $5,000 or more than $30,000, (12) has an annual percentage rate of not less than the lesser of (A) rates as determined in the Originator's Manual, and (B) the maximum interest rate permissible by law with respect to such Program Contract, (13) together with the contract applicable thereto, does not contravene any requirements of law applicable thereto, (14) is a Program Contract with respect to which all required consents, approvals and authorizations have been obtained, (15) is a Program Contract secured by a purchase money security interest in the Automobile that has been recorded or applied for in the name of the Seller and assigned to the Purchaser which security interest is or is reasonably expected to be in full force and effect, in each case, subject to no prior or equal liens, claims or encumbrances, (16) was purchased by the Seller using and conforming to the Originator's Manual, (17) requires the Seller to be named as loss payee or beneficiary (as applicable) under an insurance policy with respect to the Automobile related to such Program Contract and entitles the Seller to the benefits of such insurance policy, (18) requires no additional action by the Seller before becoming a valid and binding obligation of the Obligor thereunder, enforceable against such Obligor in accordance with its terms, (19) relates to an Automobile with respect to which the Obligor made at least the minimum down payment as specified in the Originator's Manual and in the form and manner described in the Originator's Manual, including, but not limited to a down payment that is made with the Obligor's own cash money and which is not borrowed, deferred (except for deferred payments that are allowed by law and disclosed as deferred in the Contract) or obtained as a cash advance on a credit card or other open line of credit, and (20) complies in all respects with the requirements of the Originator's Manual .

(ii) Each Program Contract was originated by a Dealer that had all necessary licenses and permits to originate Program Contracts in the state where such Dealer was located, was fully and properly executed by the parties thereto, was purchased by the Seller from such Dealer under an existing Dealer Agreement with the Seller, was a Dealer and was validly assigned by the Dealer to the Seller.

(iii) Each Program Contract contains customary and enforceable provisions such as to render the rights and remedies of the holder thereof adequate for realization against the collateral security.

(iv) Each Program Contract was originated by a Dealer to an Obligor and was sold by the Dealer to the Seller without any fraud or material misrepresentation on the part of such Dealer or on the part of the Obligor.

(v) Such Program Contract complied at the time it was purchased by the Seller including the sale of any related physical damage, credit life and credit accident and death insurance, Gap or debt cancellation coverage, and any extended service contracts at the time it was originated or made, as of the date hereof in all material respects with all requirements of applicable federal, state and local laws and regulations thereunder, including usury laws, the federal Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Magnuson-Moss Warranty Act, the Federal Reserve Board's Regulations B and Z, the Fair Debt Collection Practices Act, the Federal Trade Commission Act, the Rees-Levering Act, and state adaptations of the National Consumer Act and of the Uniform Consumer credit Code, other consumer credit laws and equal credit opportunity and disclosure laws and other applicable legal requirements.

(vi) Such Program Contract has not been satisfied, subordinated or rescinded, nor has the related Automobile been released from the lien granted by such Program Contract, in whole or in part.

(vii) No provision of any Program Contract has been waived, altered, extended, revised or otherwise modified in any respect since its origination. No Program Contract has been modified as a result of the Soldier's and Sailor's Relief Act of 1940, as amended.

(viii) No right of rescission, setoff, counterclaim or defense has been asserted or threatened against the Seller with respect to such Program Contract.

(ix) The lien certificate for each Automobile either (i) shows the Purchaser or Seller or their nominee named as the original secured party under each Program Contract or (ii) has been applied for in the name of the Purchaser or Seller or their nominee. If the Program Contract was originated in a state in which a filing or recording is required of the secured party to perfect a security interest in motor vehicles, such filing or recording has been duly made to show the Purchaser or Seller or their nominee named as the original secured party under the related Program Contract. Immediately after the sale, transfer and assignment thereof to the Purchaser, each Program Contract will be secured by an enforceable and perfected security interest in the Automobile in favor of the Purchaser or Seller as secured party, which security interest is prior to all other liens and security interests in such Automobile (except, as to priority, for any lien for taxes, labor or materials affecting an Automobile that attach to the Automobile after the sale of the Program Contract) and which lien is not a preference under Section 544 of the United States Bankruptcy Code. For purposes of this section, Seller also represents and warrants that the lien, as applied for pursuant to the requirements herein, will be obtained in a timely manner such as not to adversely affect the interests of Purchaser in the Automobile.

