

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

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021

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: 001-14116

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

California
(State or other jurisdiction of incorporation or organization)

33-0459135
(I.R.S. Employer Identification No.)

3800 Howard Hughes Pkwy, Las Vegas, NV
(Address of principal executive offices)

89169
(Zip Code)

Registrant's telephone number, including area code: (949) 753-6800

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	CPSS	The Nasdaq Stock Market LLC (Global Market)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging Growth Company

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the 15,970,613 shares of the registrant's common stock held by non-affiliates as of the date of filing of this report, based upon the closing price of the registrant's common stock of \$4.50 per share reported by Nasdaq as of June 30, 2021, was approximately \$71,867,759. For purposes of this computation, a registrant sponsored pension plan and all directors and executive officers are deemed to be affiliates. Such determination is not an admission that such plan, directors and executive officers are, in fact, affiliates of the registrant.

The number of shares of the registrant's Common Stock outstanding on March 8, 2022 was 21,267,402.

DOCUMENTS INCORPORATED BY REFERENCE

The proxy statement for registrant's 2021 annual shareholders meeting is incorporated by reference into Part III hereof.

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PART I

Item 1. Business

Overview

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

We were incorporated and began our operations in March 1991. From inception through December 31, 2021, we have purchased a total of approximately \$18.1 billion of automobile contracts from dealers. In addition, we acquired a total of approximately \$822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and 2011. Contract purchase volumes and managed portfolio levels for the five years ended December 31, 2021 are shown in the table below. Managed portfolio comprises both contracts we owned and those we were servicing for third parties.

Contract Purchases and Outstanding Managed Portfolio

Year	\$ in thousands	
	Contracts Purchased in Period	Managed Portfolio at Period End
2017	\$ 859,069	\$ 2,333,530
2018	902,416	2,380,847
2019	1,002,782	2,416,042
2020	742,584	2,174,972
2021	1,146,321	2,249,069

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

Most of our contract acquisitions volume results from our purchases of retail installment sales contracts from franchised or independent automobile dealers. We establish relationships with dealers through our employee sales representatives, who contact prospective dealers to explain our automobile contract purchase programs, and thereafter provide dealer training and support services. Our sales representatives represent us exclusively. They may work from our Irvine branch, our Las Vegas branch, or in the field, in which case they work from their homes and support dealers in their geographic area. Our sales representatives present dealers with a sales package, which includes our promotional material containing the terms offered by us for the purchase of automobile contracts, a copy of our standard-form dealer agreement, and required documentation relating to automobile contracts. As of December 31, 2021, we had 72 sales representatives, and in that month, we received applications from 7,285 dealers in 47 states. As of December 31, 2021, approximately 74% of our active dealers were franchised new car dealers that sell both new and used vehicles, and the remainder were independent used car dealers.

We also solicit credit applications directly from prospective automobile consumers through the internet under a program we refer to as our direct lending platform. For qualified applicants we offer terms similar to those that we offer through dealers, though without a down payment requirement and with more restrictive loan-to-value and credit score requirements. Applicants approved in this fashion are free to shop for and purchase a vehicle from a dealer of their choosing, after which we enter into a note and security agreement directly with the consumer.

During the year ended December 31, 2021 automobile contracts originated under the direct lending platform represented 3.1% of our total acquisitions and represented 2.6% of our outstanding managed portfolio as of December 31, 2021. Regardless of whether an automobile contract is originated from one of our dealers or through our direct lending platform, the discussion that follows regarding our acquisitions guidelines, procedures and demographic statistics applies to all of our originated contracts.

For the year ended December 31, 2021 approximately 82% of the automobile contracts originated under our programs consisted of financing for used cars and 18% consisted of financing for new cars.

We generally solicit applications with the intent of originating contracts to hold as investments in our own portfolio. However, in May 2021 we began purchasing some contracts for immediate sale to a third-party to whom we refer applications that do not meet our lending criteria. We service all such contracts on behalf of the third-party.

For contracts we originate for our own portfolio, we generally finance them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of automobile contracts to a special purpose subsidiary of ours. The subsidiary in turn issues (or contributes to a trust that issues) asset-backed securities, which are purchased by institutional investors. Since 1994, we have completed 91 term securitizations of approximately \$16.2 billion in automobile contracts. We depend upon the availability of short-term warehouse credit facilities as interim financing for our contract purchases prior to the time we pool those contracts for a securitization. As of December 31, 2021, we had two such short-term warehouse facilities, each with a maximum borrowing amount of \$100 million.

Sub-Prime Auto Finance Industry

Automobile financing is the second largest consumer finance market in the United States. The automobile finance industry can be considered a continuum where participants choose to provide financing to consumers in various segments of the spectrum of creditworthiness depending on each participant's business strategy. We operate in a segment of the spectrum that is frequently referred to as sub-prime since we provide financing to less credit-worthy borrowers at higher rates of interest than more credit-worthy borrowers are likely to obtain.

Traditional automobile finance companies, such as banks, their subsidiaries, credit unions and captive finance subsidiaries of automobile manufacturers, generally lend to the most creditworthy, or so-called prime borrowers, although some traditional lenders are significant participants in the sub-prime segment in which we operate. Historically, independent companies specializing in sub-prime automobile financing and subsidiaries of larger financial services companies have competed in the sub-prime segment which we believe remains highly fragmented, with no single company having a dominant position in the market.

Our automobile financing programs are designed to serve sub-prime customers, who generally have limited credit histories or past credit problems. Because we serve customers who are unable to meet certain credit standards, we incur greater risks, and generally receive interest rates higher than those charged in the prime credit market. We also sustain a higher level of credit losses because of the higher risk customers we serve.

Coronavirus Pandemic

In December 2019, a new strain of coronavirus (the "COVID-19 virus") originated in Wuhan, China. Since its discovery, the COVID-19 virus has spread throughout the world, and the outbreak has been declared to be a pandemic by the World Health Organization. We refer from time to time in this report to the outbreak and spread of the COVID-19 virus as "the pandemic." In March 2020 at the outset of the pandemic we complied with government mandated shutdown orders in the five locations we operate by arranging for many of our staff to work from home and invoking various safety protocols for workers who remained in our offices. In April 2020, we laid off approximately 100 workers, or about 10% of our workforce, throughout our offices because of significant reductions in new contract originations. As of December 31, 2021, most of our staff were working without a significant impact from the pandemic.

Contract Acquisitions

When a retail automobile buyer elects to obtain financing from a dealer, the dealer takes a credit application to submit to its financing sources. Typically, a dealer will submit the buyer's application to more than one financing source for review. We believe the dealer's decision to choose a financing source is based primarily on: (i) the interest rate and monthly payment made available to the dealer's customer; (ii) any fees to be charged to (or paid to) the dealer by the financing source; (iii) the timeliness, consistency, and predictability of response; (iv) funding turnaround time; (v) any conditions to purchase; and (vi) the financial stability of the financing source. Dealers can send credit applications to us by entering the necessary data on our website or through one of two third-party application aggregators. For the year ended December 31, 2021, we received 1.7 million applications. Approximately 64% of all applications came through DealerTrack (the industry leading dealership application aggregator), 35% via another aggregator, Route One and 1% via our website. A portion of the DealerTrack and Route One volume are applications from our pass-through arrangements with other lenders who send us applications from their dealers in cases where those lenders choose not to approve those applications. For the year ended December 31, 2021, such pass-through applications represented 13% of our total applications. For the year ended December 31, 2021, our automated application decisioning system produced our initial decision within seconds on approximately 99% of those applications.

Upon receipt an application, if the application meets certain minimum criteria, we immediately order two credit reports to document the buyer's credit history and an alternative data credit score provided by a major credit reporting bureau. If, upon review by our proprietary automated decisioning system, or in some cases, one of our credit analysts, we determine that the applicant and structure of the automobile financing contract meets our criteria, we advise the dealer of our decision to approve the contract and the terms under which we will purchase it. For applications that do not meet our criteria, we may forward them to one or more business partners who also invest in subprime automobile contracts. In the case of one third-party partner, as described above, we may purchase contracts they approve, followed by immediate resale to them, after which we retain the servicing. If this third-party declines the application, we advise the dealer that we will not purchase the contract. Other partners to whom we refer applications may or may not choose to purchase such contracts by working directly with the dealers who submitted the applications. Unless otherwise notated, contract origination and managed portfolio data discussed herein includes third-party contracts.

Dealers with which we do business are under no obligation to submit any automobile contracts to us, nor are we obligated to purchase any automobile contracts from them. During the year ended December 31, 2021, no dealer accounted for as much as 1% of the total number of automobile contracts we purchased.

Under our direct lending platform, the applicant submits a credit application directly to us via our website, or in some cases, through a third-party who accepts such applications and refers them to us for a fee. In either case, we process the application with the same automated application decisioning process as described above for applications from dealers. We then advise the applicant as to whether we would grant them credit and on what terms.

The following table sets forth the geographical sources of the automobile contracts we originated (based on the addresses of the customers as stated on our records) during the years ended December 31, 2021 and 2020.

	Contracts Purchased During the Year Ended			
	December 31, 2021		December 31, 2020	
	Number	Percent (1)	Number	Percent (1)
California	5,928	10.9%	5,370	13.5%
Ohio	5,071	9.3%	4,425	11.1%
Texas	3,336	6.1%	2,033	5.1%
Indiana	2,725	5.0%	2,149	5.4%
Florida	2,716	5.0%	1,784	4.5%
Pennsylvania	2,525	4.6%	1,307	3.3%
North Carolina	2,378	4.4%	2,121	5.3%
Other States	29,638	54.6%	20,698	51.9%
Total	54,317	100.0%	39,887	100.0%

(1) Percentages may not total to 100.0% due to rounding.

The following table sets forth the geographic concentrations of our outstanding managed portfolio as of December 31, 2021 and 2020.

	Outstanding Managed Portfolio as of			
	December 31, 2021		December 31, 2020	
	Amount	Percent (1)	Amount	Percent (1)
	(\$ in millions)			
California	\$ 265.3	11.8%	\$ 251.5	11.6%
Ohio	205.6	9.1%	199.9	9.2%
Texas	140.7	6.3%	126.3	5.8%
North Carolina	114.8	5.1%	125.9	5.8%
Florida	112.7	5.0%	112.3	5.2%
All others	1,410.0	62.7%	1,359.1	62.5%
Total	\$ 2,249.1	100.0%	\$ 2,175.0	100.0%

(1) Percentages may not total to 100.0% due to rounding.

We purchase automobile contracts from dealers at a price generally computed as the total amount financed under the automobile contracts, adjusted for an acquisition fee, which may be comprised of multiple components and which may either increase or decrease the automobile contract purchase price we pay. The amount of the acquisition fee, and whether it results in an increase or decrease to the automobile contract purchase price, is based on the perceived credit risk of and, in some cases, the interest rate on the automobile contract. The following table summarizes the average net acquisition fees we charged dealers and the weighted average annual percentage rate on contracts purchased for our own portfolio for the periods shown:

	2021	2020	2019	2018	2017
Average net acquisition fee charged (paid) to dealers (1)	\$ (65)	\$ 71	\$ (25)	\$ (238)	\$ (34)
Average net acquisition fee as % of amount financed (1)	-0.3%	0.4%	-0.1%	-1.4%	-0.2%
Weighted average annual percentage interest rate	17.8%	19.3%	19.2%	18.3%	19.1%

(1) Not applicable to direct lending platform

Our pricing strategy is driven by our objectives for new contract purchase quantities and maximizing our risk adjusted yield. We believe that levels of acquisition fees are determined primarily by competition in the marketplace, which has been robust over the periods presented, and by our pricing strategy. We make changes to our pricing algorithm based on our volume goals, our own costs for borrowing and periodic recalibration of our risk-based scoring models.

We have offered eight different financing programs, and price each program according to the relative credit risk. Our programs cover a wide band of the sub-prime credit spectrum and are labeled as follows:

First Time Buyer – This program accommodates an applicant who has limited significant past credit history, such as a previous auto loan. Since the applicant has limited credit history, the contract interest rate and dealer acquisition fees tend to be higher, and the loan amount, loan-to-value ratio, down payment, and payment-to-income ratio requirements tend to be more restrictive compared to our other programs.

Mercury / Delta – This program accommodates an applicant who may have had significant past non-performing credit including recent derogatory credit. As a result, the contract interest rate and dealer acquisition fees tend to be higher, and the loan amount, loan-to-value ratio, down payment, and payment-to-income ratio requirements tend to be more restrictive compared to our other programs.

Standard – This program accommodates an applicant who may have significant past non-performing credit, but who has also exhibited some performing credit in their history. The contract interest rate and dealer acquisition fees are comparable to the First Time Buyer and Mercury/Delta programs, but the loan amount and loan-to-value ratio requirements are somewhat less restrictive.

Alpha – This program accommodates applicants who may have a discharged bankruptcy, but who have also exhibited performing credit. In addition, the program allows for homeowners who may have had other significant non-performing credit in the past. The contract interest rate and dealer acquisition fees are lower than the Standard program, down payment and payment-to-income ratio requirements are somewhat less restrictive.

Alpha Plus – This program accommodates applicants with past non-performing credit, but with a stronger history of recent performing credit, such as auto or mortgage related credit, and higher incomes than the Alpha program. Contract interest rates and dealer acquisition fees are lower than the Alpha program.

Super Alpha – This program accommodates applicants with past non-performing credit, but with a somewhat stronger history of recent performing credit, including auto or mortgage related credit, and higher incomes than the Alpha Plus program. Contract interest rates and dealer acquisition fees are lower, and the maximum loan amount is somewhat higher, than the Alpha Plus program.

Preferred - This program accommodates applicants with past non-performing credit, but who demonstrate a somewhat stronger history of recent performing credit than the Super Alpha program. Contract interest rates and dealer acquisition fees are lower, and the maximum loan amount is somewhat higher than the Super Alpha program.

Our upper credit tier products, which are our Preferred, Super Alpha, Alpha Plus and Alpha programs, accounted for approximately 74% of our new contract acquisitions for our own portfolio in 2021, 75% in 2020, and 76% in 2019, measured by aggregate amount financed.

The following table identifies the credit program, sorted from highest to lowest credit quality, under which we originated automobile contracts during the years ended December 31, 2021 and 2020.

Program	Contracts Purchased During the Year Ended (1)			
	December 31, 2021		December 31, 2020	
	Amount Financed	Percent (1)	Amount Financed	Percent (1)
Preferred	\$ 161,289	14.1%	\$ 59,891	8.1%
Super Alpha	197,809	17.3%	96,764	13.0%
Alpha Plus	157,212	13.7%	165,374	22.3%
Alpha	304,978	26.6%	237,379	32.0%
Standard	177,876	15.5%	109,061	14.7%
Mercury / Delta	62,334	5.4%	46,948	6.3%
First Time Buyer	42,537	3.7%	27,167	3.7%
Third Parties	42,286	3.7%	n/a	n/a %
	<u>\$ 1,146,321</u>	<u>100.0%</u>	<u>\$ 742,584</u>	<u>100.0%</u>

(1) Percentages may not total to 100.0% due to rounding.

We attempt to control misrepresentation regarding the customer's credit worthiness by carefully screening the automobile contracts we originate, by establishing and maintaining professional business relationships with dealers, and by including certain representations and warranties by the dealer in the dealer agreement. Pursuant to the dealer agreement, we may require the dealer to repurchase any automobile contract if the dealer breaches its representations or warranties. There can be no assurance, however, that any dealer will have the willingness or the financial resources to satisfy their repurchase obligations to us.

Contract Funding

For automobile contracts that we purchase from dealers, we require that the contract be originated by a dealer that has entered into a dealer agreement with us. Under our direct lending platform, we require the customer to sign a note and security agreement. In each case, the contract is secured by a first priority lien on a new or used automobile, light truck or passenger van and must meet our funding criteria. In addition, each automobile contract requires the customer to maintain physical damage insurance covering the financed vehicle and naming us as a loss payee. We may, nonetheless, suffer a loss upon theft or physical damage of any financed vehicle if the customer fails to maintain insurance as required by the automobile contract and is unable to pay for repairs to or replacement of the vehicle.

Our technology and human expertise provides for a 360-degree evaluation of an applicant's employment and residence stability, income level and affordability, and creditworthiness in relation to the desired collateral securing the automobile contract. This perspective is used to assign application and structure allowances and limits related to price, term, amount of down payment, monthly payment, and interest rate; type of vehicle; and principal amount of the automobile contract in relation to the value of the vehicle.

Specifically, our funding guidelines generally limit the maximum principal amount of a purchased automobile contract to 125% of wholesale book value in the case of used vehicles or to 125% of the manufacturer's invoice in the case of new vehicles, plus, in each case, sales tax, licensing and, when the customer purchases such additional items, a service contract or a product to supplement the customer's casualty policy in the event of a total loss of the related vehicle. We generally do not finance vehicles that are more than 11 model years old or have more than 150,000 miles. The maximum term of a purchased contract is 75 months, although we consider the loan to value and mileage as significant factors in determining the maximum term of a contract. Automobile contract purchase criteria are subject to change from time to time as circumstances may warrant. Prior to purchasing an automobile contract, our funding staff verify the customer's employment, income, residency, and credit information by contacting various parties noted on the customer's application, credit information bureaus and other sources. In addition, we contact each customer by telephone to confirm that the customer understands and agrees to the terms of the related automobile contract. During this "welcome call," we also ask the customer a series of open-ended questions about his application and the contract, which may uncover potential misrepresentations.

Credit Scoring. We use proprietary scoring models to assign two internal "credit scores" at the time the application is received. These proprietary scores are used to help determine whether we want to approve the application and, if so, the program and pricing we will offer either to the dealer, or in the case of our direct lending platform, directly to the customer. Our internal credit scores are based on a variety of parameters including traditional and alternative credit history, data derived from other sources such as house/rental payment, length of employment, residence stability and total income. When the dealer proposes a structure for the contract, our scores consider various deal structure parameters such as down payment amount, loan to value, payment to income, make and model, vehicle class, and mileage. We have developed our credit scores utilizing statistical risk management techniques and historical performance data from our managed portfolio. We believe this improves our allocation of credit evaluation resources, enhances our competitiveness in the marketplace and manages the risk inherent in the sub-prime market.

Characteristics of Contracts. All the automobile contracts we purchase are fully amortizing and provide for level payments over the term of the automobile contract. All automobile contracts may be prepaid at any time without penalty. The table below compares certain characteristics, at the time of origination, of our contract purchases for the years ended December 31, 2021 and 2020:

	Contracts Purchased During the Year Ended	
	December 31, 2021	December 31, 2020
Average Original Amount Financed	\$ 21,104	\$ 17,933
Weighted Average Original Term	70 months	68 months
Average Down Payment Percent	9.0%	7.9%
Average Vehicle Purchase Price	\$ 19,881	\$ 17,257
Average Age of Vehicle	5 years	4 years
Average Age of Customer	42 years	42 years
Average Time in Current Job	5 years	5 years
Average Household Annual Income	\$ 61,377	\$ 58,000

Dealer Compliance. The dealer agreement and related assignment contain representations and warranties by the dealer that an application for state registration of each financed vehicle, naming us as secured party with respect to the vehicle, was effected by the time of sale of the related automobile contract to us, and that all necessary steps have been taken to obtain a perfected first priority security interest in each financed vehicle in favor of us under the laws of the state in which the financed vehicle is registered. To the extent that we do not receive such state registration within three months of purchasing the automobile contract, our dealer compliance group will work with the dealer to rectify the situation. If these efforts are unsuccessful, we generally will require the dealer to repurchase the automobile contract.

Coronavirus Pandemic

Beginning in April 2020, we experienced a decrease in monthly contract purchase volumes which continued through December 2020. Since January 2021, our contract purchase levels have returned to pre-pandemic levels.

Servicing and Collections

We currently service all automobile contracts that we own as well as those automobile contracts we service for third parties. We organize our servicing activities based on the tasks performed by our personnel. Our servicing activities consist of mailing monthly billing statements; contacting obligors whose payments are late; accounting for and posting of all payments received; responding to customer inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; skip tracing; repossessing and liquidating the collateral when necessary; collecting deficiency balances; and generally monitoring each automobile contract and the related collateral. For contracts that we securitize, we are typically entitled to receive a base monthly servicing fee equal to 2.5% per annum computed as a percentage of the declining outstanding principal balance of the non-charged-off automobile contracts. The servicing fee is included in interest income for contracts that are pledged to a warehouse credit facility or a securitization transaction. For contracts we service for third parties, we receive a base monthly servicing fee equal to 2.5%, and certain other incentive fees tied to credit performance.

Collection Procedures. We believe that our ability to monitor performance and collect payments owed from sub-prime customers is primarily a function of our collection approach and support systems. We believe that if payment problems are identified early and our collection staff works closely with customers to address these problems, it is possible to correct many problems before they deteriorate further. To this end, we utilize pro-active collection procedures, which include making early and frequent contact with delinquent customers; educating customers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the customer in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of our collection activities, we maintain a computerized collection system specifically designed to service automobile contracts with sub-prime customers. We engage a nearshore third-party call center to supplement the efforts the collectors in our five branch locations. As of December 31, 2021, our nearshore partner had approximately 26 agents assigned to our portfolio.

We attempt to make telephonic contact with delinquent customers from one to 20 days after their monthly payment due date, depending on our risk-based assessment of the customer's likelihood of payment during early stages of delinquency. If a customer has authorized us to do so, we may also send automated text message reminders at various stages of delinquency and our collectors may also choose to contact a customer via text message instead of, or in addition to, via telephone. Our customers can contact us via a toll-free number where they may choose to speak with a collector or to use our automated voice response system to access information about their account or to make a payment. They may respond to our collector's text messages or chat with one of our collectors while logged into our website. Our contact priorities may be based on the customers' physical location, stage of delinquency, size of balance or other parameters. Our collectors inquire of the customer the reason for the delinquency and when we can expect to receive the payment. The collector attempts to get the customer to make an electronic payment over the phone or a promise for the payment for a time generally not to exceed one week from the date of the call. If the customer makes such a promise, the account is routed to a promise queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to a collector's queue for subsequent contacts.

If a customer fails to make or keep promises for payments, or if the customer is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision will occur between the 60th and 90th day past the customer's payment due date, but could occur sooner or later, depending on the specific circumstances. Contracts originated since January 2018 are accounted for at fair value and the economic impact of repossessions is incorporated into the estimated net yield on those contracts. For contracts originated prior to January 2018, which are not accounted for at fair value, we suspend interest accruals on contracts where the vehicle has been repossessed and reclassify the remaining automobile contract balance to other assets. In addition, we apply a specific reserve to such contracts so that the net balance represents the estimated remaining balance after the proceeds of the sale of the vehicle are applied, net of related costs.