(x) No liens or claims have been asserted or filed for taxes, work, labor or materials relating to the Automobile that are liens prior to, or equal or coordinate with, the security interest in the Automobile granted by any Program Contract, and the Obligor has good and marketable title to the Automobile subject to no liens other than the security interest under the Program Contract.

(xi) Upon sale hereunder, such Program Contract has not been sold, transferred, assigned, offered for purchase, or pledged by the Seller to any Person or Financial Institution other than the Purchaser; the Seller has good and marketable title to such Program Contract free and clear of all liens and rights of others claiming by or through the Purchaser (other than the rights of the Obligor to the Automobile thereunder) and, following the Sale Date, the Purchaser shall have good and marketable title to such Program Contract, free and clear of all liens and rights of others claiming by or through the Purchaser (other than the rights of the Obligor to the Automobile thereunder); and the transfer has been perfected under UCC for the applicable jurisdiction.

(xii) Such Program Contract has not been purchased by the Seller from a Dealer in, nor is subject to the laws of, any jurisdiction under which the sale, transfer and assignment of such Program Contract pursuant to the Sale Agreement is unlawful, void or voidable. No agreement has been entered into with any Obligor that prohibits, restricts or conditions the assignment of any portion of the Program Contracts.

(xiii) There is only one originally executed contract for each Program Contract.

(xiv) Such Program Contract constitutes "chattel paper" as defined in the UCC.

(xv) Such Program Contract has not been included in a "fleet sale" (i.e., a sale to a single Obligor of more than five vehicles).

(xvi) all amounts due and payable by the Seller to the Dealer under the Dealer Agreement with respect to such Program Contracts have been paid and no Dealer has any rights in, or claims against, the Program Contracts.

(xvii) The Seller has indicated in its computer files that such Program Contract has been sold to the Purchaser.

(xviii) The Seller has taken such action as is necessary to obtain a first perfected security interest in favor of the Purchaser in such Program Contract, and the proceeds thereof.

(xix) The Seller has done nothing to convey any right to any Person that would result in such Person having a right to payments due under such Program Contract or otherwise to impair the rights of the Purchaser in any Program Contract or the proceeds thereof.

(xx) No Program Contract is assumable by another Person in a manner which would release the Obligor thereof from such obligor's obligations to the Purchaser with respect to such Program Contract.

(xxi) No selection procedures adverse to the Purchaser have been utilized in selecting such Program Contract from all other Program Contracts owned by the Seller.

(xxii) As of the Sale Date, no Obligor is subject to a current bankruptcy proceedings and the Program Contract is current with regard to payment and is not otherwise in default according to its terms and conditions.

(xxiii) Each Program Contract is a fully amortizing simple interest receivable which provides for level monthly payments which, if made when due, shall fully amortize the Amount Financed over the original term.

(c) It is understood and agreed that the representations and warranties set forth in this Section 5, measured as of the dates made, shall survive the sale of the Sold Program Contract to the Purchaser and any assignment of the Sold Program Contract by the Purchaser to any subsequent assignee and shall continue so long as any Sold Program Contract shall remain outstanding with regard to payment thereunder and shall remain subject to any outstanding terms and conditions. The Seller acknowledges that the Purchaser may assign all of its right, title and interest in and to the Sold Program Contract and its right to exercise the remedies created by this Section 5 hereof to a subsequent assignee. The Seller agrees that, upon such assignment, any subsequent assignee may enforce directly, without joinder of the Purchaser, the repurchase obligations of the Seller set forth in Section 5(d) with respect to breaches of the representations and warranties set forth in section 5(a) and Section 5(b) hereof.