If we elect to repossess the vehicle, we assign the task to an independent national repossession service. Such services are licensed and/or bonded as required by law. Upon repossession it is stored until it is picked up by a wholesale auction that we designate, where it is kept until sold. Prior to sale, the customer has the right to redeem the vehicle by paying the contract in full. In some cases, we may return the vehicle to the customer if they pay all, or what we deem to be a sufficient amount, of the past due amount. Financed vehicles that have been repossessed are generally resold through unaffiliated automobile auctions, which are attended principally by car dealers. Net liquidation proceeds are applied to the customer's outstanding obligation under the automobile contract. Such proceeds usually are insufficient to pay the customer's obligation in full, resulting in a deficiency. In most cases we will continue to contact our customers to recover all or a portion of this deficiency for up to several years after charge-off. From time to time, we sell certain charged off accounts to unaffiliated purchasers who specialize in collecting such accounts.

Contracts originated since January 2018 are accounted for at fair value and the economic impact of late payments is incorporated into the estimated net yield on those contracts. For contracts originated prior to January 2018, which are not accounted for at fair value, we suspend interest accruals on contracts once an automobile contract becomes greater than 90 days delinquent. We do not recognize additional interest income until the borrower makes sufficient payments to be less than 90 days delinquent. Any payments received by a borrower, regardless of their stage of delinquency are first applied to outstanding accrued interest and then to principal reduction.

We generally charge off the balance of any contract by the earlier of the end of the month in which the automobile contract becomes five scheduled installments past due or, in the case of repossessions, the month after we receive the proceeds from the liquidation of the financed vehicle or if the vehicle has been in repossession inventory for more than three months. In the case of repossession, the amount of the charge-off is the difference between the outstanding principal balance of the defaulted automobile contract and the net repossession sale proceeds.

Credit Experience

Our primary method of monitoring ongoing credit quality of our portfolio is to closely review monthly delinquency, default and net charge off activity and the related trends. Our internal credit performance data consistently show that new receivables have lower levels of delinquency and losses early in their lives, with delinquencies increasing throughout their lives and incremental losses gradually increasing to a peak around 18 months, after which they gradually decrease. The weighted average seasoning of our total owned portfolio, represented in the tables below, was 25 months, 23 months, and 23 months as of December 31, 2021, December 31, 2020, and December 31, 2019, respectively. Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. Broad economic factors such as pandemic, recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. The tables below document the delinquency, repossession, and net credit loss experience of all such automobile contracts that we own as of the respective dates shown.

Delinquency and Extension Experience (1)
Total Managed Portfolio

	December 31, 2021		December 31, 2020		December 31, 2019	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
Delinquency Experience	(Dollars in thousands)					
Gross servicing portfolio (1)	156,280	\$ 2,249,069	163,117	\$ 2,174,972	177,604	\$ 2,416,042
Period of delinquency (2)						
31-60 days	10,955	148,057	11,357	152,868	13,737	189,214
61-90 days	3,952	51,301	4,525	59,096	6,695	91,675
91+ days	1,176	14,336	1,290	14,989	3,530	46,516
Total delinquencies (2)	16,083	213,694	17,172	226,953	23,962	327,405
Amount in repossession (3)	1,896	23,188	2,979	35,839	3,779	46,144
Total delinquencies and amount in repossession (2)	<u>17,979</u>	<u>\$ 236,882</u>	<u>20,151</u>	<u>\$ 262,792</u>	<u>27,741</u>	<u>\$ 373,549</u>
Delinquencies as a percentage of gross servicing portfolio	10.3%	9.5%	10.5%	10.4%	13.5%	13.6%
Total delinquencies and amount in repossession as a percentage of gross servicing portfolio	11.5%	10.5%	12.4%	12.1%	15.6%	15.5%
Extension Experience						
Contracts with one extension, accruing	23,740	\$ 328,128	29,709	\$ 417,347	27,677	\$ 385,673
Contracts with two or more extensions, accruing	46,541	513,183	55,885	665,572	54,440	673,918
	<u>70,281</u>	<u>841,311</u>	<u>85,594</u>	<u>1,082,919</u>	<u>82,117</u>	<u>1,059,591</u>
Contracts with one extension, non-accrual (4)	597	7,736	915	12,408	1,130	14,528
Contracts with two or more extensions, non-accrual (4)	1,414	15,128	2,502	28,189	4,441	55,436
	<u>2,011</u>	<u>22,864</u>	<u>3,417</u>	<u>40,597</u>	<u>5,571</u>	<u>69,964</u>
Total accounts with extensions	<u>72,292</u>	<u>\$ 864,175</u>	<u>89,011</u>	<u>\$ 1,123,516</u>	<u>87,688</u>	<u>\$ 1,129,555</u>

- (1) All amounts and percentages are based on the amount remaining to be repaid on each automobile contract. The information in the table represents the gross principal amount of all automobile contracts we purchased, including automobile contracts we subsequently sold in securitization transactions that we continue to service. The table does not include certain contracts we have serviced for third parties on which we earn servicing fees only, and have no credit risk.
- (2) We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included. The delinquency aging categories shown in the tables reflect the effect of extensions.
- (3) Amount in repossession represents the contract balance on financed vehicles that have been repossessed but not yet liquidated.
- (4) We do not recognize interest income on accounts past due more than 90 days.

Net Credit Loss Experience (1)
Total Owned Portfolio

	Finance Receivables Portfolio (2)		
	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Average portfolio outstanding	\$ 345,021	\$ 684,259	\$ 1,192,484
Net charge-offs as a percentage of average portfolio (3)	7.7%	11.7%	12.2%

	Fair Value Receivables Portfolio (4)		
	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Average portfolio outstanding	\$ 1,802,590	\$ 1,631,491	\$ 1,212,226
Net charge-offs as a percentage of average portfolio (3)	3.1%	4.3%	3.8%

	Total Owned Portfolio		
	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
Average portfolio outstanding	\$ 2,147,611	\$ 2,315,750	\$ 2,404,710
Net charge-offs as a percentage of average portfolio (3)	4.7%	6.5%	8.0%

- (1) All amounts and percentages are based on the principal amount scheduled to be paid on each automobile contract contracts. The information in the table represents all automobile contracts we service, excluding certain contracts we have serviced for third parties on which we earn servicing fees only, and have no credit risk.
- (2) The finance receivables portfolio is comprised of contracts we originated prior to January 2018.
- (3) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected after the date of charge-off, including some recoveries which have been classified as other income in the accompanying financial statements.
- (4) The fair value portfolio is comprised of contracts we have originated since January 2018.

Extensions

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

The basic question in deciding to grant an extension is whether we will (a) be delaying an inevitable repossession and liquidation or (b) risk losing the vehicle as a result of not being able to locate the obligor and vehicle. In both of those situations, the loss would likely be higher than if the vehicle had been repossessed without the extension. The benefits of granting an extension include minimizing current losses and delinquencies, minimizing lifetime losses, getting the obligor's account current (or close to it) and building goodwill with the obligor so that he might prioritize us over other creditors on future payments. Our servicing staff are trained to identify when a past due obligor is facing a temporary problem that may be resolved with an extension.

The credit assessment for granting an extension is initially made by our collector, who bases the recommendation on the collector's discussions with the obligor. In such assessments the collector will consider, among other things, the following factors: (1) the reason the obligor has fallen behind in payments; (2) whether or not the reason for the delinquency is temporary, and if it is, have conditions changed such that the obligor can begin making regular monthly payments again after the extension; (3) the obligor's past payment history, including past extensions if applicable; and (4) the obligor's willingness to communicate and cooperate on resolving the delinquency. If the collector believes the obligor is a good candidate for an extension, he must obtain approval from his supervisor, who will review the same factors stated above prior to offering the extension to the obligor. During 2020 we incorporated an algorithmic extension score card which provides our staff with an objective and quantitative assessment of whether or not a obligor is a good candidate for an extension, based on the current circumstances of the account. The extension score card was developed by our internal risk management team and is derived from the post-extension performance of accounts in our managed portfolio.

After receiving an extension, an account remains subject to our normal policies and procedures for interest accrual, reporting delinquency and recognizing charge-offs. We believe that a prudent extension program is an integral component to mitigating losses in our portfolio of sub-prime automobile receivables. The table below summarizes the status, as of December 31, 2021, for accounts that received extensions from 2008 through 2020:

Period of Extension	# of Extensions Granted	Active or Paid Off at December 31, 2021	% Active or Paid Off at December 31, 2021	Charged Off > 6 Months After Extension	% Charged Off > 6 Months After Extension	Charged Off <= 6 Months After Extension	% Charged Off <= 6 Months After Extension	Avg Months to Charge Off Post Extension
2008	35,588	10,708	30.1%	20,061	56.4%	4,819	13.5%	19
2009	32,226	10,273	31.9%	16,170	50.2%	5,783	17.9%	17
2010	26,167	12,159	46.5%	12,009	45.9%	1,999	7.6%	19
2011	18,786	10,972	58.4%	6,882	36.6%	932	5.0%	19
2012	18,783	11,320	60.3%	6,667	35.5%	796	4.2%	18
2013	23,398	11,157	47.7%	11,265	48.1%	976	4.2%	23
2014	25,773	10,537	40.9%	14,410	55.9%	826	3.2%	25
2015	53,319	22,662	42.5%	29,575	55.5%	1,082	2.0%	26
2016	80,897	37,813	46.7%	41,151	50.9%	1,933	2.4%	25
2017	133,881	64,137	47.9%	62,818	46.9%	6,926	5.2%	21
2018	121,531	69,359	57.1%	46,165	38.0%	6,007	4.9%	17
2019	71,548	53,639	75.0%	15,967	22.3%	1,942	2.7%	15
2020	83,170	70,860	85.2%	10,211	12.3%	2,099	2.5%	10

We view these results as a confirmation of the effectiveness of our extension program. We consider accounts that have had extensions and were active or paid off as of December 31, 2021 to be successful. Successful extensions result in continued payments of interest and principal (including payment in full in many cases). Without the extension, however, the account may have defaulted, and we would have likely incurred a substantial loss and no additional interest revenue.

For extension accounts that ultimately charged off, we consider accounts that charged off more than six months after the extension to be at least partially successful. In such cases, despite the ultimate loss, we received additional payments of principal and interest that otherwise we would not have received.

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

	For the Year Ended		
	December 31, 2021	December 31, 2020	December 31, 2019
Average number of extensions granted per month	3,918	6,931	5,962
Average number of outstanding accounts	157,076	172,129	177,256
Average monthly extensions as % of average outstandings	2.5%	4.0%	3.4%

	December 31, 2021		December 31, 2020		December 31, 2019	
	Number of Contracts	Amount	Number of Contracts	Amount	Number of Contracts	Amount
	(Dollars in thousands)					
Contracts with one extension	24,337	\$ 335,864	30,624	\$ 429,754	28,807	\$ 400,202
Contracts with two extensions	15,861	200,705	19,381	259,236	17,895	229,555
Contracts with three extensions	11,755	136,970	13,117	159,447	14,423	181,896
Contracts with four extensions	9,272	95,182	10,868	122,469	12,367	153,170
Contracts with five extensions	6,531	59,651	8,548	90,322	8,742	103,989
Contracts with six extensions	4,536	35,803	6,473	62,288	5,454	60,743
	<u>72,292</u>	<u>\$ 864,175</u>	<u>89,011</u>	<u>\$ 1,123,516</u>	<u>87,688</u>	<u>\$ 1,129,555</u>
Gross servicing portfolio	156,280	\$ 2,249,069	163,117	\$ 2,174,972	177,604	\$ 2,416,042

Coronavirus Pandemic

Beginning in March 2020, we experienced a significant increase in the numbers of our obligors who sought an extension because of the pandemic and related economic shutdowns. By June of 2020, the monthly volume of extensions we granted had reverted to levels at or below the prior year and have remained so through December 2021.

Government mandated shutdowns of large portions of the United States economy has impaired and will likely continue to impair the ability of obligors under our automobile contracts to make their monthly payments. The extent to which that ability will be impaired, and the extent to which public ameliorative measures such as stimulus payments and enhanced unemployment benefits may restore such ability, cannot be estimated.

Non-Accrual Receivables

It is not uncommon for our obligors to fall behind in their payments. However, with the diligent efforts of our servicing staff and systems for managing our collection efforts, we regularly work with our customers to resolve delinquencies. Our staff is trained to employ a counseling approach to assist our customers with their cash flow management skills and help them to prioritize their payment obligations to avoid losing their vehicle to repossession. Through our experience, we have learned that once a contract becomes greater than 90 days past due, it is more likely than not that the delinquency will not be resolved and will ultimately result in a charge-off. As a result, for contracts originated prior to January 2018 that are not accounted for under the fair value method, we do not recognize any interest income for contracts that are greater than 90 days past due.

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

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

Securitization of Automobile Contracts

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

When structured to be treated as a secured financing for accounting purposes, the subsidiary is consolidated with us. Accordingly, the sold automobile contracts and the related debt appear as assets and liabilities, respectively, on our consolidated balance sheet. We then periodically (i) recognize interest and fee income on the contracts, (ii) recognize interest expense on the securities issued in the transaction and (iii) record as expense a provision for credit losses on the contracts. Effective January 1, 2018, we adopted the fair value method of accounting for finance receivables acquired on or after that date. For these receivables, we recognize interest income on a level yield basis using that internal rate of return as the applicable interest rate. We do not record an expense for provision for credit losses on these receivables because such credit losses are included in our computation of the appropriate level yield.

Since 1994 we have conducted 91 term securitizations of automobile contracts that we originated under our regular programs. As of December 31, 2021, 19 of those securitizations are active and all are structured as secured financings. We generally conduct our securitizations on a quarterly basis, near the beginning of each calendar quarter, resulting in four securitizations per calendar year. However, we completed only three securitizations in 2020. In April 2020 we postponed our planned securitization due to the onset of the pandemic and the effective closure of the capital markets in which our securitizations are executed. Subsequently we successfully completed securitizations in June and September 2020.

Our history of term securitizations, over the most recent ten years, is summarized in the table below:

Recent Asset-Backed Securitizations		
Period	Number of Term Securitizations	Amount of Receivables
<i>\$ in thousands</i>		
2012	4	603,500
2013	4	778,000
2014	4	923,000
2015	3	795,000
2016	4	1,214,997
2017	4	870,000
2018	4	883,452
2019	4	1,014,124
2020	3	741,867
2021	4	1,145,002

From time to time we have also completed financings of our residual interests in other securitizations that we and our affiliates previously sponsored. On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. In this residual interest financing transaction, qualified institutional buyers purchased \$40.0 million of asset-backed notes secured by residual interests in thirteen CPS securitizations consecutively conducted from September 2013 through December 2016, and an 80% interest in a CPS affiliate that owns the residual interests in the four CPS securitizations conducted in 2017. The sold notes (“2018-1 Notes”), issued by CPS Auto Securitization Trust 2018-1, consist of a single class with a coupon of 8.595%. As of December 31, 2021, the remaining notes had a principal balance of \$4.3 million.

On June 30, 2021, we completed a \$50.0 million securitization of residual interests from previously issued securitizations. In this residual interest financing transaction, qualified institutional buyers purchased \$50.0 million of asset-backed notes secured by residual interests in three CPS securitizations consecutively conducted from January 2018 through July 2018, and an 80% interest in a CPS affiliate that owns the residual interests in the eight CPS securitizations conducted from December 2018 through September 2020. The sold notes (“2021-1 Notes”), issued by CPS Auto Securitization Trust 2021-1, consist of a single class with a coupon of 7.86%. As of December 31, 2021, the notes had a principal balance of \$50.0 million.

Generally, prior to a securitization transaction we fund our automobile contract acquisitions primarily with proceeds from warehouse credit facilities. Our current short-term funding capacity is \$200 million, comprising two credit facilities. The first \$100 million credit facility was established in May 2012. This facility was most recently renewed in December 2020, extending the revolving period to December 2022, and adding an amortization period through December 2023. In November 2015, we entered into another \$100 million facility. This facility was most recently renewed in February 2022, extending the revolving period to January 2024, followed by an amortization period to January 2028.

We previously had a third \$100 million facility. This facility was established in April 2015 and was renewed in April 2017 and again in February 2019, extending the revolving period to February 2021. We repaid this facility in full at its maturity in 2021.

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

Whether a securitization is treated as a secured financing or as a sale for financial accounting purposes, the related special purpose subsidiary may be unable to release excess cash to us if the credit performance of the securitized automobile contracts falls short of pre-determined standards. Such releases represent a material portion of the cash that we use to fund our operations. An unexpected deterioration in the performance of securitized automobile contracts could therefore have a material adverse effect on both our liquidity and results of operations, regardless of whether such automobile contracts are treated as having been sold or as having been financed.

Certain of our securitization transactions and our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility. As of December 31, 2021, we were in compliance with all such covenants.

Competition

The automobile financing business is highly competitive. We compete with several national, regional and local finance companies with operations similar to ours. In addition, competitors or potential competitors include other types of financial services companies, such as banks, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles, and captive finance companies affiliated with major automobile manufacturers. Many of our competitors and potential competitors possess substantially greater financial, sales, technical, personnel and other resources than we do. Moreover, our future profitability will be directly related to the availability and cost of our capital in relation to the availability and cost of capital to our competitors. Our competitors and potential competitors include far larger, more established companies that have access to capital markets for unsecured commercial paper and investment grade-rated debt instruments and to other funding sources that may be unavailable to us. Many of these companies also have long-standing relationships with dealers and may provide other financing to dealers, including floor plan financing for the dealers' purchase of automobiles from manufacturers, which we do not offer.

We believe that the principal competitive factors affecting a dealer's decision to offer automobile contracts for sale to a particular financing source are the monthly payment amount made available to the dealer's customer, the purchase price offered for the automobile contracts, the timeliness of the response to the dealer upon submission of the initial application, the amount of required documentation, the consistency and timeliness of purchases and the financial stability of the funding source. While we believe that we can obtain from dealers sufficient automobile contracts for purchase at attractive prices by consistently applying reasonable underwriting criteria and making timely purchases of qualifying automobile contracts, there can be no assurance that we will do so.

Regulation

Numerous federal and state consumer protection laws, including the federal Truth-In-Lending Act, the federal Equal Credit Opportunity Act, the federal Fair Debt Collection Practices Act and the Federal Trade Commission Act, regulate consumer credit transactions. These laws mandate certain disclosures with respect to finance charges on automobile contracts and impose certain other restrictions. In most states, a license is required to engage in the business of purchasing automobile contracts from dealers. In addition, laws in a number of states impose limitations on the amount of finance charges that may be charged by dealers on credit sales. The so-called Lemon Laws enacted by various states provide certain rights to purchasers with respect to automobiles that fail to satisfy express warranties. The application of Lemon Laws or violation of such other federal and state laws may give rise to a claim or defense of a customer against a dealer and its assignees, including us and those who purchase automobile contracts from us. The dealer agreement contains representations by the dealer that, as of the date of assignment of automobile contracts, no such claims or defenses have been asserted or threatened with respect to the automobile contracts and that all requirements of such federal and state laws have been complied with in all material respects. Although a dealer would be obligated to repurchase automobile contracts that involve a breach of such warranty, there can be no assurance that the dealer will have the financial resources to satisfy its repurchase obligations. Certain of these laws also regulate our servicing activities, including our methods of collection.

We are subject to supervision and examination by the Consumer Financial Protection Bureau (the "CFPB"), a federal agency created by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The CFPB has rulemaking, supervisory and enforcement authority over "non-banks," including us. The CFPB is specifically authorized, among other things, to take actions to prevent companies from engaging in "unfair, deceptive or abusive" acts or practices in connection with consumer financial products and services, and to issue rules requiring enhanced disclosures for consumer financial products or services. The CFPB also has authority to interpret, enforce and issue regulations implementing enumerated consumer laws, including certain laws that apply to us.

The Dodd-Frank Act and related regulations are likely to affect our cost of doing business, may limit or expand our permissible activities, may affect the competitive balance within our industry and market areas and could have a material adverse effect on us. We continue to assess the Dodd-Frank Act's probable effect on our business, financial condition and results of operations, and to monitor developments involving the entities charged with promulgating regulations. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and on us in particular, is uncertain at this time.

In addition to the CFPB, other state and federal agencies have the ability to regulate aspects of our business. For example, the Dodd-Frank Act provides a mechanism for state Attorneys General to investigate us. In addition, the Federal Trade Commission has jurisdiction to investigate aspects of our business. We expect that regulatory investigation by both state and federal agencies will continue, and there can be no assurance that the results of such investigations will not have a material adverse effect on us.

We believe that we are currently in material compliance with applicable statutes and regulations; however, there can be no assurance that we are correct, nor that we will be able to maintain such compliance. The past or future failure to comply with applicable statutes and regulations could have a material adverse effect on us. Furthermore, the adoption of additional statutes and regulations, changes in the interpretation and enforcement of current statutes and regulations or the expansion of our business into jurisdictions that have adopted more stringent regulatory requirements than those in which we currently conduct business could have a material adverse effect on us. In addition, due to the consumer-oriented nature of our industry and the application of certain laws and regulations, industry participants are regularly named as defendants in litigation involving alleged violations of federal and state laws and regulations and consumer law torts, including fraud. Many of these actions involve alleged violations of consumer protection laws. A significant judgment against us or within the industry in connection with any such litigation could have a material adverse effect on our financial condition, results of operations or liquidity.

Human Capital

We rely on our employees for everything we do. To make our business work, we seek to supply them with the tools and knowledge they need to succeed. In addition to new hire training, we provide mentor programs and management workshops.

Workforce Allocation and Diversity We had 739 employees as of December 31, 2021. Our employee population was 65% female, and 68% self-identified as ethnically diverse (defined as all EEOC classifications other than white). Broken out by function, our human capital was allocated thus: 9 were senior management personnel; 388 were servicing personnel; 170 were automobile contract origination personnel; 105 were sales personnel and program development (68 of whom were sales representatives); 67 were various administrative personnel including human resources, legal, accounting and systems.

Compensation and benefits Our compensation policy is to be market competitive. We offer a benefits and wellness package that includes healthcare coverage, defined contribution retirement benefits, and other components.

Employee Engagement Our means of evaluating our human capital resources include, on an individual basis, annual performance reviews, and, on an aggregate basis, a confidential biennial employee climate survey. The survey results are reviewed by senior management and used to assist in reviewing our human capital strategies, programs, and practices. Other metrics used in human capital management include average employee tenure and annual turnover rate. We believe that our relations with our employees are good. We are not a party to any collective bargaining agreement.