(d) Upon discovery by the Seller, the Purchaser or any subsequent assignee of a breach of any of the representations and warranties in Section 5(a) or Section 5(b) hereof , the party discovering such breach shall give prompt written notice to the other parties. Thereafter, if requested by notice from the Purchaser or any subsequent assignee, the Seller shall immediately repurchase such Sold Program Contract by remitting the Repurchase Price in the manner specified in such notice. Any such repurchase shall be made without recourse against, or warranty, express or implied, of such party. Seller will not be under an obligation to repurchase a Sold Program Contract but will assist Purchaser in obtaining a Dealer repurchase where a Sold Program Contract involves fraud or a material misrepresentation that the Seller had no knowledge of provided Seller completed all required verification steps set forth in the Originator's Manual .

(e) Upon such repurchase and the payment of the Repurchase Price, the Purchaser or any subsequent assignee shall execute and deliver an assignment and the Purchaser or any subsequent assignee shall assign to Seller, all of the Purchaser's or any subsequent assignee's right, title and interest in such repurchased Program Contract, without recourse, representation or warranty, except as to the absence of liens, charges or encumbrances created by or arising as a result of actions of the Purchaser or any subsequent assignee other than liens, charges or encumbrances created or arising out of this Sale Agreement. The Purchaser and any subsequent assignee agree that it will promptly execute and deliver and take all further action, that may be necessary or appropriate, or that the Seller may reasonably request, in order to perfect, protect or more fully evidence the transfer of ownership of such Program Contract to Seller pursuant to Section 5(d). It is understood and agreed that the obligation of the Seller to repurchase any Program Contract pursuant to Section 5(d) shall constitute the sole remedy for the breach of any representation or warranty under Section 5(b); provided, that the foregoing limitation shall not be construed to limit in any manner the Purchaser's rights to (i) declare the Termination Date to have occurred to the extent that such breach also constitutes, or contributes to the determination of, an Event of Purchase Termination, (ii) indemnification to the extent available under Section 10, or (iii) offset the amount of the Repurchase Price from the Purchase Price of any Sold Program Contracts.

SECTION 6. ADDITIONAL COVENANTS OF THE SELLER. The Seller shall, unless the Purchaser shall otherwise consent in writing:

(a) Comply in all material respects with all applicable laws, rules, regulations and orders with respect to it, its business and properties and all Program Contracts;

(b) Preserve and maintain its existence, rights, franchises and privileges in the jurisdiction of its organization and all necessary Sales Finance Company Licenses;

(c) Cause to be delivered to the Purchaser on, or within 30 days prior to, each anniversary of the date of this Agreement, (i) an Officer's Certificate of the Seller in the form of Exhibit E, dated the date of such delivery; (ii) a certificate in the form required by Section 4(a)(vii); and (iii) an opinion of counsel, in form and substance satisfactory to the Purchaser, reaffirming as of the date of its delivery the opinion of counsel with respect to the Seller and delivered to the Purchaser on the Closing Date pursuant to Section 4(a)(viii);

(d) Furnish, or cause to be furnished, to the Purchaser, as soon as available and in any event within 120 days after the end of each fiscal year of the Seller, a copy of the consolidated financial statement of the Seller, its consolidated Subsidiaries, as of the end of such year beginning with the year ending December 31, 1999, and the related Consolidated statements of income and retained earnings, and of cash flow, of the Seller, and its consolidated Subsidiaries for such year, certified by a firm of independent certified public accountants;

(e) Promptly after the occurrence thereof, notice of any pending or threatened action, suit or proceeding of a type described in Section 5(a)(vii);

(f) As soon as possible and in any event within five days after the occurrence of an Event of Purchase Termination (including without limitation a material adverse change in the financial condition of the Seller as determined by the Purchaser) or each event which, with the giving of notice or lapse of time or both, would constitute an Event of Purchase Termination, the statement of an officer of the Seller setting forth complete details of such Event of Purchase Termination or event and the action which the Seller has taken, is taking and proposes to take with respect thereto;