Item 1A. RISK FACTORS

Our business, operating results and financial condition could be adversely affected by any of the following specific risks. The trading price of our common stock could decline due to any of these risks and other industry risks. This listing of risks by its nature cannot be exhaustive, and the order in which the risks appear is not intended as an indication of their relative weight or importance. In addition to the risks described below, we may encounter risks that we do not currently recognize or that we currently deem immaterial, which may also impair our business operations and the value of our common stock.

Risks Related to Our Business

We Require a Substantial Amount of Cash to Service Our Substantial Debt.

To service our existing substantial indebtedness, we require a significant amount of cash. Our ability to generate cash depends on many factors, including our successful financial and operating performance. Our financial and operational performance depends upon a number of factors, many of which are beyond our control. These factors include, without limitation:

- the economic and competitive conditions in the asset-backed securities market;
- the performance of our current and future automobile contracts;
- the performance of our residual interests from our securitizations and warehouse credit facilities;
- any operating difficulties or pricing pressures we may experience;
- our ability to obtain credit enhancement for our securitizations;
- our ability to establish and maintain dealer relationships;
- the passage of laws or regulations that affect us adversely;
- our ability to compete with our competitors; and
- our ability to acquire and finance automobile contracts.

Depending upon the outcome of one or more of these factors, we may not be able to generate sufficient cash flow from operations or obtain sufficient funding to satisfy all of our obligations. Such factors may result in our being unable to pay our debts timely or as agreed. If we were unable to pay our debts, we would be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional equity capital. These alternative strategies might not be feasible at the time, might prove inadequate, or could require the prior consent of our lenders. If executed, these strategies could reduce the earnings available to our shareholders.

We Need Substantial Liquidity to Operate Our Business.

We have historically funded our operations principally through internally generated cash flows, sales of debt and equity securities, including through securitizations and warehouse credit facilities, borrowings under senior secured debt agreements and sales of subordinated notes. However, we may not be able to obtain sufficient funding for our future operations from such sources. During 2008, 2009 and much of 2010, our access to the capital markets was impaired with respect to both short-term and long-term funding. In April 2020 we postponed our planned securitization due to the onset of the pandemic and the effective closure of the capital markets in which our securitizations are executed. Subsequently we successfully completed securitizations in June and September 2020, and then on a regular quarterly schedule from January 2021 through January 2022. While our access to such funding has improved since then, our results of operations, financial condition and cash flows have been from time to time in the past and may be in the future materially and adversely affected. We require a substantial amount of cash liquidity to operate our business. Among other things, we use such cash liquidity to:

- acquire automobile contracts;
- fund overcollateralization in warehouse credit facilities and securitizations;
- pay securitization fees and expenses;
- fund spread accounts in connection with securitizations;
- satisfy working capital requirements and pay operating expenses;
- pay taxes; and
- pay interest expense.

Historically we have matched our liquidity needs to our available sources of funding by reducing our acquisition of new automobile contracts, at times to merely nominal levels. There can be no assurance that we will continue to be successful with that strategy.

Periods of Significant Losses.

From time to time throughout our history we have incurred net losses, most recently over the period beginning with the quarter ended September 30, 2008 and ending with the quarter ended September 30, 2011. We were adversely affected by the economic recession affecting the United States as a whole, for a time by increased financing costs and decreased availability of capital to fund our purchases of automobile contracts, and by a decrease in the overall level of sales of automobiles and light trucks. Similar periods of losses began in the quarter ended March 31, 1999 through the quarter ended December 31, 2000 and also from the quarter ended September 30, 2003 through the quarter ended March 31, 2005.

We expect to earn quarterly profits during 2022; however, there can be no assurance as to that expectation. Our expectation of profitability is a forward-looking statement. We discuss the assumptions underlying that expectation under the caption “Forward-Looking Statements” in this report. We identify important factors that could cause actual results to differ, generally in the “Risk Factors” section of this report, and also under the caption “Forward-Looking Statements.” One reason for our expectation is that we have had positive net income in each of the ten fiscal years ended December 31, 2021, although not in every quarter within that period.

Our Results of Operations Will Depend on Our Ability to Secure and Maintain Adequate Credit and Warehouse Financing on Favorable Terms.

Our business strategy requires that warehouse credit facilities be available in order to purchase significant volumes of receivables.

Historically, our primary sources of day-to-day liquidity have been our warehouse credit facilities, in which we sell and contribute automobile contracts, as often as twice a week, to special-purpose subsidiaries, where they are "warehoused" until they are financed on a long-term basis through the issuance and sale of asset-backed notes. Upon sale of the notes, funds advanced under one or more warehouse credit facilities are repaid from the proceeds. Our current short-term funding capacity is \$200 million, comprising two credit facilities, each with a maximum credit limit of \$100 million. Both warehouse credit facilities have a revolving period during which we may receive advances secured by contributed automobile contracts, followed by an amortization period during which no further advances may be made, but prior to which outstanding advances are due and payable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Liquidity".

If we are unable to maintain warehouse financing on acceptable terms, we might curtail or cease our purchases of new automobile contracts, which could lead to a material adverse effect on our results of operations, financial condition and cash flows.

Our Results of Operations Will Depend on Our Ability to Securitize Our Portfolio of Automobile Contracts.

We depend upon our ability to obtain permanent financing for pools of automobile contracts by conducting term securitization transactions. By "permanent financing" we mean financing that extends to cover the full term during which the underlying automobile contracts are outstanding and requires repayment as the underlying automobile contracts are repaid or charged off. By contrast, our warehouse credit facilities permit us to borrow against the value of such receivables only for limited periods of time. Our past practice and future plan has been and is to repay loans made to us under our warehouse credit facilities with the proceeds of securitizations. There can be no assurance that any securitization transaction will be available on terms acceptable to us, or at all. The timing of any securitization transaction is affected by a number of factors beyond our control, any of which could cause substantial delays, including, without limitation:

- market conditions;
- the approval by all parties of the terms of the securitization;
- our ability to acquire a sufficient number of automobile contracts for securitization.

During 2008 and 2009 we observed adverse changes in the market for securitized pools of automobile contracts, which made permanent financing in the form of securitization transactions difficult to obtain and more costly than in prior periods. These changes included reduced liquidity and reduced demand for asset-backed securities, particularly for securities carrying a financial guaranty or for securities backed by sub-prime automobile receivables. We experienced improvements in the capital markets from 2010 through 2019, during which time we completed 36 securitizations. In April 2020 we postponed our planned securitization due to the onset of the pandemic and the effective closure of the capital markets in which our securitizations are executed. Subsequently we successfully completed securitizations in June and September 2020, and then on a regular quarterly schedule from January 2021 through January 2022. However, if the market conditions for asset-backed securitizations should reverse, we would expect a material adverse effect on our results of operations.

Our Results of Operations Will Depend on Cash Flows from Our Residual Interests in Our Securitization Program and Our Warehouse Credit Facilities.

When we finance our automobile contracts through securitizations and warehouse credit facilities, we receive cash and retain a residual interest in the assets financed. Those financed assets are owned by the special-purpose subsidiary that is formed for the related securitization. This residual interest represents the right to receive the future cash flows to be generated by the automobile contracts in excess of (i) the interest and principal paid to investors or lenders on the indebtedness issued in connection with the financing, (ii) the costs of servicing the automobile contracts and (iii) certain other costs incurred in connection with completing and maintaining the securitization or warehouse credit facility. We sometimes refer to these future cash flows as "excess spread cash flows."

Under the financial structures we have used to date in our securitizations and warehouse credit facilities, excess spread cash flows that would otherwise be paid to the holder of the residual interest are first used to increase overcollateralization or are retained in a spread account within the securitization trusts or the warehouse facility to provide liquidity and credit enhancement for the related securities.

While the specific terms and mechanics vary among transactions, our securitization and warehousing agreements generally provide that we will receive excess spread cash flows only if the amount of overcollateralization and spread account balances have reached specified levels and/or the delinquency, defaults or net losses related to the automobile contracts in the automobile contract pools are below certain predetermined levels. In the event delinquencies, defaults or net losses on automobile contracts exceed these levels, the terms of the securitization or warehouse credit facility:

- may require increased credit enhancement, including an increase in the amount required to be on deposit in the spread account to be accumulated for the particular pool; and
- in certain circumstances, may permit affected parties to require the transfer of servicing on some or all of the securitized or warehoused contracts from us to an unaffiliated servicer.

We typically retain residual interests or use them as collateral to borrow cash. In any case, the future excess spread cash flow received in respect of the residual interests is integral to the financing of our operations. The amount of cash received from residual interests depends in large part on how well our portfolio of securitized and warehoused automobile contracts performs. If our portfolio of securitized and warehoused automobile contracts has higher delinquency and loss ratios than expected, then the amount of money realized from our retained residual interests, or the amount of money we could obtain from the sale or other financing of our residual interests, would be reduced. Such a reduction, if it should occur, could have material adverse effects on our future results of operations, financial condition and cash flows.

If Interest Rates Rise, Our Results of Operations May Be Impaired.

Our principal means of financing our portfolio of automobile contracts is to issue asset-backed notes in securitizations. The interest payable on such notes is our largest expense. Although such expense is fixed with respect to issued securitization trust debt, the terms of future securitizations may vary.

The credit spread between the interest rates payable on our securitization trust debt and the rates payable on risk-free investments has varied. As of the date of this report, it is the consensus of market observers that interest rates on risk-free debt will rise within the next year. If interest rates on risk-free debt do increase, or if our spread above risk-free rates should increase, or both, we would expect increased interest expense. If interest rates in general should rise, our expenses would likewise rise, to have a material adverse effect on our future results of operations, financial condition and cash flow.

If We Are Unable to Compete Successfully with our Competitors, Our Results of Operations May Be Impaired.

The automobile financing business is highly competitive. We compete with a number of national, regional and local finance companies. In addition, competitors or potential competitors include other types of financial services companies, such as commercial banks, savings and loan associations, leasing companies, credit unions providing retail loan financing and lease financing for new and used vehicles and captive finance companies affiliated with major automobile manufacturers, such as Ford Motor Credit Company, LLC and General Motors Financial Company, Inc. Many of our competitors and potential competitors possess substantially greater financial, sales, technical, personnel and other resources than we do, including greater access to capital markets for unsecured commercial paper and investment grade rated debt instruments, and to other funding sources which may be unavailable to us. Moreover, our future profitability will be directly related to the availability and cost of our capital relative to that of our competitors. Many of these companies also have long-standing relationships with automobile dealers and may provide other financing to dealers, including floor plan financing for the dealers' purchases of automobiles from manufacturers, which we do not offer. There can be no assurance that we will be able to continue to compete successfully and, as a result, we may not be able to purchase automobile contracts from dealers at a price acceptable to us, which could result in reductions in our revenues or the cash flows available to us.

If Our Dealers Do Not Submit a Sufficient Number of Suitable Automobile Contracts to Us for Purchase, Our Results of Operations May Be Impaired.

We are dependent upon establishing and maintaining relationships with a large number of unaffiliated automobile dealers to supply us with automobile contracts. During the years ended December 31, 2021 and 2020, no single dealer accounted for as much as 1% of the automobile contracts we purchased. The agreements we have with dealers to purchase automobile contracts do not require dealers to submit a minimum number of automobile contracts for purchase. The failure of dealers to submit automobile contracts that meet our underwriting criteria could result in reductions in our revenues or the cash flows available to us, and, therefore, could have an adverse effect on our results of operations.

If a Significant Number of Our Automobile Contracts Experience Defaults, Our Results of Operations May Be Impaired.

We specialize in the purchase and servicing of automobile contracts to finance automobile purchases by sub-prime customers, those who have limited credit history, low income, or past credit problems. Such automobile contracts entail a higher risk of non-performance, higher delinquencies and higher losses than automobile contracts with more creditworthy customers. While we believe that our pricing of the automobile contracts and the underwriting criteria and collection methods we employ enable us to control, to a degree, the higher risks inherent in automobile contracts with sub-prime customers, no assurance can be given that such pricing, criteria and methods will afford adequate protection against such risks.

If automobile contracts that we purchase and hold experience defaults to a greater extent than we have anticipated, this could materially and adversely affect our results of operations, financial condition, cash flows and liquidity. Our results of operations, financial condition, cash flows and liquidity, depend, to a material extent, on the performance of automobile contracts that we purchase, warehouse and securitize. A portion of the automobile contracts that we acquire will default or prepay. In the event of payment default, the collateral value of the vehicle securing an automobile contract realized by us in a repossession will generally not cover the outstanding principal balance on that automobile contract and the related costs of recovery.

For our receivables originated prior to January 2018, we maintain an allowance for credit losses on automobile contracts held on our balance sheet, which reflects our estimates of probable credit losses that can be reasonably estimated. If the allowance is inadequate, then we would recognize the losses in excess of the allowance as an expense and our results of operations could be adversely affected.

Receivables originated since January 2018 are recorded at fair value and incorporate estimates include the timing and severity of future credit losses. If actual credit losses were to exceed our estimates, we might be required to change our estimates, which could result in a fair value adjustment to those receivables or reduced interest income for those receivables in subsequent periods.

In addition, under the terms of our warehouse credit facilities, we are not able to borrow against defaulted automobile contracts, including automobile contracts that are, at the time of default, funded under our warehouse credit facilities, which will reduce the overcollateralization of those warehouse credit facilities and possibly reduce the amount of cash flows available to us.

If We Lose Servicing Rights on Our Portfolio of Automobile Contracts, Our Results of Operations Would Be Impaired.

We are entitled to receive servicing fees only while we act as servicer under the applicable sale and servicing agreements governing our warehouse credit facilities and securitizations. Under such agreements, we may be terminated as servicer upon the occurrence of certain events, including:

- our failure generally to observe and perform our responsibilities and other covenants;
- certain bankruptcy events; or
- the occurrence of certain events of default under the documents governing the facilities.

The loss of our servicing rights could materially and adversely affect our results of operations, financial condition and cash flows. Our results of operations, financial condition and cash flow, would be materially and adversely affected if we were to be terminated as servicer with respect to a material portion of our managed portfolio.

If We Lose Key Personnel, Our Results of Operations May Be Impaired.

Our senior management team averages over 20 years of service with us. Charles E. Bradley, Jr., our President and CEO, has been our President since our formation in 1991. Our future operating results depend in significant part upon the continued service of our key senior management personnel, none of whom is bound by an employment agreement. Our future operating results also depend in part upon our ability to attract and retain qualified management, technical, sales and support personnel for our operations. Competition for such personnel is intense. We cannot assure you that we will be successful in attracting or retaining such personnel. Conversely, adverse general economic conditions may have had a countervailing effect. The loss of any key employee, the failure of any key employee to perform in his or her current position or our inability to attract and retain skilled employees, as needed, could materially and adversely affect our results of operations, financial condition and cash flow.

If We Fail to Comply with Regulations, Our Results of Operations May Be Impaired.

Failure to materially comply with all laws and regulations applicable to us could materially and adversely affect our ability to operate our business. Our business is subject to numerous federal and state consumer protection laws and regulations, which, among other things:

- require us to obtain and maintain certain licenses and qualifications;
- limit the interest rates, fees and other charges we are allowed to charge;
- limit or prescribe certain other terms of our automobile contracts;
- require specific disclosures to our customers;
- define our rights to repossess and sell collateral; and
- maintain safeguards designed to protect the security and confidentiality of customer information.

Our industry is also at times investigated by regulators and offices of state attorneys general, which could lead to enforcement actions, fines and penalties, or the assertion of private claims and law suits against us. The CFPB and the Federal Trade Commission (“FTC”) have the authority to investigate consumer complaints against us, to conduct inquiries at their own instance, and to recommend enforcement actions and seek monetary penalties. The FTC conducted and concluded an inquiry into our practices, and proposed remedial action against us in 2014, to which we consented. The CFPB has adopted regulations that place us and other companies similar to us under its supervision. A host of state and local governmental agencies have jurisdiction over material portions of our business, and might take action adverse to us. No assurance can be given as to whether any of such hypothetical proceedings might materially and adversely affect us.

If we fail to comply with applicable laws and regulations, such failure could result in penalties, litigation losses and expenses, damage to our reputation, or the suspension or termination of our licenses to conduct business, which would materially adversely affect our results of operations, financial condition and stock price. In addition, new federal and state laws or regulations or changes in the ways that existing rules or laws are interpreted or enforced could limit our activities in the future or significantly increase the cost of compliance. Furthermore, judges or regulatory bodies could interpret current rules or laws differently than the way we do, leading to such adverse consequences as described above. The resolution of such matters may require considerable time and expense, and if not resolved in our favor, may result in fines or damages, and possibly an adverse effect on our financial condition.

We believe that we are in compliance in all material respects with all such laws and regulations, and that such laws and regulations have had no material adverse effect on our ability to operate our business. However, we may be materially and adversely affected if we fail to comply with:

- applicable laws and regulations;
- changes in existing laws or regulations;
- changes in the interpretation of existing laws or regulations; or
- any additional laws or regulations that may be enacted in the future.

Changes in Law and Regulations May Have an Adverse Effect on Our Business.

Existing law, regulations and interpretations may change in ways that increase our costs of compliance.

In addition to direct costs, such compliance requires changes in forms, processes, procedures, controls and in the infrastructure to support these requirements. Compliance may create operational constraints and place limits on pricing. Laws in the financial services industry are designed primarily for the protection of consumers. The failure to comply could result in significant statutory civil and criminal penalties, monetary damages, attorneys' fees and costs, possible revocation of licenses and damage to reputation, brand and valued customer relationships.

At this time, it is difficult to predict the extent to which new regulations or amendments will affect our business. However, compliance with these new laws and regulations may result in additional cost and expenses, which may adversely affect our results of operations, financial condition or liquidity. For example, as governments, investors and other stakeholders face pressures to accelerate actions to address climate change and other environmental, governance and social topics, governments may implement regulations or investors and other stakeholders may adopt new investment policies or otherwise impose new expectations that cause significant shifts in disclosure, commerce and consumption behaviors, any or all of which may have negative effects on our business and/or reputation.

Risk Retention Rules May Limit Our Liquidity and Increase Our Capital Requirements.

Securitizations of automobile receivables executed after December 2016 have been and will be subject to risk retention requirements, which generally require that sponsors of asset-backed securities (ABS), such as us, retain not less than five percent of the credit risk of the assets collateralizing the ABS issuance. The rule also sets forth prohibitions on transferring or hedging the credit risk that the sponsor is required to retain. Because the rules place an upper limit on the degree to which we may use financial leverage, our securitization structures may require more capital of us, or may release less cash to us, than might be the case in the absence of such rules.

If We Experience Unfavorable Litigation Results, Our Results of Operations May Be Impaired.

We operate in a litigious society and currently are, and may in the future be, named as defendants in litigation, including individual and class action lawsuits under consumer credit, consumer protection, theft, privacy, data security, automated dialing equipment, debt collections and other laws. Many of these cases present novel issues on which there is no clear legal precedent, which increases the difficulty in predicting both the potential outcomes and costs of defending these cases. We are subject to regulatory examinations, investigations, inquiries, litigation, and other actions by licensing authorities, state attorneys general, the FTC, the CFPB and other governmental bodies relating to our activities. The litigation and regulatory actions to which we are or may become subject involve or may involve potential compensatory or punitive damage claims, fines, sanctions or injunctive relief that, if granted, could require us to pay damages or make other expenditures in amounts that could have a material adverse effect on our financial position and our results of operations. We have recorded loss contingencies in our financial statements only for matters on which losses are probable and can be reasonably estimated. Our assessments of these matters involve significant judgments, and may change from time to time. Actual losses incurred by us in connection with judgments or settlements of these matters may be more than our associated reserves. Furthermore, defending lawsuits and responding to governmental inquiries or investigations, regardless of their merit, could be costly and divert management's attention from the operation of our business. Unfavorable outcomes in any such current or future proceedings could materially and adversely affect our results of operations, financial conditions and cash flows. As a consumer finance company, we are subject to various consumer claims and litigation seeking damages and statutory penalties based upon, among other things, disclosure inaccuracies and wrongful repossession, which could take the form of a plaintiff's class action complaint. We, as the assignee of finance contracts originated by dealers, may also be named as a co-defendant in lawsuits filed by consumers principally against dealers. We are also subject to other litigation common to the automobile industry and to businesses in general. The damages and penalties claimed by consumers and others in these types of matters can be substantial. The relief requested by the plaintiffs varies but includes requests for compensatory, statutory and punitive damages.

While we intend to vigorously defend ourselves against such proceedings, there is a chance that our results of operations, financial condition and cash flows could be materially and adversely affected by unfavorable outcomes.

Negative publicity associated with litigation, governmental investigations, regulatory actions, and other public statements could damage our reputation.

From time to time there are negative news stories about the "sub-prime" credit industry. Such stories may follow the announcements of litigation or regulatory actions involving us or others in our industry. Negative publicity about our alleged or actual practices or about our industry generally could adversely affect our stock price and our ability to retain and attract employees.

If We Experience Problems with Our Originations, Accounting or Collection Systems, Our Results of Operations May Be Impaired.

We are dependent on our receivables originations, accounting and collection systems to service our portfolio of automobile contracts. Such systems are vulnerable to damage or interruption from natural disasters, power loss, telecommunication failures, terrorist attacks, computer viruses and other events. A significant number of our systems are not redundant, and our disaster recovery planning is not sufficient for every eventuality. Our systems are also subject to break-ins, sabotage and intentional acts of vandalism by internal employees and contractors as well as third parties. Despite any precautions we may take, such problems could result in interruptions in our services, which could harm our reputation and financial condition. We do not carry business interruption insurance sufficient to compensate us for losses that may result from interruptions in our service as a result of system failures. Such systems problems could materially and adversely affect our results of operations, financial conditions and cash flows.

A breach in the security of our systems could result in the disclosure of confidential information or subject us to liability.

We hold in our systems confidential financial and other personal data with respect to our customers, which may be of value to identity thieves and others if revealed. Although we endeavor to protect the security of our computer systems and the confidentiality of customer information entrusted to us, there can be no assurance that our security measures will provide adequate security.

It is possible that we may not be able to anticipate, detect or recognize threats to our systems or to implement effective preventive measures against all security breaches, especially because the techniques used change frequently or are not recognized until launched, and because cyberattacks can originate from a wide variety of sources, including third parties outside the Company such as persons who are associated with external service providers or who are or may be involved in organized crime or linked to terrorist organizations.

Such persons may also attempt to fraudulently induce employees or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers.

These risks may increase in the future as we continue to increase our mobile-payment and other internet-based product offerings and expands our use of web-based products and applications.

A successful penetration of the security of our systems could cause serious negative consequences, including disruption of our operations, misappropriation of confidential information, or damage to our computers or systems, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, customer dissatisfaction, significant litigation exposure and harm to our reputation, any or all of which could have a material adverse effect on us.

We Have Substantial Indebtedness.

We currently have and will continue to have a substantial amount of indebtedness. At December 31, 2021, we had approximately \$1,945.7 million of debt outstanding. Such debt consisted primarily of \$1,760.0 million of securitization trust debt, and also included \$105.6 million of warehouse lines of credit, \$53.7 million of residual interest financing debt and \$26.4 million in subordinated renewable notes. We are also currently offering the subordinated renewable notes to the public on a continuous basis, and such notes have maturities that range from three months to five years.

Our substantial indebtedness could adversely affect our financial condition by, among other things:

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

Although we believe we are able to service and repay such debt, there is no assurance that we will be able to do so. If we do not generate sufficient operating profits, our ability to make required payments on our debt would be impaired. Failure to pay our indebtedness when due would give rise to various remedies in favor of any unpaid creditors, and creditors' exercise of such remedies could have a material adverse effect on our earnings.

Because We Are Subject to Many Restrictions in Our Existing Credit Facilities and Securitization Transactions, Our Ability to Pay Dividends or Engage in Specified Transactions May Be Impaired.

The terms of our existing credit facilities, term securitizations and our other outstanding debt impose significant operating and financial restrictions on us and our subsidiaries and require us to meet certain financial tests. These restrictions may have an adverse effect on our business activities, results of operations and financial condition. These restrictions may also significantly limit or prohibit us from engaging in certain transactions, including the following:

- incurring or guaranteeing additional indebtedness;
- making capital expenditures in excess of agreed upon amounts;
- paying dividends or other distributions to our shareholders or redeeming, repurchasing or retiring our capital stock or subordinated obligations;
- making investments;
- creating or permitting liens on our assets or the assets of our subsidiaries;
- issuing or selling capital stock of our subsidiaries;
- transferring or selling our assets;
- engaging in mergers or consolidations;
- permitting a change of control of our company;
- liquidating, winding up or dissolving our company;
- changing our name or the nature of our business, or the names or nature of the business of our subsidiaries; and
- engaging in transactions with our affiliates outside the normal course of business.

These restrictions may limit our ability to obtain additional sources of capital, which may limit our ability to generate earnings. In addition, the failure to comply with any of the covenants of one or more of our debt agreements could cause a default under other debt agreements that may be outstanding from time to time. A default, if not waived, could result in acceleration of the related indebtedness, in which case such debt would become immediately due and payable. A continuing default or acceleration of one or more of our credit facilities or any other debt agreement, would likely cause a default under other debt agreements that otherwise would not be in default, in which case all such related indebtedness could be accelerated. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance our indebtedness. Even if any new financing is available, it may not be on terms that are acceptable to us or it may not be sufficient to refinance all of our indebtedness as it becomes due.

In addition, the transaction documents for our securitizations restrict our securitization subsidiaries from declaring or making payment to us of (i) any dividend or other distribution on or in respect of any shares of their capital stock, or (ii) any payment on account of the purchase, redemption, retirement or acquisition of any option, warrant or other right to acquire shares of their capital stock unless (in each case) at the time of such declaration or payment (and after giving effect thereto) no amount payable under any transaction document with respect to the related securitization is then due and owing, but unpaid. These restrictions may limit our ability to receive distributions in respect of the residual interests from our securitization facilities, which may limit our ability to generate earnings.

Risks Related to Fair Value Accounting

Receivables we've acquired since January 1, 2018 are accounted for based on the fair value method of accounting.

If Actual Results for Our Receivables Materially Deviate from Our Estimates, We May Be Required to Reduce the Interest Income We Recognize for Some or All of the Receivables Measured at Fair Value.

We recognize interest income on receivables accounted under fair value based on a level yield internal rate of return that we calculate based the terms of the receivables and our estimates at the time of acquisition of the future performance of those receivables. Such estimates include the timing and severity of future credit losses and the rates of amortization and of prepayments. If actual credit losses were to exceed our estimates, or if the actual amortization and prepayments of the receivables were to be materially different from our estimates, we might be required to change our estimates, which could result in a reduced interest income for those receivables in subsequent periods.

If Actual Results for Our Receivables Materially Deviate from Our Estimates, We May Be Required to Reduce the Recorded Value for Some or All of the Receivables Measured at Fair Value.

We re-evaluate the recorded value of receivables measured at fair value at the close of each quarter. If the re-evaluation were to yield a value materially different from the previous recorded value, an adjustment would be required. If actual credit losses were to exceed our estimates, or if the actual amortization and prepayments of the receivables were to be materially different from our estimates, we might be required to adjust the recorded value of such receivables. A downward readjustment in recorded value would correspondingly reduce our income and book value for and as of the end of the related quarter.

If Actual Market Conditions Indicate That the Amount a Market Participant Would Pay for Our Receivables is Materially Lower Than Our Recorded Value, We May Be Required to Reduce the Recorded Value for Some or All of the Receivables Measured at Fair Value.

The fair value of an asset is, by definition, the exchange price in an orderly transaction between market participants. Receivables such as ours are not regularly traded on exchanges where we can observe prices for exchanges of similar assets. We may therefore rely on estimates of what a market participant would pay for our receivables. If such estimated value were to be materially different from our recorded value, we might be required to adjust the recorded value of our receivables. A downward readjustment in recorded value would correspondingly reduce our income and book value.

Risks Related to General Factors

If The Economy of All or Certain Regions of the United States Falls into Recession, Our Results of Operations May Be Impaired.

Our business is directly related to sales of new and used automobiles, which are sensitive to employment rates, prevailing interest rates and other domestic economic conditions. Delinquencies, repossessions and losses generally increase during economic slowdowns or recessions. Because of our focus on sub-prime customers, the actual rates of delinquencies, repossessions and losses on our automobile contracts could be higher under adverse economic conditions than those experienced in the automobile finance industry in general, particularly in the states of California, Ohio, Texas, and Florida, states in which our automobile contracts are geographically concentrated. Any sustained period of economic slowdown or recession could adversely affect our ability to acquire suitable automobile contracts, or to securitize pools of such automobile contracts. The timing of any economic changes is uncertain, and weakness in the economy could have an adverse effect on our business and that of the dealers from which we purchase automobile contracts and result in reductions in our revenues or the cash flows available to us.

The Coronavirus Outbreak Could Have Adverse Effects

The COVID-19 virus has spread (“the pandemic”) throughout the world. The pandemic has had adverse effects on the economy of the United States (notably a significant decrease in employment) and the global economy in general. The long-term effects of the social, economic and financial disruptions caused by the pandemic are unknown. The extent to which obligors on our automobile contracts may be adversely affected by the pandemic, by loss of employment, and by related efforts of governments to slow the spread of the COVID-19 virus throughout the nation and world cannot be predicted. These occurrences could have a material adverse effect on the ability of obligors to make timely payments to us.

Stimulus payments and enhanced unemployment benefits made available to much of the population may have ameliorated in part the adverse effects on us of the pandemic; however, the benefit to us of such payments cannot be expected to continue. Obligor’s past use of the stimulus payments, and the termination of enhanced benefits, may have an adverse effect on our receipt of payments from obligors in the future, which could have a material adverse effect on our financial condition and results of operations.

Finally, and depending on the extent to which the pandemic adversely affects the United States economy, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, such as those related to our business or operations, the ability or willingness of our customers to make timely payments, and risks of geographic concentrations.

Our Results of Operations May Be Impaired as a Result of Natural Disasters.

Our automobile contracts are geographically concentrated in the states of California and Texas. Such states may be particularly susceptible to natural disasters: earthquake in the case of California, and hurricanes and flooding in Texas. Natural disasters, in those states or others, could cause a material number of our vehicle purchasers to lose their jobs, or could damage or destroy vehicles that secure our automobile contracts. In either case, such events could result in our receiving reduced collections on our automobile contracts, and could thus result in reductions in our revenues or the cash flows available to us.

Effect of Social, Economic and Other Factors on Losses.

The ability of our customers to make payments on automobile contracts will be affected by a variety of social and economic factors, most notably the extent to which our customers remain gainfully employed. Other economic factors include interest rates, general unemployment levels, the rate of inflation, adjustments in monthly mortgage payments and consumer perceptions of economic conditions generally and the effect of government stimulus programs and consumer protection/payment relief efforts implemented in connection with the COVID-19 virus. Social factors include changes in consumer confidence levels, consumer attitudes toward bankruptcy and the repayment of indebtedness and consumer perceptions of political events and shifts, which may be affected by the pandemic. We are generally unable to determine whether or to what extent economic or social factors will affect the performance of our portfolio of automobile contracts, but caution that a recession or depression in local, regional or national economies would be expected to increase delinquencies and losses, which would adversely affect our financial condition and results of operations.

If an Increase in Interest Rates Results in a Decrease in Our Cash Flows from Excess Spread, Our Results of Operations May Be Impaired.

Our profitability is largely determined by the difference, or "spread," between the effective interest rate we receive on the automobile contracts that we acquire and the interest rates payable under warehouse credit facilities and on the asset-backed securities issued in our securitizations. In the past, disruptions in the market for asset-backed securities resulted in an increase in the interest rates we paid on asset-backed securities. Should similar disruptions take place in the future, we may pay higher interest rates on asset-backed securities issued in the future. Although we have the ability to partially offset increases in our cost of funds by increasing fees we charge to dealers when purchasing automobile contracts, or by demanding higher interest rates on automobile contracts we purchase, there is no assurance that such actions will materially offset increases in interest we pay to finance our managed portfolio. As a result, an increase in prevailing interest rates could cause us to receive less excess spread cash flows on automobile contracts, and thus could adversely affect our earnings and cash flows. See "Quantitative and Qualitative Disclosures About Market Risk - Interest Rate Risk."

Risks Related to Our Common Stock

Our Common Stock Is Thinly-Traded.

Our stock is thinly-traded, which means investors will have limited opportunities to sell their shares of common stock in the open market. Limited trading of our common stock also contributes to more volatile price fluctuations. Because there historically has been low trading volume in our common stock, there can be no assurance that our stock price will not decline as additional shares are sold in the public market. As of December 31, 2021, our directors and executive officers collectively owned 6.4 million shares of our common stock, or approximately 30%.

We Do Not Intend to Pay Dividends on Our Common Stock.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. See "Dividend Policy".

Forward-Looking Statements

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

- unexpected exogenous events, such as a widespread plague;
- mandates imposed in reaction to such events, such as prohibitions of otherwise permissible activity;
- changes in general economic conditions;
- changes in performance of our automobile contracts;
- increases in interest rates;
- our ability to generate sufficient operating and financing cash flows;
- competition;
- level of losses incurred on contracts in our managed portfolio; and
- adverse decisions by courts or regulators

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

We undertake no obligation to publicly update any forward-looking information. You are advised to consult any additional disclosure we make in our periodic reports filed with the SEC. See "Where You Can Find More Information" and "Documents Incorporated by Reference."

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our principal executive offices are located in Las Vegas, Nevada, where we currently lease approximately 45,000 square feet of general office space from an unaffiliated lessor. The annual base rent is approximately \$1.7 million, increasing to approximately \$1.8 million through 2023.

Our operating headquarters are located in Irvine, California, where we currently lease approximately 129,000 square feet of general office space from an unaffiliated lessor. The annual base rent is approximately \$4.3 million, increasing to approximately \$4.5 million through 2022.

The remaining three regional servicing centers occupy a total of approximately 59,000 square feet of leased space in Chesapeake, Virginia; Maitland, Florida; and Lombard, Illinois. The termination dates of such leases range from 2023 to 2029. The annual base rent for these facilities total approximately \$1.3 million.

Item 3. Legal Proceedings

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

For the most part, we have legal and factual defenses to consumer claims, which we routinely contest or settle (for immaterial amounts) depending on the particular circumstances of each case. There are as of the date of this report two civil actions that could possibly result in a material liability, if resolved adversely and on a class basis, as the respective plaintiffs allege would be appropriate.

Following our filing of a complaint for a deficiency judgment in the Superior Court at Waterbury, Connecticut, the defendant filed a cross-claim alleging that our deficiency notices were not compliant with Connecticut law, and seeking relief on behalf of a class of Connecticut obligors whose vehicles we had repossessed. The defendant's contract provided for resolution of disputes exclusively by arbitration, and exclusively on an individual basis, not a class basis. Nevertheless, in August 2021, the court denied our motion to compel arbitration, without opinion. As of the date of this report, no motion for certification of a class has been filed or granted; however, it would be reasonable to expect that resolution of these claims will be on a class basis.

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

We believe that our compensation practices with respect to our sales representatives are compliant with applicable law. Accordingly, we have defended and intend to continue to defend this lawsuit.

In General. There can be no assurance as to the outcomes of the matters described or referenced above. We record at each measurement date, most recently as of December 31, 2021, our best estimate of probable incurred losses for legal contingencies, including the matters identified above, and consumer claims. The amount of losses that may ultimately be incurred cannot be estimated with certainty. However, based on such information as is available to us, we believe that the total of probable incurred losses for legal contingencies as of December 31, 2021 is \$3.4 million, and that the range of reasonably possible losses for the legal proceedings and contingencies we face, including those described or identified above, as of December 31, 2021 does not exceed \$11.3 million.

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

Executive Officers of the Registrant

Charles E. Bradley, Jr., 62, has been our President and a director since our formation in March 1991, and was elected Chairman of the Board of Directors in July 2001. In January 1992, Mr. Bradley was appointed Chief Executive Officer. From April 1989 to November 1990, he served as Chief Operating Officer of Barnard and Company, a private investment firm. From September 1987 to March 1989, Mr. Bradley, Jr. was an associate of The Harding Group, a private investment banking firm. Mr. Bradley does not currently serve on the board of directors of any other publicly-traded companies.

Jeffrey P. Fritz, 62, has been Executive Vice President and Chief Financial Officer since March 2014. Prior to that, he was Senior Vice President and Chief Financial Officer from April 2006. He was Senior Vice President of Accounting from August 2004 through March 2006 and served as a consultant to us from May 2004 to August 2004. He also served as our Chief Financial Officer from our inception through May 1999. He is a licensed Certified Public Accountant and has previously practiced public accounting.

Michael T. Lavin, 49, has been Executive Vice President and Chief Operating Officer since February 2019, and our Chief Legal Officer from March 2014. Prior to that, he was our Senior Vice President – General Counsel since March 2013, Senior Vice President and Corporate Counsel since May 2009 and our Vice President- Legal since joining the Company in November of 2001. Mr. Lavin was previously engaged as a law clerk and an associate with the San Diego based large law firm (now defunct) of Edwards, Sooy & Byron from 1996 through 2000 and then as an associate with the Orange County based firm of Trachtman & Trachtman from 2000 through 2001. Mr. Lavin also clerked for the San Diego District Attorney’s office and Orange County Public Defender’s office.

Christopher Terry, 54, has been Senior Vice President of Risk Management since May 2017. Prior to that he was our Senior Vice President of Servicing from May 2005 to August 2013. He was Senior Vice President of Asset Recovery from August 2013 to May 2017 and from January 2003 to May 2005. He joined us in January 1995 as a loan officer, held a series of successively more responsible positions, and was promoted to Vice President - Asset Recovery in June 1999. Mr. Terry was previously a branch manager with Norwest Financial from 1990 to October 1994.

Teri L. Robinson, 59, has been Senior Vice President of Sales and Originations since June 2020. Prior to that she was Senior Vice President of Originations from April 2007 to June 2020. Prior to that, she held the position of Vice President of Originations since August 1998. She joined the Company in June 1991 as an Operations Specialist, and held a series of successively more responsible positions. Previously, Ms. Robinson held an administrative position at Greco & Associates.

Laurie A. Straten, 55, has been Senior Vice President of Servicing since August 2013. Prior to that, she was our Senior Vice President of Asset Recovery from April 2013, and before that she held the position of Vice President of Asset Recovery starting in April 2005. She started with the Company in March 1996 as a bankruptcy specialist and took on more responsibility within Asset Recovery over time. Prior to joining CPS she worked for the FDIC and served in the United States Marine Corps.

John P. Harton, 57, has been Senior Vice President – Product Development since June 2020. Prior to that he was Senior Vice President – Sales from March 2014 to June 2020. Prior to that, he held the position of Vice President – Marketing since April 2010. He joined the Company in April 1996 as a loan officer, held a series of successively more responsible positions, and was promoted to Vice President - Originations in June 2007. Mr. Harton was previously a branch manager with American General Finance from 1990 to March 1996.

Danny Bharwani, 54, has been Senior Vice President – Finance since April 2016. Previously, he was our Vice President – Finance from June 2002. He joined us as Assistant Controller in August 1997. Mr. Bharwani was previously employed as Assistant Controller at The Todd-AO Corporation, from 1989 to 1997.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The Company's Common Stock is traded on the Nasdaq Global Market, under the symbol "CPSS." The following table sets forth the high and low sale prices as reported by Nasdaq for our Common Stock for the periods shown.

	High	Low
January 1 - March 31, 2020	4.30	1.00
April 1 - June 30, 2020	3.31	1.10
July 1 - September 30, 2020	3.73	2.77
October 1 - December 31, 2020	5.12	3.22
January 1 - March 31, 2021	4.95	3.80
April 1 - June 30, 2021	5.00	3.81
July 1 - September 30, 2021	6.00	4.22
October 1 - December 31, 2021	12.00	5.69

As of January 1, 2022, there were 27 holders of record of the Company's Common Stock. To date, we have not declared or paid any dividends on our Common Stock. The payment of future dividends, if any, on our Common Stock is within the discretion of the Board of Directors and will depend upon our income, capital requirements and financial condition, and other relevant factors. The instruments governing our outstanding debt place certain restrictions on the payment of dividends. We do not intend to declare any dividends on our Common Stock in the foreseeable future, but instead intend to retain any cash flow for use in our operations.

The table below presents information regarding outstanding options to purchase our Common Stock as of December 31, 2021:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	13,074,551	\$ 4.54	3,881,331
Equity compensation plans not approved by security holders	-	-	-
Total	13,074,551	\$ 4.54	3,881,331

Issuer Purchases of Equity Securities in the Fourth Quarter

Period (1)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 2021	36,500	\$ 6.25	36,500	\$ 1,064,832
November 2021	269,938	8.10	269,938	3,878,695
December 2021	598,000	8.91	598,000	7,227,182
Total	904,438	\$ 8.56	904,438	

(1) Each monthly period is the calendar month.

(2) Our board of directors authorized the purchase of \$5.0 million and \$8.675 million of our outstanding securities in November and December 2021, respectively. Through December 31, 2021, our board of directors had authorized the purchase of up to \$88.2 million of our outstanding securities, which program was first announced in our annual report for the year 2002, filed on March 26, 2003. All purchases described in the table above were under the plan announced in March 2003, which has no fixed expiration date. As of December 31, 2021, we have purchased \$76.0 million of our common stock representing 19,657,355 shares.

Item 6. Selected Financial Data

The following table presents our selected consolidated financial data and operating data as of and for the dates indicated. The data under the captions "Statement of Income Data" and "Balance Sheet Data" have been derived from our audited consolidated financial statements. The remainder is derived from other records of ours. You should read the selected consolidated financial data together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited consolidated financial statements and notes thereto that are included in this report, and in our quarterly and periodic filings.

<u>(in thousands, except per share data)</u>	As of and For the Year Ended December 31,				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statement of Income Data					
Revenues:					
Interest income	\$ 266,266	\$ 294,982	\$ 337,096	\$ 380,297	\$ 424,174
Mark to finance receivables measured at fair value	(4,417)	(29,528)	-	-	-
Other income	5,962	5,707	8,704	9,478	10,209
Total revenues	<u>267,811</u>	<u>271,161</u>	<u>345,800</u>	<u>389,775</u>	<u>434,383</u>
Expenses:					
Employee costs	80,534	80,198	80,877	79,318	72,967
General and administrative	60,882	55,392	59,460	57,208	50,287
Interest expense	75,239	101,338	110,528	101,466	92,345
Provision for credit losses	(14,590)	14,113	85,773	133,080	186,713
Total expenses	<u>202,065</u>	<u>251,041</u>	<u>336,638</u>	<u>371,072</u>	<u>402,312</u>
Income before income tax expense	65,746	20,120	9,162	18,703	32,071
Income tax expense (benefit)	18,222	(1,557)	3,756	3,841	28,306
Net income	<u>\$ 47,524</u>	<u>\$ 21,677</u>	<u>\$ 5,406</u>	<u>\$ 14,862</u>	<u>\$ 3,765</u>
Earnings per share-basic	\$ 2.11	\$ 0.96	\$ 0.24	\$ 0.68	\$ 0.17
Earnings per share-diluted	\$ 1.84	\$ 0.90	\$ 0.22	\$ 0.59	\$ 0.14
Pre-tax income per share-basic (1)	\$ 2.91	\$ 0.89	\$ 0.41	\$ 0.85	\$ 1.41
Pre-tax income per share-diluted (2)	\$ 2.55	\$ 0.84	\$ 0.38	\$ 0.75	\$ 1.18
Weighted average shares outstanding-basic	22,562	22,611	22,416	21,989	22,687
Weighted average shares outstanding-diluted	25,780	24,003	24,064	24,988	27,214
Balance Sheet Data					
Total assets	\$ 2,159,578	\$ 2,145,895	\$ 2,539,249	\$ 2,485,680	\$ 2,424,841
Cash and cash equivalents	29,928	13,466	5,295	12,787	12,731
Restricted cash and equivalents	146,620	130,686	135,537	117,323	111,965
Finance receivables, net	176,184	411,343	885,890	1,454,709	2,195,797
Finance receivables measured at fair value	1,749,098	1,523,726	1,444,038	821,066	-
Warehouse lines of credit	105,610	118,999	134,791	136,847	112,408
Residual interest financing	53,682	25,426	39,478	39,106	-
Securitization trust debt	1,759,972	1,803,673	2,097,728	2,063,627	2,083,215
Long-term debt	26,459	21,323	17,534	17,290	16,566
Shareholders' equity	170,207	133,362	202,641	197,118	183,937

(1) Income before income tax expense divided by weighted average shares outstanding-basic. Included for illustrative purposes because some of the periods presented include significant income tax expense or benefit.

(2) Income before income tax expense divided by weighted average shares outstanding-diluted. Included for illustrative purposes because some of the periods presented include significant income tax expense or benefit.