(g) Promptly provide and verify the accuracy of any information concerning the Seller required for any offering document with respect to the sale of asset-backed securities backed by the Sold Program Contract (the "Securities"), which may include information relating to the Seller and its operations in connection with the origination of Program Contracts, and such information may be published in such offering documents and relied upon by the Purchaser and the assignee of the Purchaser;

(h) Acquire, maintain, and provide to the Purchaser such information as the Purchaser may reasonably require (at least semi-annually) from time to time regarding any Dealer whose Automobile sales are financed or are to be financed by Program Contracts which are sold or to be sold hereunder and shall represent that such information is, to the best knowledge, information, and belief of the Seller, true and correct. To the extent Seller has the right, by agreement or otherwise, to inspect or audit the books and records of any Dealer, the Seller shall allow the Purchaser, at its expense, to exercise such right on the Seller's behalf;

(i) Maintain, at its own expense, with responsible insurance companies such insurance on such of its properties, in such amounts and against such risks as is customarily maintained by similar businesses. No provision of this Section 6(i) requiring insurance shall relieve the Seller from its duties and obligations as set forth in this Sale Agreement. The Seller shall be deemed to have complied with this provision in whole or in applicable part if one of its Affiliates has such applicable policy or policies and, by the terms thereof, the coverage afforded thereunder extents to the Seller. The Seller shall, upon the request of the Purchaser, file with the Purchaser a list of the insurance then in effect, stating the names of the insurance companies, the amounts of the insurance, the dates of the expiration thereof, and the properties and risks covered thereby. Each policy required by this Section 6(i) shall not be canceled or modified in a materially adverse manner without ten days' prior written notice to the Purchaser; and

(j) Promptly, deliver to the Purchaser, from time to time, such other information, documents, records or reports respecting the Program Contract or the condition or operations, financial or otherwise, of the Seller or any of its Subsidiaries, as the Purchaser may, from time to time, reasonably request (including, but not limited to, such information, document, records or reports which the Purchaser is requested or required by applicable law to provide to a third party -- including any Governmental Authority).

(k) Upon receipt of seven days prior written notice, Seller shall permit Purchaser to audit Seller's operations at Seller's locations. Such audit shall be limited to a review of those items that relate to this Agreement. Such audit shall be during Seller's normal business hours. All of Purchaser's costs for such audit shall be borne by Purchaser. In lieu of an audit at the Seller's location, Purchaser may, from time to time, request that information, documents, or records required pursuant to such audit be sent to Purchaser.

(l) Seller shall provide Purchaser with copies of all contracts, agreements or other forms that will be included in the Contract File or included in the Purchased Assets. Purchaser shall have the right to approve all such forms before its purchase of any Program Contracts under this Agreement.

SECTION 7. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER. The Purchaser represents and warrants to the Seller as follows:

(a) Purchaser is duly organized, validly existing and in good standing as a limited liability company under the laws of Delaware, with the power and authority to own its properties and to conduct its business.

(b) Purchaser is duly qualified to do business, in good standing and possesses all of the necessary licenses and approvals in all jurisdictions where failure to do so would adversely affect its ability to perform its obligations under this Sale Agreement or the enforceability or collectibility of the Sold Program Contracts.

(c) Purchaser has the power, authority and legal right to execute and deliver this Sale Agreement and to carry out its terms, and the execution, delivery and performance of this Sale Agreement has been duly authorized by Purchaser by all necessary corporate action.

(d) this Sale Agreement constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms.

(e) the execution, delivery and performance of this Sale Agreement, the consummation of the transaction contemplated hereby and the fulfillment of the terms hereof will not conflict with, result in any breach of or constitute (with or without notice or lapse of time) a default under the charter or bylaws of the Purchaser, or conflict with or breach any of the terms or provisions of, or constitute (with or without notice or lapse of time) a default under, any indenture, agreement, mortgage, deed of trust or other instrument to which Purchaser is a party or by which Purchaser is bound or to which any of its properties are subject, or result in the creation or imposition of any lien upon any of its properties pursuant to the terms of any such indenture, agreement, mortgage, deed of trust or other instrument, or constitute a violation of any law, order, rule or regulation applicable to Purchaser or its properties of any Governmental Authority having jurisdiction over Purchaser or any of its properties.