(in thousands)	As of and For the Year Ended December 31,				
	2021	2020	2019	2018	2017
Contract Originations / Securitizations					
Automobile contract originations	\$ 1,146,321	\$ 742,584	\$ 1,002,782	\$ 902,416	\$ 859,069
Automobile contracts securitized	1,145,002	741,867	1,014,124	883,452	870,000
Managed Portfolio Data					
Contracts associated with the allowance for finance credit losses	\$ 236,731	\$ 506,896	\$ 923,239	\$ 1,551,797	\$ 2,333,497
Contracts measured at fair value	1,972,699	1,668,076	1,492,803	829,039	—
Contracts held by consolidated subsidiaries	\$ 2,209,430	\$ 2,174,972	\$ 2,416,042	\$ 2,380,836	\$ 2,333,497
Third party portfolios (1)	39,639	—	—	11	33
Total managed portfolio	\$ 2,249,069	\$ 2,174,972	\$ 2,416,042	\$ 2,380,847	\$ 2,333,530
Average managed portfolio	2,147,611	2,315,750	2,404,710	2,341,957	2,334,015
Weighted average fixed effective interest rate (total managed portfolio) (2)	18.5%	19.0%	18.9%	18.9%	19.2%
Core operating expenses (% of average managed portfolio) (3)	6.6%	5.9%	5.8%	5.8%	5.3%
Allowance for finance credit losses	\$ 56,206	\$ 80,790	\$ 11,640	\$ 67,376	\$ 109,187
Allowance for finance credit losses (% of total contracts associated with the allowance) (7)	24.2%	16.4%	1.3%	4.3%	4.7%
Aggregate allowance for finance credit losses and repossessions in inventory	\$ 58,077	\$ 92,580	\$ 33,029	\$ 91,940	\$ 133,211
Aggregate allowance for finance credit losses (% of repossessions in inventory and contracts associated with the allowance)	24.5%	18.3%	3.6%	5.9%	5.7%
Total delinquencies (2) (4)	9.5%	10.4%	13.6%	12.3%	9.8%
Total delinquencies and repossessions in inventory (2) (4)	10.5%	12.1%	15.5%	13.9%	11.2%
Net charge-offs, finance receivables portfolio (2) (5) (6)	7.7%	11.7%	12.2%	9.3%	7.7%
Net charge-offs, fair value receivables portfolio (2) (5) (6)	3.1%	4.3%	3.8%	1.3%	n/a
Net charge-offs (2) (5)	4.7%	6.5%	8.0%	7.7%	7.7%

(1) Receivables related to the third party portfolios, on which we earn only a servicing fee.

(2) Excludes receivables related to the third party portfolios.

(3) Total expenses excluding provision for credit losses, provision for contingent liabilities, interest expense, loss on sale of receivables and impairment loss on residual assets.

(4) For further information regarding delinquencies and the managed portfolio, see the table captioned "Delinquency Experience," in Item 1, Part I of this report and the notes to that table.

(5) Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of the charge-off, including some recoveries which have been classified as other income in the accompanying consolidated financial statements. For further information regarding charge-offs, see the table captioned "Net Charge-Off Experience," in Item 1, Part I of this report and the notes to that table.

(6) The finance receivables portfolio is comprised of contracts we acquired prior to January 2018. The fair value receivables portfolio is comprised of contracts we have acquired since January 2018.

(7) ASC 326 was adopted in 2020 for the finance receivables portfolio. The allowance for finance credit losses for the year ended December 31, 2020 and 2021 represent expected lifetime credit losses.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto and other information included or incorporated by reference herein.

Overview

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

We were incorporated and began our operations in March 1991. From inception through December 31, 2021, we have originated a total of approximately \$18.1 billion of automobile contracts, primarily by purchasing retail installment sales contracts from dealers, and to a lesser degree, by originating loans secured by automobiles directly with consumers. In addition, we acquired a total of approximately \$822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and 2011. Contract purchase volumes and managed portfolio levels for the five years ended December 31, 2021 are shown in the table below. Managed portfolio comprises both contracts we owned and those we were servicing for third parties.

Contract Purchases and Outstanding Managed Portfolio

Year	\$ in thousands	
	Contracts Purchased in Period	Managed Portfolio at Period End
2017	\$ 859,069	\$ 2,333,530
2018	902,416	2,380,847
2019	1,002,782	2,416,042
2020	742,584	2,174,972
2021	1,146,321	2,249,069

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

Coronavirus Pandemic

In December 2019, a new strain of coronavirus (the "COVID-19 virus") originated in Wuhan, China. Since its discovery, the COVID-19 virus has spread throughout the world, and the outbreak has been declared to be a pandemic by the World Health Organization. We refer from time to time in this report to the outbreak and spread of the COVID-19 virus as "the pandemic." In March 2020 at the outset of the pandemic we complied with government mandated shutdown orders in the five locations we operate by arranging for many of our staff to work from home and invoking various safety protocols for workers who remained in our offices. In April 2020, we laid off approximately 100 workers, or about 10% of our workforce, throughout our offices because of significant reductions in new contract originations. As of December 31, 2021, most of our staff were working without a significant impact from the pandemic.

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

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

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

Securitization and Warehouse Credit Facilities

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

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

Since 1994 we have conducted 91 term securitizations of automobile contracts that we originated under our regular programs. As of December 31, 2021, 19 of those securitizations are active and all are structured as secured financings. We generally conduct our securitizations on a quarterly basis, near the beginning of each calendar quarter, resulting in four securitizations per calendar year. However, we completed only three securitizations in 2020. In April 2020 we postponed our planned securitization due to the onset of the pandemic and the effective closure of the capital markets in which our securitizations are executed. Subsequently we successfully completed securitizations in June and September 2020.

Our history of term securitizations, over the most recent ten years, is summarized in the table below:

Recent Asset-Backed Term Securitizations		
<i>\$ in thousands</i>		
Period	Number of Term Securitizations	Amount of Receivables
2012	4	\$ 603,500
2013	4	778,000
2014	4	923,000
2015	3	795,000
2016	4	1,214,997
2017	4	870,000
2018	4	883,452
2019	4	1,014,124
2020	3	741,867
2021	4	1,145,002

Generally, prior to a securitization transaction we fund our automobile contract acquisitions primarily with proceeds from warehouse credit facilities. Our current short-term funding capacity is \$200 million, comprising two credit facilities. The first \$100 million credit facility was established in May 2012. This facility was most recently renewed in December 2020, extending the revolving period to December 2022, with an optional amortization period through December 2023. In November 2015, we entered into another \$100 million facility. This facility was most recently renewed in February 2022, extending the revolving period to January 2024, followed by an amortization period to January 2028.

We previously had a third \$100 million facility. This facility was established in April 2015 and was renewed in April 2017 and again in February 2019, extending the revolving period to February 2021. We repaid this facility in full at its maturity in 2021.

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

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

Critical Accounting Policies

We believe that our accounting policies related to (a) Finance Receivables at Fair Value, (b) Allowance for Finance Credit Losses, (c) Term Securitizations, (d) Accrual for Contingent Liabilities and (e) Income Taxes are the most critical to understanding and evaluating our reported financial results. Such policies are described below.

Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses incurred on finance receivables, we use a loss allowance methodology commonly referred to as "static pooling," which stratifies our finance receivable portfolio into separately identified pools based on the period of origination. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for probable incurred credit losses that can be reasonably estimated in our portfolio of automobile contracts. Net losses incurred on finance receivables are charged to the allowance. We evaluate the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, prospective liquidation values of the underlying collateral and general economic and market conditions. As circumstances change, our level of provisioning and/or allowance may change as well. Receivables acquired after 2017, are accounted for using fair value and will have no allowance for finance credit losses in accordance with the fair value method of accounting for finance receivables.

Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. Our internal credit performance data consistently show that new receivables have lower levels of delinquency and losses early in their lives, with delinquencies increasing throughout their lives and incremental losses gradually increasing to a peak around 18 months, after which they gradually decrease.

The credit performance of our portfolio is also significantly influenced by our underwriting guidelines and credit criteria we use when evaluating contracts for purchase from dealers. We regularly evaluate our portfolio credit performance and modify our purchase criteria to maximize the credit performance of our portfolio, while maintaining competitive programs and levels of service for our dealers.

We generally do not lower the contractual interest rate or waive or forgive principal when our borrowers incur financial difficulty on either a temporary or permanent basis. An exception to this policy is when a court order mandates the terms of the contract to be modified, such as in a Chapter 13 bankruptcy proceeding. In such cases, which represent an immaterial portion of our portfolio of finance receivables, we have estimated the amount of impairment that results from such modification and established an appropriate allowance within our Allowance for Finance Credit Losses.

Effective January 1, 2020, the Company adopted Accounting Standards Codification ("ASC") 326, which changes the criteria under which credit losses on financial instruments (such as the Company's finance receivables) are measured. ASC 326 introduced a new credit reserving model known as the Current Expected Credit Loss ("CECL") model, which replaces the incurred loss impairment methodology previously used under U.S. GAAP with a methodology that records currently the expected lifetime credit losses on financial instruments. The adoption of CECL required that we establish an allowance for the remaining expected lifetime credit losses on the portion of the Company's receivable portfolio for which the Company was not already using fair value accounting. We refer to that portion, which is those receivables that were originated prior to January 2018, as our "legacy portfolio". To comply with CECL, the Company recorded an addition to its allowance for finance credit losses of \$127.0 million.

At the onset of the pandemic in March 2020, Government mandated shutdowns of large portions of the United States economy impaired and will likely continue to impair the ability of obligors under our automobile contracts to make their monthly payments. The extent to which that ability will be impaired, and the extent to which public ameliorative measures such as stimulus payments and enhanced unemployment benefits may restore such ability, cannot be estimated.

During the twelve-month period ended December 31, 2021, we recorded a reduction to provision for finance credit losses in the amount of \$14.6 million. The reserve decrease was primarily due to a decrease in lifetime expected credit losses resulting from improved credit performance.

Finance Receivables Measured at Fair Value

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

We re-evaluate the fair value of such receivables at the close of each measurement period. If the reevaluation were to yield a value materially different from the recorded value, an adjustment would be required. In the twelve-month period ended December 31, 2021, the Company considered the effect of the pandemic on the portfolio of finance receivables carried at fair value and recorded a mark down to that portfolio of \$4.4 million. The mark down is reflected as a reduction in revenue.

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

Term Securitizations

Our term securitization structure has generally been as follows:

We sell automobile contracts we acquire to a wholly-owned special purpose subsidiary, which has been established for the limited purpose of buying and reselling our automobile contracts. The special-purpose subsidiary then transfers the same automobile contracts to another entity, typically a statutory trust. The trust issues interest-bearing asset-backed securities, in a principal amount equal to or less than the aggregate principal balance of the automobile contracts. We typically sell these automobile contracts to the trust at face value and without recourse, except that representations and warranties similar to those provided by the dealer to us are provided by us to the trust. One or more investors purchase the asset-backed securities issued by the trust; the proceeds from the sale of the asset-backed securities are then used to purchase the automobile contracts from us. We may retain or sell subordinated asset-backed securities issued by the trust or by a related entity.

We structure our securitizations to include internal credit enhancement for the benefit the investors (i) in the form of an initial cash deposit to an account (“spread account”) held by the trust, (ii) in the form of overcollateralization of the senior asset-backed securities, where the principal balance of the senior asset-backed securities issued is less than the principal balance of the automobile contracts, (iii) in the form of subordinated asset-backed securities, or (iv) some combination of such internal credit enhancements. The agreements governing the securitization transactions require that the initial level of internal credit enhancement be supplemented by a portion of collections from the automobile contracts until the level of internal credit enhancement reaches specified levels, which are then maintained. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related automobile contracts. The specified levels at which the internal credit enhancement is to be maintained will vary depending on the performance of the portfolios of automobile contracts held by the trusts and on other conditions, and may also be varied by agreement among us, our special purpose subsidiary, the insurance company, if any, and the trustee. Such levels have increased and decreased from time to time based on performance of the various portfolios, and have also varied from one transaction to another. The agreements governing the securitizations generally grant us the option to repurchase the sold automobile contracts from the trust when the aggregate outstanding balance of the automobile contracts has amortized to a specified percentage of the initial aggregate balance.

Upon each transfer of automobile contracts in a transaction structured as a secured financing for financial accounting purposes, we retain on our consolidated balance sheet the related automobile contracts as assets and record the asset-backed notes or loans issued in the transaction as indebtedness.

We receive periodic base servicing fees for the servicing and collection of the automobile contracts. Under our securitization structures treated as secured financings for financial accounting purposes, such servicing fees are included in interest income from the automobile contracts. In addition, we are entitled to the cash flows from the trusts that represent collections on the automobile contracts in excess of the amounts required to pay principal and interest on the asset-backed securities, base servicing fees, and certain other fees and expenses (such as trustee and custodial fees). Required principal payments on the asset-backed notes are generally defined as the payments sufficient to keep the principal balance of such notes equal to the aggregate principal balance of the related automobile contracts (excluding those automobile contracts that have been charged off), or a pre-determined percentage of such balance. Where that percentage is less than 100%, the related securitization agreements require accelerated payment of principal until the principal balance of the asset-backed securities is reduced to the specified percentage. Such accelerated principal payment is said to create overcollateralization of the asset-backed notes.

If the amount of cash required for payment of fees, expenses, interest and principal on the senior asset-backed notes exceeds the amount collected during the collection period, the shortfall is withdrawn from the spread account, if any. If the cash collected during the period exceeds the amount necessary for the above allocations plus required principal payments on the subordinated asset-backed notes, and there is no shortfall in the related spread account or the required overcollateralization level, the excess is released to us. If the spread account and overcollateralization is not at the required level, then the excess cash collected is retained in the trust until the specified level is achieved. Although spread account balances are held by the trusts on behalf of our special-purpose subsidiaries as the owner of the residual interests (in the case of securitization transactions structured as sales for financial accounting purposes) or the trusts (in the case of securitization transactions structured as secured financings for financial accounting purposes), we are restricted in use of the cash in the spread accounts. Cash held in the various spread accounts is invested in high quality, liquid investment securities, as specified in the securitization agreements. The interest rate payable on the automobile contracts is significantly greater than the interest rate on the asset-backed notes. As a result, the residual interests described above historically have been a significant asset of ours.

In all of our term securitizations and warehouse credit facilities, whether treated as secured financings or as sales, we have sold the automobile contracts (through a subsidiary) to the securitization entity. The difference between the two structures is that in securitizations that are treated as secured financings we report the assets and liabilities of the securitization trust on our consolidated balance sheet. Under both structures, recourse to us by holders of the asset-backed securities and by the trust, for failure of the automobile contract obligors to make payments on a timely basis, is limited to the automobile contracts included in the securitizations or warehouse credit facilities, the spread accounts and our retained interests in the respective trusts.

Accrual for Contingent Liabilities

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

We have recorded a liability as of December 31, 2021, which represents our best estimate of probable incurred losses for legal contingencies at that date. The amount of losses that may ultimately be incurred cannot be estimated with certainty. However, based on such information as is available to us, we believe that the range of reasonably possible losses for the legal proceedings and contingencies described or referenced above, as of December 31, 2021, and in excess of the liability we have recorded, does not exceed \$11.3 million.

Accordingly, we believe that the ultimate resolution of such legal proceedings and contingencies, after taking into account our current litigation reserves, should not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the uncertainties inherent in contested proceedings, there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves we have accrued; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our income for that period.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgements, significant weight is given to evidence that can be objectively verified.

In determining the possible future realization of deferred tax assets, we have considered future taxable income from the following sources: (a) reversal of taxable temporary differences; and (b) forecasted future net earnings from operations. Based upon those considerations, we have concluded that it is more likely than not that the U.S. and state net operating loss carryforward periods provide enough time to utilize the deferred tax assets pertaining to the existing net operating loss carryforwards and any net operating loss that would be created by the reversal of the future net deductions which have not yet been taken on a tax return. Our estimates of taxable income are forward-looking statements, and there can be no assurance that our estimates of such taxable income will be correct. Factors discussed under "Risk Factors," and in particular under the subheading "Risk Factors -- Forward-Looking Statements" may affect whether such projections prove to be correct.

We recognize interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets.

Uncertainty of Capital Markets and General Economic Conditions

We depend upon the availability of warehouse credit facilities and access to long-term financing through the issuance of asset-backed securities collateralized by our automobile contracts. Since 1994, we have completed 91 term securitizations of approximately \$16.2 billion in contracts. We generally conduct our securitizations on a quarterly basis, near the beginning of each calendar quarter, resulting in four securitizations per calendar year. However, we completed only three securitizations in 2020. In April 2020 we postponed our planned securitization due to the onset of the pandemic and the effective closure of the capital markets in which our securitizations are executed. Subsequently, we successfully completed securitizations in June and September 2020 and four securitizations in 2021.

Financial Covenants

Certain of our securitization transactions and our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility. As of December 31, 2021 we were in compliance with all such financial covenants.

Results of Operations

Comparison of Operating Results for the year ended December 31, 2021 with the year ended December 31, 2020

Revenues. During the year ended December 31, 2021, our revenues were \$267.8 million, a decrease of \$3.4 million, or 1.2%, from the prior year revenues of \$271.2 million. The primary reason for the decrease in revenues is a decrease in interest income. Interest income for the year ended December 31, 2021 decreased \$28.7 million, or 9.7%, to \$266.3 million from \$295.0 million in the prior year. The primary reason for the decrease in interest income is the continued runoff of our legacy portfolio of finance receivables originated prior to January 2018, which accrued interest at an average of 20.2%, which is offset only in part by the increase in our portfolio of receivables measured at fair value, which are those originated since January 2018. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The table below shows the outstanding and average balances of our portfolio held by consolidated subsidiaries for the year months ended December 31, 2021 and 2020:

	Year Ended December 31,					
	2021			2020		
	Average Balance	Interest	(Dollars in thousands) Interest Yield	Average Balance	Interest	Interest Yield
Interest Earning Assets						
Finance receivables	\$ 345,021	\$ 69,805	20.2%	\$ 684,259	\$ 126,716	18.5%
Finance receivables measured at fair value	1,802,590	196,461	10.9%	1,631,491	168,266	10.3%
Total	<u>\$ 2,147,611</u>	<u>\$ 266,266</u>	<u>12.4%</u>	<u>\$ 2,315,750</u>	<u>\$ 294,982</u>	<u>12.7%</u>

Revenues for the year ended December 31, 2021 and 2020 are net of mark downs of \$4.4 million and \$29.5 million, respectively, to the recorded value of the finance receivables measured at fair value. The mark down is an estimate based on our evaluation of the appropriate fair value and future earnings rate of existing receivables compared to recently acquired receivables and our assessment of potential additional future net losses arising from the pandemic.

Other income was \$6.0 million for the year ended December 31, 2021 compared to \$5.7 million for the year ended December 31, 2020.

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

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

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

Total operating expenses were \$202.1 million for the year ended December 31, 2021, compared to \$251.0 million for the prior year, a decrease of \$49.0 million, or 19.5%. The decrease is primarily due to a decreases in interest expense and provisions for credit losses.

Employee costs increased by \$336,000 or 0.4%, to \$80.5 million during the year ended December 31, 2021, representing 39.9% of total operating expenses, from \$80.2 million for the prior year, or 31.9% of total operating expenses. Employee costs for 2021 include approximately \$8.0 million for the establishment of a bonus pool for a segment of employees we classify as Managers.

The table below summarizes our employees by category as well as contract purchases and units in our managed portfolio as of, and for the years ended, December 31, 2021 and 2020:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	<u>Amount</u>	<u>Amount</u>
	(\$ in millions)	
Contracts purchased (dollars)	\$ 1,146.3	\$ 742.6
Contracts purchased (units)	54,317	39,887
Managed portfolio outstanding (dollars)	\$ 2,249.1	\$ 2,175.0
Managed portfolio outstanding (units)	156,280	163,177
Number of Originations staff	170	157
Number of Marketing staff	105	96
Number of Servicing staff	388	460
Number of other staff	76	74
Total number of employees	<u>739</u>	<u>787</u>

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were \$34.6 million, an increase of \$2.6 million, or 8.2%, compared to the previous year and represented 17.1% of total operating expenses.

Interest expense for the year ended December 31, 2021 decreased by \$26.1 million to \$75.2 million, or 25.8%, compared to \$101.3 million in the previous year. Interest expense represented 37.2% of total operating expenses in 2021. The primary reason for the decrease in interest expense is the decrease in securitization trust debt interest.

Interest on securitization trust debt decreased by \$23.6 million, or 26.9%, for the year ended December 31, 2021 compared to the prior year. The average balance of securitization trust debt decreased 9.8% to \$1,819.9 million for the year ended December 31, 2021 compared to \$2,017.2 million for the year ended December 31, 2020. The blended interest rates on new term securitizations have generally decreased since 2019 and have stayed relatively low in 2021 despite trending upward throughout the year. For any particular quarterly securitization transaction, the blended cost of funds is ultimately the result of many factors including the market interest rates for benchmark swaps of various maturities against which our bonds are priced and the margin over those benchmarks that investors are willing to accept, which in turn, is influenced by investor demand for our bonds at the time of the securitization. These and other factors have resulted in fluctuations in our securitization trust debt interest costs. The blended interest rates of our recent securitizations are summarized in the table below:

Blended Cost of Funds on Recent Asset-Backed Term Securitizations	
Period	Blended Cost of Funds
January 2018	3.46%
April 2018	3.98%
July 2018	4.18%
October 2018	4.25%
January 2019	4.22%
April 2019	3.95%
July 2019	3.36%
October 2019	2.95%
January 2020	3.08%
June 2020	4.09%
September 2020	2.39%
January 2021	1.11%
April 2021	1.65%
July 2021	1.55%
October 2021	2.09%

The annualized average rate on our securitization trust debt was 3.5% for the year ended December 31, 2021 compared with 4.4% for 2020. The annualized average rate is influenced by the manner in which the underlying securitization trust bonds are repaid. The rate tends to increase over time on any particular securitization since the structures of our securitization trusts generally provide for sequential repayment of the shorter term, lower interest rate bonds before the longer term, higher interest rate bonds.

Interest expense on warehouse lines of credit decreased by \$3.2 million, or 42.1% for the year ended December 31, 2021 compared to the prior year. The decrease was primarily due to the lower utilization of our credit lines during the year. The average balance of our warehouse debt was \$51.3 million during 2021 compared to \$92.5 million in 2020.

Interest expense on residual interest financing was \$3.8 million in the year ended December 31, 2021 compared to \$3.5 million in the prior year as the average balance has increased.

Interest expense on our subordinated renewable notes increased by \$466,000, or 21.4%, for the year ended December 31, 2021 compared to the prior year. The average balance of the notes increased from \$19.3 million in the prior year to \$25.3 million for the year ended December 31, 2021. The average interest rate on our subordinated notes decreased to 10.5% for the year ended December 31, 2021 from 11.2% for the year ended December 31, 2020.

The following table presents the components of interest income and interest expense and a net interest yield analysis for the years ended December 31, 2021 and 2020:

	2021			2020		
	Average Balance (1)	Interest	Annualized Average Yield/Rate	Average Balance (1)	Interest	Annualized Average Yield/Rate
(Dollars in thousands)						
Interest Earning Assets						
Finance receivables gross (2)	\$ 345,021	\$ 69,805	20.2%	\$ 684,259	\$ 126,716	18.5%
Finance receivables at fair value	1,802,590	196,461	10.9%	1,631,491	168,266	10.3%
	<u>2,147,611</u>	<u>266,266</u>	12.4%	<u>2,315,750</u>	<u>294,982</u>	12.7%
Interest Bearing Liabilities						
Warehouse lines of credit	\$ 51,313	4,448	8.7%	\$ 92,481	7,678	8.3%
Residual interest financing	42,692	3,763	8.8%	34,906	3,454	9.9%
Securitization trust debt	1,819,914	64,387	3.5%	2,017,152	88,031	4.4%
Subordinated renewable notes	25,270	2,641	10.5%	19,340	2,175	11.2%
	<u>\$ 1,939,189</u>	<u>75,239</u>	3.9%	<u>\$ 2,163,879</u>	<u>101,338</u>	4.7%
Net interest income/spread		<u>\$ 191,027</u>			<u>\$ 193,644</u>	
Net interest margin (3)			8.9%			8.4%
Ratio of average interest earning assets to average interest bearing liabilities	111%			107%		

(1) Average balances are based on month end balances except for warehouse lines of credit, which are based on daily balances.

(2) Net of deferred fees and direct costs.

(3) Net interest income divided by average interest earning assets.

	Year Ended December 31, 2021 Compared to December 31, 2020		
	Total Change	Change Due to Volume (In thousands)	Change Due to Rate
Interest Earning Assets			
Finance receivables gross	\$ (56,911)	\$ (62,823)	\$ 5,912
Finance receivables at fair value	28,195	17,647	10,548
	<u>(28,716)</u>	<u>(45,176)</u>	<u>16,460</u>
Interest Bearing Liabilities			
Warehouse lines of credit	(3,230)	(3,418)	188
Residual interest financing	309	770	(461)
Securitization trust debt	(23,644)	(8,608)	(15,036)
Subordinated renewable notes	466	667	(201)
	<u>(26,099)</u>	<u>(10,589)</u>	<u>(15,510)</u>
Net interest income/spread	<u>\$ (2,617)</u>	<u>\$ (34,587)</u>	<u>\$ 31,970</u>

The reduction in the annualized yield on our finance receivables for the year ended December 31, 2021 compared to the prior year period is the result of the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The average balance of these receivables was \$1,802.6 million for the twelve months ended December 31, 2021 compared to \$1,631.5 million in the prior year period.

Effective January 1, 2020, the Company adopted *Accounting Standards Codification Topic 326 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The amendment introduces a new credit reserving model known as the Current Expected Credit Loss model, generally referred to as CECL. Adoption of CECL required the establishment of an allowance for the remaining expected lifetime credit losses on the portion of the Company's receivable portfolio that was originated prior to January 2018. To comply with CECL, the Company recorded an addition to its allowance for finance credit losses of \$127.0 million. In accordance with the rules for adopting CECL, the offset to the addition to the allowance for finance credit losses was a tax affected reduction to retained earnings using the modified retrospective method.

For the year ended December 31, 2021, we recorded a reduction to provision for credit losses on finance receivables in the amount of \$14.6 million. The reserve decrease was primarily due to a decrease in lifetime expected credit losses resulting from improved credit performance. In the prior year period, we recorded an increase to provision for credit losses for \$14.1 million. That provision represented our estimate in 2020 of additional forecasted losses that might be incurred as a result of the pandemic on our portfolio of finance receivables. Such losses were not considered in our initial estimate of remaining lifetime losses that we recorded upon our adoption of CECL in January 2020.

The allowance applies only to our finance receivables originated through December 2017, which we refer to as our legacy portfolio. Finance receivables that we have originated since January 2018 are accounted for at fair value. Under the fair value method of accounting, we recognize interest income net of expected credit losses. Thus, no provision for credit loss expense is recorded for finance receivables measured at fair value.

Sales expense consists primarily of commission-based compensation paid to our employee sales representatives. Our sales representatives earn a salary plus commissions based on volume of contract purchases and sales of ancillary products and services that we offer our dealers, such as training programs, internet lead sales, and direct mail products. Sales expense increased by \$2.7 million to \$16.9 million during the year ended December 31, 2021 and represented 8.4% of total operating expenses. We purchased \$1,146.3 million of new contracts during the year ended December 31, 2021 compared to \$742.6 million in the prior year period. In our second quarter of 2020, we experienced a significant reduction in contract purchases due to the pandemic and partial shutdown of the economy. Since then, our contract purchase volumes have gradually increased to pre-pandemic levels.

Occupancy expenses increased by \$294,000 or 4.0%, to \$7.7 million compared to \$7.4 million in the previous year and represented 3.8% of total operating expenses.

Depreciation and amortization expenses decreased by \$109,000 or 6.1%, to \$1.7 million compared to \$1.8 million in the previous year and represented 0.8% of total operating expenses.

Income tax expense was \$18.2 million in 2021 compared to an income tax benefit of \$1.6 million for 2020. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was passed into law, providing wide ranging economic relief for individuals and businesses. One component of the CARES Act provides the Company with an opportunity to carry back net operating losses ("NOLs") arising from 2018, 2019 and 2020 to the prior five tax years. The Company has previously valued its NOLs at the federal corporate income tax rate of 21%. However, the CARES Act provides for NOL carryback claims to be calculated based on a rate of 35%, which was the federal corporate tax rate in effect for the carryback years. The result of the revaluation of NOLs and other tax adjustments is a net tax benefit of \$680,000 and \$8.8 million for 2021 and 2020, respectively. Excluding the tax benefit, income tax expense for 2021 would have been \$18.9 million, representing an effective income tax rate of 29%. For 2020, income tax expense would have been \$7.2 million for an effective tax rate of 36%.

Comparison of Operating Results for the year ended December 31, 2020 with the year ended December 31, 2019

Revenues. During the year ended December 31, 2020, our revenues were \$271.2 million, a decrease of \$74.6 million, or 21.6%, from the prior year revenues of \$345.8 million. The primary reason for the decrease in revenues is a decrease in interest income and a mark down to the recorded value of the portion of the receivables portfolio accounted for at fair value. Interest income for the year ended December 31, 2020 decreased \$42.1 million, or 12.5%, to \$295.0 million from \$337.1 million in the prior year. The primary reason for the decrease in interest income is the continued runoff of our portfolio of finance receivables originated prior to January 2018, which accrued interest at an average of 18.5%, which is offset only in part by the increase in our portfolio of receivables measured at fair value, which are those originated since January 2018. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The table below shows the outstanding and average balances of our portfolio held by consolidated subsidiaries for the year months ended December 31, 2020 and 2019:

	Year Ended December 31,					
	2020			2019		
	Average Balance	Interest	(Dollars in thousands) Interest Yield	Average Balance	Interest	Interest Yield
Interest Earning Assets						
Finance receivables	\$ 684,259	\$ 126,716	18.5%	\$ 1,192,484	\$ 214,037	17.9%
Finance receivables measured at fair value	1,631,491	168,266	10.3%	1,212,226	123,059	10.2%
Total	\$ 2,315,750	\$ 294,982	12.7%	\$ 2,404,710	\$ 337,096	14.0%

Revenues for the year ended December 31, 2020 include a \$29.5 million mark down to the recorded value of the finance receivables measured at fair value. The mark down is an estimate based on our evaluation of the appropriate fair value and future earnings rate of existing receivables compared to recently acquired receivables and our assessment of potential additional future net losses arising from the pandemic.

Other income decreased by \$3.0 million, or 34.4%, to \$5.7 million in the year ended December 31, 2020 from \$8.7 million in the prior year. The decrease in other income generally resulted from a decrease of \$1.3 million in revenues associated with direct mail and other related products and services that we offer to our dealers and a decrease of \$1.0 million in payments from third-party providers of convenience fees paid by our customers for web based and other electronic payments.

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

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

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

Total operating expenses were \$251.0 million for the year ended December 31, 2020, compared to \$336.6 million for the prior year, a decrease of \$85.6 million, or 25.4%. The decrease is primarily due to a decrease in provision for credit losses and interest expense.

Employee costs decreased by \$679,000 or 0.8%, to \$80.2 million during the year ended December 31, 2020, representing 31.9% of total operating expenses, from \$80.9 million for the prior year, or 24.0% of total operating expenses. In the first quarter of 2020, prior to the onset of the pandemic, our employee costs were greater than in the first quarter of 2019. Those increases have been partially offset by decreases since the first quarter of 2020, which are the result of staff reductions due in part to the fact that our contract purchases have not returned to pre-pandemic levels. If our contract purchase volumes remain at current levels, we expect lower employee costs in future periods.

The table below summarizes our employees by category as well as contract purchases and units in our managed portfolio as of, and for the years ended, December 31, 2021 and 2020:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
	<u>Amount</u>	<u>Amount</u>
	(\$ in millions)	
Contracts purchased (dollars)	\$ 1,146.3	\$ 742.6
Contracts purchased (units)	54,317	39,887
Managed portfolio outstanding (dollars)	\$ 2,249.1	\$ 2,175.0
Managed portfolio outstanding (units)	156,280	163,177
Number of Originations staff	170	157
Number of Marketing staff	105	96
Number of Servicing staff	388	460
Number of other staff	76	74
Total number of employees	<u>739</u>	<u>787</u>

General and administrative expenses include costs associated with purchasing and servicing our portfolio of finance receivables, including expenses for facilities, credit services, and telecommunications. General and administrative expenses were \$32.0 million, a decrease of \$1.0 million, or 3.1%, compared to the previous year and represented 12.7% of total operating expenses.

Interest expense for the year ended December 31, 2020 decreased by \$9.2 million to \$101.3 million, or 8.3%, compared to \$110.5 million in the previous year. Interest expense represented 40.4% of total operating expenses in 2020.

Interest on securitization trust debt decreased by \$8.8 million, or 9.1%, for the year ended December 31, 2020 compared to the prior year. The average balance of securitization trust debt decreased 7.5% to \$2,017.2 million for the year ended December 31, 2020 compared to \$2,181.5 million for the year ended December 31, 2019. The blended interest rates on new term securitizations have generally increased in 2017 and 2018 before declining in 2019 and 2020. For any particular quarterly securitization transaction, the blended cost of funds is ultimately the result of many factors including the market interest rates for benchmark swaps of various maturities against which our bonds are priced and the margin over those benchmarks that investors are willing to accept, which in turn, is influenced by investor demand for our bonds at the time of the securitization. These and other factors have resulted in fluctuations in our securitization trust debt interest costs. The blended interest rates of our recent securitizations are summarized in the table below:

Blended Cost of Funds on Recent Asset-Backed Term Securitizations	
Period	Blended Cost of Funds
January 2017	3.91%
April 2017	3.45%
July 2017	3.52%
October 2017	3.39%
January 2018	3.46%
April 2018	3.98%
July 2018	4.18%
October 2018	4.25%
January 2019	4.22%
April 2019	3.95%
July 2019	3.36%
October 2019	2.95%
January 2020	3.08%
June 2020	4.09%
September 2020	2.39%

The annualized average rate on our securitization trust debt was 4.4% for the year ended December 31, 2020 and 2019. The annualized average rate is influenced by the manner in which the underlying securitization trust bonds are repaid. The rate tends to increase over time on any particular securitization since the structures of our securitization trusts generally provide for sequential repayment of the shorter term, lower interest rate bonds before the longer term, higher interest rate bonds.

Interest expense on warehouse lines of credit decreased by \$724,000, or 8.6% for the year ended December 31, 2020 compared to the prior year. The average rate on the debt was 8.3% in 2020 compared to 9.7% in the prior year while the average balance of the warehouse debt increased to \$92.5 million from \$86.2 million.

Interest expense on residual interest financing was \$3.5 million in the year ended December 31, 2020 compared to \$3.8 million in the prior year as the average balance has decreased.

Interest expense on our subordinated renewable notes increased by \$741,000, or 51.7%, for the year ended December 31, 2020 compared to the prior year. The average balance of the notes increased from \$15.0 million in the prior year to \$19.3 million for the year ended December 31, 2020. The average interest rate on our subordinated notes increased to 11.2% for the year ended December 31, 2020 from 9.6% for the year ended December 31, 2019.

The following table presents the components of interest income and interest expense and a net interest yield analysis for the years ended December 31, 2020 and 2019:

	Year Ended December 31,					
	2020			2019		
	(Dollars in thousands)					
	Average Balance (1)	Interest	Annualized Average Yield/Rate	Average Balance (1)	Interest	Annualized Average Yield/Rate
Interest Earning Assets						
Finance receivables gross (2)	\$ 684,259	\$ 126,716	18.5%	\$ 1,157,910	\$ 214,037	18.5%
Finance receivables at fair value	1,631,491	168,266	10.3%	1,212,226	123,059	10.2%
	<u>2,315,750</u>	<u>294,982</u>	12.7%	<u>2,370,136</u>	<u>337,096</u>	14.2%
Interest Bearing Liabilities						
Warehouse lines of credit	\$ 92,481	7,678	8.3%	\$ 86,200	8,402	9.7%
Residual interest financing	34,906	3,454	9.9%	40,000	3,822	9.6%
Securitization trust debt	2,017,152	88,031	4.4%	2,181,545	96,870	4.4%
Subordinated renewable notes	19,340	2,175	11.2%	14,982	1,434	9.6%
	<u>\$ 2,163,879</u>	<u>101,338</u>	4.7%	<u>\$ 2,322,727</u>	<u>110,528</u>	4.8%
Net interest income/spread		<u>\$ 193,644</u>			<u>\$ 226,568</u>	
Net interest margin (3)			8.4%			9.6%
Ratio of average interest earning assets to average interest bearing liabilities	107%			102%		

(1) Average balances are based on month end balances except for warehouse lines of credit, which are based on daily balances.

(2) Net of deferred fees and direct costs.

(3) Net interest income divided by average interest earning assets.

	Year Ended December 31, 2020 Compared to December 31, 2019		
	Total Change	Change Due to Volume (In thousands)	Change Due to Rate
Interest Earning Assets			
Finance receivables gross	\$ (87,321)	\$ (87,553)	\$ 232
Finance receivables at fair value	45,207	42,562	2,645
	(42,114)	(44,991)	2,877
Interest Bearing Liabilities			
Warehouse lines of credit	(724)	612	(1,336)
Residual interest financing	(368)	(487)	119
Securitization trust debt	(8,839)	(7,300)	(1,539)
Subordinated renewable notes	741	417	324
	(9,190)	(6,758)	(2,432)
Net interest income/spread	\$ (32,924)	\$ (38,233)	\$ 5,309

The reduction in the annualized yield on our finance receivables for the year ended December 31, 2020 compared to the prior year period is the result of the lower interest yield on the receivables measured at fair value. The interest yield on receivables measured at fair value is reduced to take account of expected losses and is therefore less than the yield on other finance receivables. The average balance of these receivables was \$1,631.5 million for the twelve months ended December 31, 2020 compared to \$1,212.2 million in the prior year period.

Effective January 1, 2020, the Company adopted *Accounting Standards Codification Topic 326 - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The amendment introduces a new credit reserving model known as the Current Expected Credit Loss model, generally referred to as CECL. Adoption of CECL required the establishment of an allowance for the remaining expected lifetime credit losses on the portion of the Company's receivable portfolio that was originated prior to January 2018. To comply with CECL, the Company recorded an addition to its allowance for finance credit losses of \$127.0 million. In accordance with the rules for adopting CECL, the offset to the addition to the allowance for finance credit losses was a tax affected reduction to retained earnings using the modified retrospective method.

Provision for credit losses was \$14.1 million for the year ended December 31, 2020. The provision represents our estimate of additional losses that may be incurred on the portfolio of finance receivables resulting from the pandemic. Such losses were not considered in our initial estimate of remaining lifetime losses that we recorded with the adoption of CECL in January 2020. In the prior year period, prior to the adoption of CECL, provision for credit losses was \$85.8 million.

The allowance applies only to our finance receivables originated through December 2017, which we refer to as our legacy portfolio. Finance receivables that we have originated since January 2018 are accounted for at fair value. Under the fair value method of accounting, we recognize interest income net of expected credit losses. Thus, no provision for credit loss expense is recorded for finance receivables measured at fair value.

Sales expense consists primarily of commission-based compensation paid to our employee sales representatives. Our sales representatives earn a salary plus commissions based on volume of contract purchases and sales of ancillary products and services that we offer our dealers, such as training programs, internet lead sales, and direct mail products. Sales expense decreased by \$3.7 million to \$14.2 million during the year ended December 31, 2020 and represented 5.7% of total operating expenses. We purchased \$742.6 million of new contracts during the year ended December 31, 2020 compared to \$1,002.8 million in the prior year period. In our second quarter of 2020, we experienced a significant reduction in contract purchases due to the pandemic and partial shutdown of the economy. Subsequently, our contract purchase volumes have increased but have not recovered to pre-pandemic levels.

Occupancy expenses decreased by \$66,000 or 0.9%, to \$7.4 million compared to \$7.5 million in the previous year and represented 3.0% of total operating expenses.

Depreciation and amortization expenses increased by \$709,000 or 65.9%, to \$1.8 million compared to \$1.1 million in the previous year and represented 0.6% of total operating expenses.

Income tax benefit was \$1.6 million for the year ended December 31, 2020, which includes an \$8.8 million tax benefit. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was passed into law, providing wide ranging economic relief for individuals and businesses. One component of the CARES Act provides the Company with an opportunity to carry back net operating losses (“NOLs”) arising from 2018, 2019 and 2020 to the prior five tax years. The Company has previously valued its NOLs at the federal corporate income tax rate of 21%. However, the CARES Act provides for NOL carryback claims to be calculated based on a rate of 35%, which was the federal corporate tax rate in effect for the carryback years. The result of the revaluation of NOLs and other tax adjustments is a net tax benefit of \$8.8 million. Excluding the tax benefit, income tax expense would have been \$7.2 million, representing an effective income tax rate of 36%. For the prior year period, income tax expense was \$3.8 million, which represents an effective income tax rate of 41%.

Liquidity and Capital Resources

Liquidity

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

Net cash provided by operating activities for the years ended December 31, 2021, 2020 and 2019 was \$198.2 million, \$238.8 million and \$216.8 million, respectively. Net cash from operating activities is generally provided by net income from operations adjusted for significant non-cash items such as our provision for credit losses and interest accretion on fair value receivables.

Net cash used in investing activities for the year ended December 31, 2021 was \$115.4 million. This compares to net cash provided by investing activities of \$93.0 million for the year ended December 31, 2020. Net cash used in investing activities for the years ended December 31, 2019 was \$229.4 million. Cash provided by investing activities primarily results from principal payments and other proceeds received on finance receivables. Cash used in investing activities generally relates to purchases of automobile contracts. Purchases of finance receivables were \$1,107.5 million (includes acquisition fees paid), \$739.7 million and \$1,004.2 million in 2021, 2020 and 2019, respectively.

Net cash used in financing activities for the year ended December 31, 2021 and 2020 was \$50.4 million and \$328.5 million, respectively. Net cash provided by financing activities for the years ended December 31, 2019 was \$23.3 million. Cash used or provided by financing activities is primarily related to the issuance of securitization trust debt, reduced by the amount of repayment of securitization trust debt and net proceeds or repayments on our warehouse lines of credit and other debt. We issued \$1,110.7 million in new securitization trust debt in 2021 compared to \$714.5 million in 2020 and \$1,000.5 million in 2019. Repayments of securitization debt were \$1,153.1 million, \$1,010.0 million and \$966.1 million in 2021, 2020 and 2019, respectively.

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

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

We are and may in the future be limited in our ability to purchase automobile contracts due to limits on our capital. As of December 31, 2021, we had unrestricted cash of \$29.9 million and \$94.0 million aggregate available borrowings under our two warehouse credit facilities (assuming the availability of sufficient eligible collateral). As of December 31, 2021, we had approximately \$71.3 million of such eligible collateral. During 2021, we completed four securitizations aggregating \$1,110.7 million of notes sold. Our plans to manage our liquidity include maintaining our rate of automobile contract purchases at a level that matches our available capital, and, as appropriate, minimizing our operating costs. If we are unable to complete such securitizations, we may be unable to increase our rate of automobile contract purchases, in which case our interest income and other portfolio related income could decrease.

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

Our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain of our debt agreements other than our term securitizations contain cross-default provisions. Such cross-default provisions would allow the respective creditors to declare a default if an event of default occurred with respect to other indebtedness of ours, but only if such other event of default were to be accompanied by acceleration of such other indebtedness. As of December 31, 2021, we were in compliance with all such financial covenants.

We currently have and will continue to have a substantial amount of indebtedness. At December 31, 2021, we had approximately \$1,945.7 million of debt outstanding. Such debt consisted primarily of \$1,760.0 million of securitization trust debt, and also included \$105.6 million of warehouse lines of credit, \$53.7 million of residual interest financing debt and \$26.4 million in subordinated renewable notes. We are also currently offering the subordinated renewable notes to the public on a continuous basis, and such notes have maturities that range from three months to five years.

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

Contractual Obligations

The following table summarizes our material contractual obligations as of December 31, 2021 (dollars in thousands):

	Payment Due by Period (1)				
	Total	Less than 1 Year	2 to 3 Years	4 to 5 Years	More than 5 Years
Long Term Debt (2)	\$ 26,459	\$ 12,002	\$ 7,216	\$ 5,672	\$ 1,569
Operating and Finance Leases	\$ 12,867	\$ 7,484	\$ 2,918	\$ 1,305	\$ 1,160

(1) Securitization trust debt, in the aggregate amount of \$1,760.0 million as of December 31, 2021, is omitted from this table because it becomes due as and when the related receivables balance is reduced by payments and charge-offs. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are \$687.9 million in 2022, \$621.2 million in 2023, \$150.6 million in 2024, \$167.0 million in 2025, \$92.1 million in 2026, and \$41.2 million in 2027.

(2) Long-term debt represents subordinated renewable notes.

We anticipate repaying debt due in 2022 with a combination of cash flows from operations and the potential issuance of new debt.

Warehouse Credit Facilities

The terms on which credit has been available to us for purchase of automobile contracts have varied in recent years, as shown in the following summary of our warehouse credit facilities:

Facility Established in May 2012. On May 11, 2012, we entered into a \$100 million one-year warehouse credit line with Citibank, N.A. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a credit facility to our consolidated subsidiary Page Eight Funding, LLC. The facility provides for effective advances up to 82.0% of eligible finance receivables. The loans under the facility accrue interest at one-month LIBOR plus 3.00% per annum, with a minimum rate of 3.75% per annum. In December 2020, this facility was amended to extend the revolving period to December 2022 and to include an amortization period through December 2023 for any receivables pledged to the facility at the end of the revolving period. At December 31, 2021 there was \$70.6 million outstanding under this facility.