(f) There are no proceedings, investigations pending, or, to Purchaser's knowledge, threatened, before any Governmental Authority having jurisdiction over Purchaser or any of their respective properties: (i) asserting the invalidity of this Sale Agreement, (ii) seeking to prevent the consummation of any of the transactions contemplated by this Sale Agreement, or (iii) seeking any determination or ruling that might materially and adversely affect the performance by Purchaser of its respective obligations under, or the validity or enforceability of, this Sale Agreement.

SECTION 8. TERMINATION. This Sale Agreement will terminate on the earlier to occur of (such date, the "Termination Date") the following events:

(a) The date of Event of Purchase Termination shall have been declared or automatically occurred in accordance with the provisions of Section 9; or

(b) The first anniversary of the date hereof (it being understood that if neither party has notified the other before 45 days of said anniversary date of its intention to terminate then the term of this Sale Agreement will automatically be renewed for successive one-year terms, provided that Purchaser or Seller can terminate this Agreement without cause during the renewal period by providing 90 days prior written notice).

SECTION 9. EVENTS OF PURCHASE TERMINATION. If any of the following events (each an "Event of Purchase Termination") shall occur and be continuing:

(a) The Seller shall materially fail to perform or observe any term, covenant or agreement contained in this Sale Agreement and such failure shall remain unremedied for thirty days after written notice thereof shall have been given by the Purchaser to the Seller; or

(b) The Purchaser shall materially fail to perform or observe any term, covenant or agreement contained in this Sale Agreement and such failure shall remain unremedied for thirty days after written notice thereof shall have been given by the Seller to the Purchaser; or

(c) A default shall have occurred and be continuing under any instrument or agreement evidencing, securing or providing for the issuance of Debt of the Seller; or

(d) The Seller shall generally not pay any of its respective Debts as such Debts become due, or the Seller shall admit in writing its inability to pay its Debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Seller seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or any of its Debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a conservator, receiver, trustee, custodian or other similar official for it or for any substantial part of its property, or any of the actions sought in such proceeding (including, without limitation, the entry of and order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Seller shall take any corporate action to authorize any of the actions set forth in this subsection; or

(e) Judgments or orders for the payment of money (other than such judgments or orders in respect of which adequate insurance is maintained for the payment thereof) in excess of $15,000 in the aggregate against the Seller shall remain unpaid, unstayed on appeal, undischarged, unbonded or undismissed for a period of 30 days or more; or

(f) There is a material breach of any of the representations and warranties of the Seller set forth in Section 5(a);

(g) Any Governmental Authority (including the Internal Revenue Service or the Pension Benefit Guaranty Corporation) shall file notice of a lien with regard to the assets of the Seller other than a lien (i) limited by its terms to assets other than Program Contracts and (ii) not materially adversely affecting the financial condition of the Seller; or

(h) A deterioration has taken place in the quality of the Sold Program Contracts (and Seller and Purchaser are unable to renegotiate the Fee Schedule within 10 days of Purchaser's notice of deterioration of the Sold Program Contracts) or in the collectibility thereof which the Purchaser, in its sole discretion, determines to be material; or

(i) This Sale Agreement shall for any reason cease to evidence the transfer to the Purchaser of the legal and equitable title to, and ownership of the Sold Program Contracts; or

(j) any company providing insurance to the Purchaser in respect of the Sold Program Contracts determines that the Sold Program Contracts originated by the Seller are, as a general matter, ineligible for insurance coverage; or the rating agency rating the Securities determines that inclusion of Sold Program Contracts originated by the Seller in the applicable trust will result in a review with negative implications, suspension, downgrade, withdrawal or other impairment of the rating assigned to such Securities.

(k) Seller does not offer at least 500 Eligible Program Contracts per month beginning three (3) months after the Closing Date.