Facility Established in April 2015. On April 17, 2015, we entered into an additional \$100 million one-year warehouse credit line with Fortress Investment Group. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a credit facility to our consolidated subsidiary Page Six Funding, LLC. The facility provides for effective advances up to 88.0% of eligible finance receivables. The loans under the facility accrue interest at one-month LIBOR plus 5.50% per annum, with a minimum rate of 6.50% per annum. In February 2019, this facility was amended to extend the revolving period to February 2021 followed by an amortization period through February 2023. In February 2021, we repaid this facility in full at its maturity date and elected not to renew it.

Facility Established in November 2015. On November 24, 2015, we entered into an additional \$100 million one-year warehouse credit line with affiliates of Credit Suisse Group and Ares Management LP. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a credit facility to our consolidated subsidiary Page Nine Funding, LLC. The facility provides for effective advances up to 88.0% of eligible finance receivables. The loans under the facility accrue interest at a commercial paper rate plus 4.00% per annum, with a minimum rate of 5.00% per annum. At December 31, 2021 there was \$35.4 million outstanding under this facility. In February 2022, this facility was amended to extend the revolving period to January 2024 followed by an amortization period through January 2028 for any receivables pledged to the facility at the end of the revolving period.

Capital Resources

Securitization trust debt is repaid from collections on the related receivables, and becomes due in accordance with its terms as the principal amount of the related receivables is reduced. Although the securitization trust debt also has alternative final maturity dates, those dates are significantly later than the dates at which repayment of the related receivables is anticipated, and at no time in our history have any of our sponsored asset-backed securities reached those alternative final maturities.

The acquisition of automobile contracts for subsequent transfer in securitization transactions, and the need to fund spread accounts and initial overcollateralization, if any, when those transactions take place, results in a continuing need for capital. The amount of capital required is most heavily dependent on the rate of our automobile contract purchases, the required level of initial credit enhancement in securitizations, and the extent to which the trusts and related spread accounts either release cash to us or capture cash from collections on securitized automobile contracts. We plan to adjust our levels of automobile contract purchases and the related capital requirements to match anticipated releases of cash from the trusts and related spread accounts.

Capitalization

Over the period from January 1, 2019 through December 31, 2021 we have managed our capitalization by issuing and refinancing debt as summarized in the following table:

	Year Ended December 31,		
	2021	2020	2019
	(Dollars in thousands)		
RESIDUAL INTEREST FINANCING:			
Beginning balance	\$ 25,426	\$ 39,478	\$ 39,106
Issuances	50,000	–	–
Payments	(21,265)	(14,424)	–
Capitalization of deferred financing costs	(755)	–	–
Amortization of deferred financing costs	276	372	372
Ending balance	<u>\$ 53,682</u>	<u>\$ 25,426</u>	<u>\$ 39,478</u>
SECURITIZATION TRUST DEBT:			
Beginning balance	\$ 1,803,673	\$ 2,097,728	\$ 2,063,627
Issuances	1,110,747	714,543	1,000,501
Payments	(1,153,114)	(1,009,988)	(966,144)
Capitalization of deferred financing costs	(7,058)	(4,862)	(6,808)
Amortization of deferred financing costs	5,724	6,252	6,552
Ending balance	<u>\$ 1,759,972</u>	<u>\$ 1,803,673</u>	<u>\$ 2,097,728</u>
SUBORDINATED RENEWABLE NOTES:			
Beginning balance	\$ 21,323	\$ 17,534	\$ 17,290
Issuances	12,298	6,750	5,764
Payments	(7,162)	(2,961)	(5,520)
Ending balance	<u>\$ 26,459</u>	<u>\$ 21,323</u>	<u>\$ 17,534</u>

Residual Interest Financing. On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. In this residual interest financing transaction, qualified institutional buyers purchased \$40.0 million of asset-backed notes secured by residual interests in thirteen CPS securitizations consecutively conducted from September 2013 through December 2016, and an 80% interest in a CPS affiliate that owns the residual interests in the four CPS securitizations conducted in 2017. The sold notes (“2018-1 Notes”), issued by CPS Auto Securitization Trust 2018-1, consist of a single class with a coupon of 8.595%. At December 31, 2021 there was \$4.3 million outstanding under this facility.

On June 30, 2021, we completed a \$50 million securitization of residual interests from other previously issued securitizations. In this residual interest financing transaction, qualified institutional buyers purchased \$50.0 million of asset-backed notes secured by residual interests in eleven CPS securitizations consecutively issued from January 2018 and September 2020. The sold notes (“2021-1 Notes”), issued by CPS Auto Securitization Trust 2021-1, consist of a single class with a coupon of 7.86%. At December 31, 2021 there was \$50.0 million outstanding under this facility.

The agreed valuation of the collateral for the 2018-1 and 2021-1 Notes is the sum of the amounts on deposit in the underlying spread accounts for each related securitization and the over-collateralization of each related securitization, which is the difference between the outstanding principal balances of the related receivables less the principal balance of the outstanding notes issued in the related securitization. On each monthly payment date, the 2018-1 Notes and the 2021-1 Notes are entitled to interest at the coupon rate and, if necessary, a principal payment necessary to maintain a specified minimum collateral ratio.

Securitization Trust Debt. Since 2011, we treated all 41 of our securitizations of automobile contracts as secured financings for financial accounting purposes, and the asset-backed securities issued in such securitizations remain on our consolidated balance sheet as securitization trust debt. We had \$1,760.0 million of securitization trust debt outstanding at December 31, 2021.

Subordinated Renewable Notes Debt. In June 2005, we began issuing registered subordinated renewable notes in an ongoing offering to the public. Upon maturity, the notes are automatically renewed for the same term as the maturing notes, unless we repay the notes or the investor notifies us within 15 days after the maturity date of his note that he wants it repaid. Renewed notes bear interest at the rate we are offering at that time to other investors with similar note maturities. Based on the terms of the individual notes, interest payments may be required monthly, quarterly, annually or upon maturity. At December 31, 2021 there were \$26.4 million of such notes outstanding.

We must comply with certain affirmative and negative covenants related to debt facilities, which require, among other things, that we maintain certain financial ratios related to liquidity, net worth, capitalization, investments, acquisitions, restricted payments and certain dividend restrictions. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare default if a default occurred under a different facility. As of December 31, 2021, we were in compliance with all such covenants.

Forward-looking Statements

This report on Form 10-K includes certain "forward-looking statements". Forward-looking statements may be identified by the use of words such as "anticipates," "expects," "plans," "estimates," or words of like meaning. As to the specifically identified forward-looking statements, factors that could affect charge-offs and recovery rates include unexpected exogenous events, such as a widespread plague that might affect the ability or willingness of obligors to pay pursuant to the terms of contracts; mandates imposed in reaction to such events, such as prohibitions of otherwise permissible activity, which might impair the obligation to perform contracts, or the ability of obligors to earn; changes in the general economic climate, which could affect the willingness or ability of obligors to pay pursuant to the terms of contracts; changes in laws respecting consumer finance, which could affect our ability to enforce rights under contracts; and changes in the market for used vehicles, which could affect the levels of recoveries upon sale of repossessed vehicles. Factors that could affect our revenues in the current year include the levels of cash releases from existing pools of contracts, which would affect our ability to purchase contracts, the terms on which we are able to finance such purchases, the willingness of dealers to sell contracts to us on the terms that it offers, and the terms on which we are able to complete term securitizations once contracts are acquired. Factors that could affect our expenses in the current year include competitive conditions in the market for qualified personnel, investor demand for asset-backed securities and interest rates (which affect the rates that we pay on asset-backed securities issued in our securitizations). The statements concerning structuring securitization transactions as secured financings and the effects of such structures on financial items and on future profitability also are forward-looking statements. Any change to the structure of our securitization transaction could cause such forward-looking statements to be inaccurate. Both the amount of the effect of the change in structure on our profitability and the duration of the period in which our profitability would be affected by the change in securitization structure are estimates. The accuracy of such estimates will be affected by the rate at which we purchase and sell contracts, any changes in that rate, the credit performance of such contracts, the financial terms of future securitizations, any changes in such terms over time, and other factors that generally affect our profitability.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are subject to interest rate risk during the period between when contracts are purchased from dealers and when such contracts become part of a term securitization. Specifically, the interest rate due on our warehouse credit facilities are adjustable while the interest rates on the contracts are fixed. Therefore, if interest rates increase, the interest we must pay to our lenders under warehouse credit facilities is likely to increase while the interest we receive from warehoused automobile contracts remains the same. As a result, excess spread cash flow would likely decrease during the warehousing period. Additionally, automobile contracts warehoused and then securitized during a rising interest rate environment may result in less excess spread cash flow to us. Historically, our securitization facilities have paid fixed rate interest to security holders set at prevailing interest rates at the time of the closing of the securitization, which may not take place until several months after we purchased those contracts. Our customers, on the other hand, pay fixed rates of interest on the automobile contracts, set at the time they purchase the underlying vehicles. A decrease in excess spread cash flow could adversely affect our earnings and cash flow.

To mitigate, but not eliminate, the short-term risk relating to interest rates payable under the warehouse facilities, we have historically held automobile contracts in the warehouse credit facilities for less than four months. To mitigate, but not eliminate, the long-term risk relating to interest rates payable by us in securitizations, we have structured our term securitization transactions to include pre-funding structures, whereby the amount of notes issued exceeds the amount of contracts initially sold to the trusts. We expect to continue to use pre-funding structures in our securitizations. In pre-funding, the proceeds from the pre-funded portion are held in an escrow account until we sell the additional contracts to the trust. In pre-funded securitizations, we lock in the borrowing costs with respect to the contracts we subsequently deliver to the securitization trust. However, we incur 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 notes outstanding. The amount of such expense may vary. Despite these mitigation strategies, an increase in prevailing interest rates would cause us to receive less excess spread cash flows on automobile contracts, and thus could adversely affect our earnings and cash flows.

Item 8. Financial Statements and Supplementary Data

This report includes Consolidated Financial Statements, notes thereto and an Independent Auditors' Report, at the pages indicated below, in the "Index to Financial Statements."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of December 31, 2021 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by us in reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. The certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act have been filed as Exhibits 31.1 and 31.2 to this report.

Internal Control. Management's Report on Internal Control over Financial Reporting is included in this Annual Report, immediately below. During the fiscal quarter ended December 31, 2021, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting. We are responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Management, with the participation of the Chief Executive and Chief Financial Officers, assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 2013 Internal Control — Integrated Framework. Based on this assessment, management, with the participation of the Chief Executive and Chief Financial Officers, believes that, as of December 31, 2021, our internal control over financial reporting is effective based on those criteria.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors and Executive Officers and Corporate Governance

Information regarding directors of the registrant is incorporated by reference to the registrant's definitive proxy statement for its annual meeting of shareholders to be held in 2022 (the "2022 Proxy Statement"). The 2022 Proxy Statement will be filed not later than April 30, 2022. Information regarding executive officers of the registrant appears in Part I of this report, and is incorporated herein by reference.

Item 11. Executive Compensation

Incorporated by reference to the 2022 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference to the 2022 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference to the 2022 Proxy Statement.

Item 14. Principal Accountant Fees and Services

Incorporated by reference to the 2022 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

The exhibits listed below are filed as part of this report, whether filed herewith or incorporated by reference to an exhibit filed with the report identified in the parentheses following the description of such exhibit. Unless otherwise indicated, each such identified report was filed by or with respect to the registrant.

<i>Exhibit Number</i>	<i>Description ("***" indicates compensatory plan or agreement.)</i>
3.1	Restated Articles of Incorporation (Exhibit 3.1 to Form 10-K filed March 31, 2009)
3.1.1	Certificate of Designation re Series B Preferred (Exhibit 3.1.1 to Form 8-K filed by the registrant on December 30, 2010)
3.2	Amended and Restated Bylaws (Exhibit 3.3 to Form 8-K filed December 3, 2021)
4.	Instruments defining the rights of holders of long-term debt of certain consolidated subsidiaries of the registrant are omitted pursuant to the exclusion set forth in subdivisions (b)(iv)(iii)(A) and (b) (v) of Item 601 of Regulation S-K (17 CFR 229.601). The registrant agrees to provide copies of such instruments to the United States Securities and Exchange Commission upon request.
4.1	Form of Indenture re Renewable Unsecured Subordinated Notes ("RUS Notes"). (Exhibit 4.1 to Form S-2, no. 333-121913)
4.2.1	Form of RUS Notes (Exhibit 4.2 to Form S-2, no. 333-121913)
4.3	Form of Indenture re additional Renewable Unsecured Subordinated Notes ("ARUS Notes") (Exhibit 4.1 to Form S-1, no. 333-168976)
4.3.1	Form of ARUS Notes (Exhibit 4.2 to Form S-1, no. 333-168976)
4.4	Supplement dated December 7, 2010 to Indenture re ARUS Notes (Exhibit 4.3 to Form S-1, no. 333-168976)
4.5	Supplement dated January 22, 2014 to Indenture re ARUS Notes (Exhibit 4.4 to Form S-1, no. 333-190766)

- 10.2 [1997 Long-Term Incentive Stock Plan](#) ("1997 Plan") (Exhibit 10.20 to Form S-2, no. 333-121913) **
- 10.2.1 [Form of Option Agreement under 1997 Plan](#) (Exhibit 10.2.1 to Form 10-K filed March 13, 2006) **
- 10.14 [2006 Long-Term Equity Incentive Plan as amended May 18, 2015](#) (Incorporated by reference to pages A-1 through A-10 of the definitive proxy statement filed by the registrant on April 27, 2015)**
- 10.14.1 [Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan](#) (Exhibit 10.14.1 to registrant's Form 10-K filed March 9, 2007)**
- 10.14.2 [Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan](#) (Exhibit 99.(D)(2) to registrant's Schedule TO filed November 12, 2009)**
- 10.14.3 [Form of Option Agreement under the 2006 Long-Term Equity Incentive Plan](#) (Exhibit 99.(D)(3) to registrant's Schedule TO filed November 12, 2009)**
- 14 [Registrant's Code of Ethics for Senior Financial Officers](#) (Exhibit 14 to Form 10-K filed March 13, 2006)
- 21 [List of subsidiaries of the registrant](#) (Exhibit 21 to Form 10-K filed March 16, 2020)
- 23.1 [Consent of Crowe LLP](#) (filed herewith)
- 31.1 [Rule 13a-14\(a\) certification by Chief Executive Officer](#) (filed herewith)
- 31.2 [Rule 13a-14\(a\) certification by Chief Financial Officer](#) (filed herewith)
- 32 [Section 1350 certification](#) (filed herewith)

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC. (registrant)

March 15, 2022

By: /s/ CHARLES E. BRADLEY, JR.
Charles E. Bradley, Jr., *President*

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

March 15, 2022

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

March 15, 2022

/s/ CHRIS A. ADAMS
Chris A. Adams, *Director*

March 15, 2022

/s/ LOUIS M. GRASSO
Lou Grasso, *Director*

March 15, 2022

/s/ WILLIAM W. GROUNDS
William W. Grounds, *Director*

March 15, 2022

/s/ WILLIAM B. ROBERTS
William B. Roberts, *Director*

March 15, 2022

/s/ GREGORY S. WASHER
Gregory S. Washer, *Director*

March 15, 2022

/s/ DANIEL S. WOOD
Daniel S. Wood, *Director*

March 15, 2022

/s/ JEFFREY P. FRITZ
Jeffrey P. Fritz, *Executive Vice President and Chief Financial Officer*
(Principal Accounting Officer)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Consumer Portfolio Services, Inc. and Subsidiaries
Las Vegas, Nevada

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Consumer Portfolio Services, Inc. and Subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph - Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Accounting for Loans at Fair Value

As described in Notes 1 and 12 to the consolidated financial statements, the Company carries all finance receivables acquired after 2017 at fair value on a recurring basis. The Company had \$1.7 billion in finance receivables that are carried at fair value, all of which are classified as level 3 fair values as they contain one or more inputs which are unobservable and significant to the fair value measurement. With assistance from an outside valuation expert, the Company used a level 3 fair value methodology for the fair value of finance receivables. The significant assumptions used by the Company to calculate the fair value of these financial receivables include the magnitude and timing of net charge-offs and the rate of amortization of the portfolio of finance receivables. These significant assumptions were based on the factors that market participants use in pricing similar receivables and are based on the best information available in the circumstances.

We identified the valuation of finance receivables carried at fair value as a critical audit matter as this estimate requires subjective auditor judgment. Our principal considerations in making this determination are (i) there was significant judgment and estimation by the Company in determining the assumptions to estimate fair value, which in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures related to the fair value of these finance receivables, and (ii) the audit effort involved professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Our primary audit procedures to address this critical audit matter included:

- Using an auditor employed valuation specialist to assist in testing the Company's estimate of fair value of the finance receivables. Testing included evaluation of certain management significant assumptions and, evaluating the appropriateness of the methodology including a recalculation of the model.
- Testing the completeness and accuracy of the underlying data used in the fair value of finance receivables estimate.

Allowance for Finance Credit Losses – Qualitative Factors Related to the CECL Reasonable and Supportable Forecasts

As described in Notes 1 and 3 to the financial statements, the Company has a gross receivables portfolio of \$232.4 million and a related allowance for finance credit losses (ACL) on loans of \$56.2 million for the year ended December 31, 2021. Management estimates the allowance using relevant information from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical loss experience for older receivables, aggregated into vintage pools based on the calendar quarter of origination is used to estimate expected losses for less seasoned quarterly vintage pools. This estimate is adjusted by certain qualitative factors that may impact future credit losses. The qualitative factors represent management's estimate of the impact of future losses.

The use of qualitative factors to adjust historical losses for management's forecast requires significant judgment. Management applies qualitative factors to adjust its estimation of the timing and amount losses to represent its future economic forecast. We identified auditing the reasonableness of qualitative factors used to create forecasts in its credit loss model as a critical audit matter as it involves especially subjective auditor judgment.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the appropriateness of the methodology for developing the forecast and qualitative factors.
- Testing the completeness and accuracy of data used in the calculation of qualitative factors.
- Evaluating the reasonableness of the forecasts.
- Inspecting and evaluating key assumptions and judgments used in developing the qualitative factors

/s/ CROWE LLP
Dallas, Texas
March 15, 2022

We have served as the Company's auditor since 2008.

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

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 29,928	\$ 13,466
Restricted cash and equivalents	146,620	130,686
Finance receivables measured at fair value	1,749,098	1,523,726
Finance receivables	232,390	492,133
Less: Allowance for finance credit losses	(56,206)	(80,790)
Finance receivables, net	176,184	411,343
Furniture and equipment, net	1,129	828
Deferred tax assets, net	19,575	28,512
Accrued interest receivable	2,269	5,017
Other assets	34,775	32,317
	<u>\$ 2,159,578</u>	<u>\$ 2,145,895</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	\$ 43,648	\$ 43,112
Warehouse lines of credit	105,610	118,999
Residual interest financing	53,682	25,426
Securitization trust debt	1,759,972	1,803,673
Subordinated renewable notes	26,459	21,323
	<u>1,989,371</u>	<u>2,012,533</u>
COMMITMENTS AND CONTINGENCIES		
Shareholders' Equity		
Preferred stock, \$1 par value; authorized 4,998,130 shares; none issued	-	-
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	-	-
Series B preferred stock, \$1 par value; authorized 1,870 shares; none issued	-	-
Common stock, no par value; authorized 75,000,000 shares; 21,143,764 and 22,737,342 shares issued and outstanding at December 31, 2021 and December 31, 2020, respectively	55,298	72,926
Retained earnings	116,531	69,007
Accumulated other comprehensive loss	(1,622)	(8,571)
	<u>170,207</u>	<u>133,362</u>
	<u>\$ 2,159,578</u>	<u>\$ 2,145,895</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2021	2020	2019
Revenues:			
Interest income	\$ 266,266	\$ 294,982	\$ 337,096
Mark to finance receivables measured at fair value	(4,417)	(29,528)	–
Other income	5,962	5,707	8,704
	<u>267,811</u>	<u>271,161</u>	<u>345,800</u>
Expenses:			
Employee costs	80,534	80,198	80,877
General and administrative	34,616	31,981	33,004
Interest	75,239	101,338	110,528
Provision for credit losses	(14,590)	14,113	85,773
Sales	16,876	14,206	17,893
Occupancy	7,715	7,421	7,487
Depreciation and amortization	1,675	1,784	1,076
	<u>202,065</u>	<u>251,041</u>	<u>336,638</u>
Income before income tax expense (benefit)	65,746	20,120	9,162
Income tax expense (benefit)	18,222	(1,557)	3,756
Net income	<u>\$ 47,524</u>	<u>\$ 21,677</u>	<u>\$ 5,406</u>
Earnings per share:			
Basic	\$ 2.11	\$ 0.96	\$ 0.24
Diluted	\$ 1.84	\$ 0.90	\$ 0.22
Number of shares used in computing earnings per share:			
Basic	22,562	22,611	22,416
Diluted	25,780	24,003	24,064