(l) In the event that any of the Events of Purchase Termination described above (except for subsections (d) or (i)) herein shall have occurred, the Purchaser shall have provided the Seller (or the Seller shall have provided the Purchaser) with a written notice of its intent to terminate this Sale Agreement and 30 Business Days shall have lapsed since such notice; then and in any such event, the Purchaser (or the Seller) may, by notice to the Seller (or the Purchaser) declare an Event of Purchase Termination to have occurred, whereupon the Termination Date shall forthwith occur, without demand, protest or further notice of any kind, all of which are hereby expressly waived by the Seller (or the Purchaser). In the event that any of the Events of Purchase Termination described in subsections (d) or (i) herein shall have occurred, an Event of Purchase Termination shall automatically occur, without demand, protest or any notice of any kind, all of which are hereby expressly waived by the Seller and the Purchaser. Upon any such declaration or automatic occurrence, the Purchaser shall have, in addition to all other rights and remedies under this Sale Agreement, all other rights and remedies provided under the UCC and other applicable law, which rights shall be cumulative.

SECTION 10. INDEMNIFICATION. Without limiting any other rights that an Indemnified Party may have hereunder or under applicable law, the Seller hereby agrees to pay on demand to each Indemnified Party Indemnified Amounts which may be imposed on, incurred by or asserted against an Indemnified Party in any way arising out of or resulting from this Sale Agreement including without limitation:

(a) use by the Seller of proceeds of any Sale or in respect of any Sold Program Contract;

(b) reliance on any representation or warranty made or deemed made by the Seller (or any of its officers) under or in connection with this Sale Agreement;

(c) the failure by the Seller to comply with any term, provision or covenant contained in this Sale Agreement, or any agreement executed in connection with this Sale Agreement; or

(d) the failure to vest and maintain vested in the Purchaser, or to transfer to the Purchaser, legal and equitable title to and ownership of the Program Contracts which are, or are purported to be, Sold Program Contracts, together with all proceeds in respect thereof, free and clear of any Adverse Claim (except as permitted hereunder) whether existing at the time of the proposed sale of such Program Contract or at any time thereafter and without limitation to the remedies set forth in Section 5; excluding, however, (a) recourse for any uncollectible Sold Program Contract (provided that the foregoing shall not be deemed to limit the Purchaser's rights under Sections 5(d) and 9(c)), and (b) Indemnified Amounts to the extent resulting from the negligence or willful misconduct on the part of such Indemnified Party. The Seller acknowledges that the Purchaser may assign its rights of indemnity granted hereunder to an assignee and upon such assignment, such assignee shall have all rights of the Purchaser hereunder and may in turn assign such rights. The Seller agrees that, upon such assignment, such assignee may enforce directly, without joinder of the Purchaser, the indemnities set forth in this Section.

(e) any actions by Seller that result in a loss by or claim against Purchaser arising out of Seller's performance under this Agreement, provided this indemnification shall not cover loss or claims that are the result of any actions by Purchaser.

SECTION 11. CONFIDENTIALITY; NONCOMPETITION. Except to the extent otherwise required by applicable law or unless the Purchaser shall otherwise consent in writing, the Seller (including directors, officers, employees, and counsel) agrees to keep confidential the existence of this Agreement and to maintain the confidentiality of the original or any copy of all or any part of this Sale Agreement (and all drafts hereof and documents ancillary hereto including any letters of intent) and all proprietary information relating to Purchaser's business, including but not limited to, credit underwriting criteria, products, customer lists, pricing policies, employment records and policies, operational methods, marketing plans and strategies, product development techniques or inventions and research programs, trade know-how, trade secrets, specific software, algorithms, computer processing systems, object and source codes, user manuals, systems documentation, and other business and financial affairs of Purchaser in its communications with third parties and otherwise and agrees not to disclose, deliver or otherwise make available such materials to any third party (other than its directors, officers, employees, accountants or counsel).

SECTION 12. NO PROCEEDINGS. The Seller hereby agrees that it will not, directly or indirectly, institute, or cause to be instituted, against the Purchaser any proceeding of the type referred to in Section 9(dc) so long as there shall not have elapsed one year plus one day since the latest maturing Securities issued by the Purchaser have been paid in full in cash it being understood that such provision in no way limits the Seller's rights and remedies pursuant to this Sale Agreement.

SECTION 13. NOTICES, ETC. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing and mailed or telecommunicated, or delivered as to each party hereto, at its address set forth under its name on the signature page hereof or at such other address as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall not be effective until received by the party to whom such notice or communication is addressed.

SECTION 14. NO WAIVER; REMEDIES. No failure on the part of the Seller or the Purchaser to exercise, and no delay in exercising, any right hereunder or under any Sale Assignment shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right, The remedies herein provided are cumulative and not exclusive of any other remedies provided by law.

SECTION 15. BINDING EFFECT; ASSIGNABILITY. This Sale Agreement shall be binding upon and inure to the benefit of the Seller and the Purchaser, and their respective successors and permitted assigns. The Seller may not assign any of its rights and obligations hereunder or any interest herein without the prior written consent of the Purchaser. The Purchaser may, assign all of its rights hereunder to one or more Persons. This Sale Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until its termination; provided, that the rights and remedies with respect to any breach of any representation and warranty made by the Seller pursuant to Section 5 and the indemnification and payment provisions of Section 10 shall be continuing and shall survive any termination of this Sale Agreement.

SECTION 16. AMENDMENTS; CONSENTS AND WAIVERS; ENTIRE AGREEMENT. No modification, amendment or waiver of, or with respect to, any provision of this Sale Agreement, and all other agreements, instruments and documents delivered hereto, nor consent to any departure by the Seller from any of the terms or conditions hereof shall be effective unless it shall be in writing and signed by each of the parties hereto. Any waiver or consent shall be effective only in the specific instance and for the purpose for which given. No consent to or demand by the Seller in any case shall, in itself, entitle it to any other consent or further notice or demand in similar or other circumstances. This Sale Agreement and the documents referred to herein embody the entire agreement of the Seller and the Purchaser with respect to the Sold Program Contracts and supersede all prior agreements and understandings relating to the subject hereof.

SECTION 17. SEVERABILITY. In case any provision in or obligation under this Sale Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provision or obligations, or of such provision or obligation, shall not in any way be affected or impaired thereby in any other jurisdiction.

SECTION 18. MISCELLANEOUS.

Purchaser shall provide Seller data relating to the performance of all Sold Program Contracts. Such data will be of the type and level of detail considered necessary by the Seller, in its sole discretion, to allow Seller to perform static pool and other analyses on such Sold Program Contracts. It is understood that this condition becomes effective once the volume of Sold Program Contracts reaches a level where such analyses would be considered by the Seller to be meaningful. It is also understood that, once effective, this provision shall apply to all Sold Program Contracts since the date of this Sale Agreement and for the life of all such Sold Program Contracts.

SECTION 19. GOVERNING LAW. THIS SALE AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAWS PROVISIONS) OF THE STATE OF COLORADO.

SECTION 20. EXECUTION IN COUNTERPARTS. This Sale Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and both of which when taken together shall constitute one and the same agreement.

IN WITNESS WHREOF, the parties have cause this Sale Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CONSUMER PORTFOLIO SERVICES, INC.

By ________________________________
Name: Charles E. Bradley, Jr.
Title: President and CEO

Address: Consumer Portfolio Services, Inc.
16355 Laguna Canyon Road
Irvine, California 92618

Attention: Charles E. Bradley, Jr. , President/CEO

With a copy to:
Dick Trotter, Senior Vice President Originations
Telephone number: (800) 898-6814
Facsimile number: (800) 881-6950

FAIRLANE CREDIT LLC

By ________________________________
Name: Jerry L. Heimlicher
Title: President

Address:
1755 Telstar Drive
Suite 400
Colorado Springs, CO 80920

Attention: Jerry L. Heimlicher

With a copy to: Doug Hubler, Vice President,
Marketing and Strategic Planning
Telephone number: 719-266-7564
Facsimile number: 719-266-7572

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