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2021	2020	2019
Net income	\$ 47,524	\$ 21,677	\$ 5,406
Other comprehensive income (loss); change in funded status of pension plan, net of \$2,851, \$55 and \$330 in tax for 2021, 2020 and 2019, respectively	6,949	(150)	(867)
Comprehensive income	<u>\$ 54,473</u>	<u>\$ 21,527</u>	<u>\$ 4,539</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Amount		Loss	
Balance at January 1, 2019	22,422	\$ 70,273	\$ 134,399	\$ (7,554)	\$ 197,118
Common stock issued upon exercise of options and warrants	488	352	-	-	352
Repurchase of common stock	(379)	(1,440)	-	-	(1,440)
Other comprehensive income (loss)	-	-	-	(867)	(867)
Stock-based compensation	-	2,072	-	-	2,072
Net income	-	-	5,406	-	5,406
Balance at December 31, 2019	<u>22,531</u>	<u>\$ 71,257</u>	<u>\$ 139,805</u>	<u>\$ (8,421)</u>	<u>\$ 202,641</u>
Adoption of ASC 326	-	-	(92,475)	-	(92,475)
Balance at January 1, 2020	22,531	71,257	47,330	(8,421)	110,166
Common stock issued upon exercise of options and warrants	558	949	-	-	949
Repurchase of common stock	(352)	(1,215)	-	-	(1,215)
Other comprehensive income (loss)	-	-	-	(150)	(150)
Stock-based compensation	-	1,935	-	-	1,935
Net income	-	-	21,677	-	21,677
Balance at December 31, 2020	<u>22,737</u>	<u>\$ 72,926</u>	<u>\$ 69,007</u>	<u>\$ (8,571)</u>	<u>\$ 133,362</u>
Common stock issued upon exercise of options and warrants	2,291	6,048	-	-	6,048
Repurchase of common stock	(3,884)	(25,676)	-	-	(25,676)
Other comprehensive income (loss)	-	-	-	6,949	6,949
Stock-based compensation	-	2,000	-	-	2,000
Net income	-	-	47,524	-	47,524
Balance at December 31, 2021	<u>21,144</u>	<u>\$ 55,298</u>	<u>\$ 116,531</u>	<u>\$ (1,622)</u>	<u>\$ 170,207</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,		
	2021	2020	2019
<i>Cash flows from operating activities:</i>			
Net income	\$ 47,524	\$ 21,677	\$ 5,406
Adjustments to reconcile net income to net cash provided by operating activities:			
Accretion of deferred acquisition fees and origination costs	651	1,138	1,757
Net interest income accretion on fair value receivables	134,020	133,771	90,383
Depreciation and amortization	1,675	1,784	1,076
Amortization of deferred financing costs	7,114	8,102	8,281
Mark to fair value of finance receivables measured at fair value	4,417	29,528	(2,109)
Provision for credit losses	(14,590)	14,113	85,773
Stock-based compensation expense	2,000	1,935	2,072
Changes in assets and liabilities:			
Accrued interest receivable	2,748	6,628	20,324
Other assets	(3,787)	2,713	7,464
Deferred tax assets, net	8,937	21,493	3,708
Accounts payable and accrued expenses	7,485	(4,115)	(7,351)
Net cash provided by operating activities	<u>198,194</u>	<u>238,767</u>	<u>216,784</u>
<i>Cash flows from investing activities:</i>			
Payments received on finance receivables held for investment	249,098	332,296	481,289
Purchases of finance receivables measured at fair value	(1,107,537)	(739,734)	(1,004,194)
Payments on receivables portfolio at fair value	743,728	496,747	292,948
Change in repossessions held in inventory	1,329	3,746	1,354
Purchase of furniture and equipment	(1,976)	(24)	(751)
Net cash provided by (used in) investing activities	<u>(115,358)</u>	<u>93,031</u>	<u>(229,354)</u>
<i>Cash flows from financing activities:</i>			
Proceeds from issuance of securitization trust debt	1,110,747	714,543	1,000,501
Proceeds from issuance of subordinated renewable notes	7,988	6,750	5,764
Payments on subordinated renewable notes	(2,852)	(2,961)	(5,520)
Net advances (repayments) of warehouse lines of credit	(14,503)	(16,271)	(1,300)
Net advances (repayments) of residual interest financing debt	28,735	(14,424)	-
Repayment of securitization trust debt	(1,153,114)	(1,009,988)	(966,144)
Payment of financing costs	(7,813)	(5,861)	(8,921)
Purchase of common stock	(25,676)	(1,215)	(1,440)
Exercise of options and warrants	6,048	949	352
Net cash provided by (used in) financing activities	<u>(50,440)</u>	<u>(328,478)</u>	<u>23,292</u>
Increase in cash and cash equivalents	<u>32,396</u>	<u>3,320</u>	<u>10,722</u>
Cash and cash equivalents at beginning of year	144,152	140,832	130,110
Cash and cash equivalents at end of year	<u>\$ 176,548</u>	<u>\$ 144,152</u>	<u>\$ 140,832</u>
<i>Supplemental disclosure of cash flow information:</i>			
Cash paid (received) during the period for:			
Interest	\$ 69,476	\$ 93,571	\$ 101,812
Income taxes	\$ 14,253	\$ (23,997)	\$ (5,156)
<i>Non-cash financing activities:</i>			
Right-of-use asset, net	\$ -	\$ -	\$ (21,869)
Lease liability	\$ -	\$ -	\$ 23,327
Deferred office rent	\$ -	\$ -	\$ (1,458)

See accompanying Notes to Consolidated Financial Statements.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Description of Business

Consumer Portfolio Services, Inc. ("CPS") was incorporated in California on March 8, 1991. CPS and its subsidiaries (collectively, the "Company") specialize in purchasing and servicing retail automobile installment sale contracts ("Contracts") originated by licensed motor vehicle dealers ("Dealers") located throughout the United States. Customers located in California, Ohio, Texas, Florida, Indiana, and Pennsylvania represented 10.9%, 9.3%, 6.1%, 5.0%, 5.0%, 4.6% and respectively, of contracts purchased during 2021 compared with 13.5%, 11.1%, 5.1%, 4.6%, 5.4%, and 3.4% respectively in 2020. No other state had a concentration in excess of 4.6% in 2021. We specialize in contracts with vehicle purchasers who generally would not be expected to qualify for traditional financing provided by commercial banks or automobile manufacturers' captive finance companies.

We are subject to various regulations and laws as they relate to the extension of credit in consumer credit transactions. Failure to comply with such laws and regulations could have a material adverse effect on the Company.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Consumer Portfolio Services, Inc. and its wholly-owned subsidiaries, certain of which are special purpose subsidiaries ("SPS"), formed to accommodate the structures under which we purchase and securitize our contracts. The Consolidated Financial Statements also include the accounts of CPS Leasing, Inc., an 80% owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of the statements of cash flows, we consider all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of cash on hand and due from banks and money market accounts. Substantially all of our cash is deposited at three financial institutions. We maintain cash due from banks in excess of the banks' insured deposit limits. We do not believe we are exposed to any significant credit risk on these deposits. As part of certain financial covenants related to debt facilities, we are required to maintain a minimum unrestricted cash balance. As of December 31, 2021, our unrestricted cash balance was \$29.9 million, which exceeded the minimum amounts required by our financial covenants.

Finance Receivables

Finance receivables, which we have the intent and ability to hold for the foreseeable future or until maturity or payoff, are presented at cost. All finance receivable contracts are held for investment. Interest income is accrued on the unpaid principal balance. Origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments. Generally, payments received on finance receivables are restricted to certain securitized pools, and the related contracts cannot be resold. Finance receivables are charged off pursuant to the controlling documents of certain securitized pools, generally as described below under Charge Off Policy. Management may authorize an extension of payment terms if collection appears likely during the next calendar month.

Our portfolio of finance receivables consists of small-balance homogeneous contracts that are collectively evaluated for impairment on a portfolio basis. We report delinquency on a contractual basis. Once a Contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the obligor under the Contract makes sufficient payments to be less than 90 days delinquent. Any payments received on a Contract that is greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Finance Receivables Measured at Fair Value

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

We re-evaluate the fair value of such receivables at the close of each measurement period. If the reevaluation were to yield a value materially different from the recorded value, an adjustment would be required. For the periods ended December 31, 2020 and 2021, the Company considered the effect of the pandemic on the portfolio of finance receivables carried at fair value and recorded a mark down to that portfolio of \$29.5 million and \$4.4 million, respectively.

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

Allowance for Finance Credit Losses

In order to estimate an appropriate allowance for losses likely incurred on finance receivables, we use a loss allowance methodology commonly referred to as "static pooling," which stratifies the finance receivable portfolio into separately identified pools based on their period of origination, then uses historical performance of seasoned pools to estimate future losses on current pools. Historical loss experience is adjusted as necessary for current economic conditions. We consider our portfolio of finance receivables to be relatively homogenous and consequently we analyze credit performance primarily in the aggregate rather than stratification by any particular credit quality indicator. Using analytical and formula driven techniques, we estimate an allowance for finance credit losses, which we believe is adequate for current expected credit losses that can be reasonably estimated in our portfolio of finance receivable contracts. Net losses incurred on finance receivables are charged to the allowance. We evaluate the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of the underlying collateral and historical loss trends. As conditions change, our level of provisioning and/or allowance may change.

Charge Off Policy

Delinquent contracts for which the related financed vehicle has been repossessed are generally charged off at the earliest of (1) the month in which the proceeds from the sale of the financed vehicle are received, (2) the month in which 90 days have passed from the date of repossession or (3) the month in which the Contract becomes seven scheduled payments past due (see Repossessed and Other Assets below). The amount charged off is the remaining principal balance of the Contract, after the application of the net proceeds from the liquidation of the financed vehicle. With respect to delinquent contracts for which the related financed vehicle has not been repossessed, the remaining principal balance is generally charged off no later than the end of the month that the Contract becomes five scheduled payments past due.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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Contract Acquisition Fees and Origination Costs

Upon purchase of a Contract from a Dealer, we generally either charge or advance the Dealer an acquisition fee. Dealer acquisition fees and deferred origination costs are applied to the recorded value of finance receivables and are accreted into earnings as an adjustment to the yield over the estimated life of the Contract using the interest method. However, for receivables measured at fair value, we do not record acquisition fees as an amortizing asset related to the receivables, nor do we capitalize costs of acquiring the receivables. Rather we recognize the costs of acquisition as expenses in the period incurred

Reposessed and Other Assets

If a Contract obligor fails to make or keep promises for payments, or if the obligor is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision is made between the 60th and 90th day past the obligor's payment due date, but could occur sooner or later, depending on the specific circumstances. At the time the vehicle is reposessed we stop accruing interest on the Contract, and reclassify the remaining Contract balance to the line item "Other Assets" on our Consolidated Balance Sheet at its estimated fair value less costs to sell. Included in other assets in the accompanying Consolidated Balance Sheets are reposessed vehicles pending sale of \$2.5 million and \$3.8 million at December 31, 2021 and 2020, respectively.

Treatment of Securitizations

Our term securitization structure has generally been as follows:

We sell contracts we acquire to a wholly-owned SPS, which has been established for the limited purpose of buying and reselling our contracts. The SPS then transfers the same contracts to another entity, typically a statutory trust ("Trust"). The Trust issues interest-bearing asset-backed securities ("Notes"), in a principal amount equal to or less than the aggregate principal balance of the contracts. We typically sell these contracts to the Trust at face value and without recourse, except representations and warranties that we make to the Trust that are similar to those provided to us by the Dealer. One or more investors (the "Noteholders") purchase the Notes issued by the Trust; the proceeds from the sale of the Notes are then used to purchase the contracts from us. We may retain or sell subordinated Notes issued by the Trust. In addition, we have provided "Credit Enhancement" for the benefit of the Noteholders in three forms: (1) an initial cash deposit to a bank account (a "Spread Account") held by the Trust, (2) overcollateralization of the Notes, where the principal balance of the Notes issued is less than the principal balance of the contracts, and (3) in the form of subordinated Notes. The agreements governing the securitization transactions (collectively referred to as the "Securitization Agreements") require that the initial level of Credit Enhancement be supplemented by a portion of collections from the contracts until the level of Credit Enhancement reaches specified levels, which are then maintained. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related contracts. The specified levels at which the Credit Enhancement is to be maintained will vary depending on the performance of the portfolios of contracts held by the Trusts and on other conditions. Such levels have increased and decreased from time to time based on performance of the various portfolios, and have also varied from one Trust to another.

Our warehouse securitization structures are similar to the above, except that (i) the SPS that purchases the contracts pledges the contracts to secure promissory notes or loans that it issues, and (ii) no increase in the required amount of Credit Enhancement is contemplated. Upon each sale of contracts in a securitization structured as a secured financing, we retain as assets on our Consolidated Balance Sheet the securitized contracts and record as indebtedness the Notes issued in the transaction.

We have the power to direct the most significant activities of the SPS. In addition, we have the obligation to absorb losses and the rights to receive benefits from the SPS, both of which could be potentially significant to the SPS. These types of securitization structures are treated as secured financings, in which the receivables remain on our Consolidated Balance Sheet, and the debt issued by the SPS is shown as a securitization trust debt on our Consolidated Balance Sheet.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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We receive periodic base servicing fees for the servicing and collection of the contracts. In addition, we are entitled to the cash flows from the Trusts that represent collections on the contracts in excess of the amounts required to pay principal and interest on the Notes, the base servicing fees, and certain other fees (such as trustee and custodial fees). Required principal payments on the Notes are generally defined as the payments sufficient to keep the principal balance of the Notes equal to the aggregate principal balance of the related contracts (excluding those contracts that have been charged off), or a pre-determined percentage of such balance. Where that percentage is less than 100%, the related Securitization Agreements require accelerated payment of principal until the principal balance of the Notes is reduced to the specified percentage. Such accelerated principal payment is said to create "overcollateralization" of the Notes.

If the amount of cash required for payment of fees, interest and principal on the senior Notes exceeds the amount collected during the collection period, the shortfall is generally withdrawn from the Spread Account, if any. If the cash collected during the period exceeds the amount necessary for the above allocations plus required principal payments on the subordinated Notes, if any, and there is no shortfall in the related Spread Account or other form of Credit Enhancement, the excess is released to us. If the total Credit Enhancement amount is not at the required level, then the excess cash collected is retained in the Trust until the specified level is achieved. Cash in the Spread Accounts is restricted from our use. Cash held in the various Spread Accounts is invested in high quality, liquid investment securities, as specified in the Securitization Agreements. In all of our term securitizations we have transferred the receivables (through a subsidiary) to the securitization Trust. We report the assets and liabilities of the securitization Trust on our Consolidated Balance Sheet. The Noteholders' and the related securitization Trusts' recourse against us for failure of the contract obligors to make payments on a timely basis is limited, in general, to our Finance Receivables, and Spread Accounts.

Servicing

We consider the contractual servicing fee received on our managed portfolio held by non-consolidated subsidiaries to be equal to adequate compensation. Additionally, we consider that these fees would fairly compensate a substitute servicer, should one be required. As a result, no servicing asset or liability has been recognized. Servicing fees received on the managed portfolio held by non-consolidated subsidiaries are reported as income when earned. Servicing fees received on the managed portfolio held by consolidated subsidiaries are included in interest income when earned. Servicing costs are charged to expense as incurred. Servicing fees receivable, which are included in Other Assets in the accompanying Consolidated Balance Sheets, represent fees earned but not yet remitted to us by the trustee.

Furniture and Equipment

Furniture and equipment are stated at cost net of accumulated depreciation. We calculate depreciation using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Assets held under capital leases and leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the related lease terms. Amortization expense on assets acquired under capital lease is included with depreciation expense on owned assets.

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

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Income

The following table presents the primary components of Other Income:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Direct mail revenues	\$ 3,391	\$ 3,312	\$ 4,659
Convenience fee revenue	590	1,490	2,440
Recoveries on previously charged-off contracts	115	111	158
Sales tax refunds	580	748	1,239
Other	1,286	46	208
Other income for the period	<u>\$ 5,962</u>	<u>\$ 5,707</u>	<u>\$ 8,704</u>

Earnings Per Share

Earnings per share were calculated using the weighted average number of shares outstanding for the related period. The following table illustrates the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands, except per share data)		
Numerator:			
Numerator for basic and diluted earnings per share	<u>\$ 47,524</u>	<u>\$ 21,677</u>	<u>\$ 5,406</u>
Denominator:			
Denominator for basic earnings per share			
- weighted average number of common shares outstanding during the year	22,562	22,611	22,416
Incremental common shares attributable to exercise of outstanding options and warrants	3,218	1,392	1,648
Denominator for diluted earnings per share	<u>25,780</u>	<u>24,003</u>	<u>24,064</u>
Basic earnings per share	<u>\$ 2.11</u>	<u>\$ 0.96</u>	<u>\$ 0.24</u>
Diluted earnings per share	<u>\$ 1.84</u>	<u>\$ 0.90</u>	<u>\$ 0.22</u>

Incremental shares of 5.7 million, 13.6 million and 11.3 million related to stock options and warrants have been excluded from the diluted earnings per share calculation for the years ended December 31, 2021, 2020 and 2019, respectively, because the effect is anti-dilutive.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferral and Amortization of Debt Issuance Costs

Costs related to the issuance of debt are deferred and amortized using the interest method over the contractual or expected term of the related debt. Unamortized debt issuance costs are presented as a direct deduction to the carrying amount of the related debt on our Consolidated Balance Sheets.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return and combined or stand-alone state franchise tax returns for certain states. We utilize the asset and liability method of accounting for income taxes, under which deferred income taxes are recognized for the future tax consequences attributable to the differences between the financial statement values of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. We estimate a valuation allowance against that portion of the deferred tax asset whose utilization in future periods is not more than likely.

Purchases of Company Stock

We record purchases of our own common stock at cost and treat the shares as retired.

Stock Option Plan

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, *Compensation—Stock Compensation*, that generally requires entities to recognize the cost of employee services received in exchange for awards of stock options, restricted stock or other equity instruments, based on the grant date fair value of those awards. Compensation cost is recognized for awards issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of income and expenses during the reported periods. These are material estimates that could be susceptible to changes in the near term and, accordingly, actual results could differ from those estimates.

Reclassification

Certain amounts for the prior year have been reclassified to conform to the current year's presentation with no effect on previously reported earnings or shareholders' equity.

Financial Covenants

Certain of our securitization transactions, our residual interest financing and our warehouse credit facilities contain various financial covenants requiring certain minimum financial ratios and results. Such covenants include maintaining minimum levels of liquidity and net worth and not exceeding maximum leverage levels. In addition, certain securitization and non-securitization related debt contain cross-default provisions that would allow certain creditors to declare a default if a default occurred under a different facility. As of December 31, 2021 we were in compliance with all such financial covenants.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Provision for Contingent Liabilities

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

We have recorded a liability as of December 31, 2021, which represents our estimate of the immaterial aggregate probable incurred losses for legal contingencies. The amount of losses that may ultimately be incurred, over and above such losses as are probable, cannot be estimated with certainty.

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Codification (“ASC”) Topic 326, which changes the criteria under which credit losses on financial instruments (such as the Company’s finance receivables) are measured. ASC 326 introduces a new credit reserving model known as the Current Expected Credit Loss (“CECL”) model, which replaces the incurred loss impairment methodology previously used under U.S. GAAP with a methodology that records currently the expected lifetime credit losses on financial instruments. To establish such lifetime credit loss estimates, consideration of a broadened range of reasonable and supportable information to establish credit loss estimates is required. ASC 326 was initially scheduled to become effective for interim and annual reporting periods beginning after December 15, 2019, however on October 16, 2019, the FASB changed the effective date for smaller reporting companies to interim and annual reporting periods beginning after December 15, 2022, with early adoption permitted.

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

Coronavirus Pandemic

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

Results for the year ended December 31, 2020 include the estimated potential effect on credit performance resulting from the uncertainty associated with the pandemic. We recorded a \$14.1 million charge to the provision for credit losses for the legacy portfolio accounted for under CECL and a \$29.5 million mark down to the recorded value of the finance receivables measured at fair value.

During the twelve-month period ended December 31, 2021, we recorded a reduction to provision for credit losses in the amount of \$14.6 million. The reserve decrease was primarily due to a decrease in lifetime expected credit losses resulting from improved credit performance. We measure our portfolio of finance receivables carried at fair value with consideration for unobservable inputs that reflect our own assumptions about the factors that market participants use in pricing similar receivables and are based on the best information available in the circumstances. They include such inputs as estimates for the magnitude and timing of net charge-offs and the rate of amortization of the portfolio. The pandemic and the adverse effect it may have on the U.S. economy and our obligors may cause us to consider significant changes in any of those inputs, which in turn may have a significant effect on our fair value measurement.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Restricted Cash

Restricted cash consists of cash and cash equivalent accounts relating to our outstanding securitization trusts and credit facilities. The amount of restricted cash on our Consolidated Balance Sheets was \$146.6 million and \$130.7 million as of December 31, 2021 and 2020, respectively.

Our securitization transactions and one of our warehouse credit facilities require that we establish cash reserves, or spread accounts, as additional credit enhancement. These cash reserves, which are included in restricted cash, were \$49.0 million and \$52.2 million as of December 31, 2021 and 2020, respectively.

(3) Finance Receivables

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

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

The following table presents the components of finance receivables, net of unearned interest:

	December 31,	
	2021	2020
Finance receivables	(In thousands)	
Automobile finance receivables, net of unearned interest	\$ 232,390	\$ 491,307
Unearned acquisition fees, discounts and deferred origination costs, net	-	826
Finance receivables	<u>\$ 232,390</u>	<u>\$ 492,133</u>

We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due, as extended where applicable. Automobile contracts less than 31 days delinquent are not reported as delinquent. In certain circumstances we will grant obligors one-month payment extensions. The only modification of terms is to advance the obligor's next due date by one month and extend the maturity date of the receivable by one month. In certain limited cases, a two-month extension may be granted. There are no other concessions, such as a reduction in interest rate, forgiveness of principal or of accrued interest. Accordingly, we consider such extensions to be insignificant delays in payments rather than troubled debt restructurings. The following table summarizes the delinquency status of finance receivables as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
Delinquency Status	(In thousands)	
Current	\$ 186,625	\$ 406,693
31 - 60 days	30,980	56,572
61 - 90 days	12,070	22,660
91 + days	2,715	5,382
	<u>\$ 232,390</u>	<u>\$ 491,307</u>

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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Finance receivables totaling \$2.7 million and \$5.4 million at December 31, 2021 and 2020, respectively, have been placed on non-accrual status as a result of their delinquency status.

Allowance for Credit Losses – Finance Receivables

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

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

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

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

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

In consideration of the depth and breadth of the historical period, and the homogeneity of our portfolio, we generally do not adjust historical loss information for differences in risk characteristics such as credit or structural composition of segments of the portfolio or for changes in environmental conditions such as changes in unemployment rates, collateral values or other factors. Throughout our history we have observed how events such as extreme weather, political unrest, and other qualitative factors have influenced the performance of our portfolio. Consequently, we have considered how such qualitative factors may affect future credit losses and have incorporated our judgement of the effect of those factors into our estimates.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the amortized cost basis of our finance receivables by annual vintage as of December 31, 2021 and 2020:

<u>Annual Vintage Pool</u>	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	<u>(In thousands)</u>	
2012 and prior	\$ 131	\$ 608
2013	1,091	4,483
2014	6,881	23,115
2015	29,695	78,457
2016	76,728	163,677
2017	117,864	220,967
	<u>\$ 232,390</u>	<u>\$ 491,307</u>

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

For the year ended December 31, 2021, we recorded a reduction to provision for credit losses on finance receivables in the amount of \$14.6 million. The reserve decrease was primarily due to a decrease in lifetime expected credit losses resulting from improved credit performance, an improved macroeconomic outlook and higher used car prices. The Company made additional provisions for credit losses of \$14.1 million for the year ended December 30, 2020. Those reserve increases were made in consideration for the uncertainty associated with the pandemic.

The following table presents a summary of the activity for the allowance for finance credit losses, for the years ended December 31, 2021, 2020 and 2019:

	<u>December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
	<u>(In thousands)</u>		
Balance at beginning of year	\$ 80,790	\$ 11,640	\$ 67,376
Impact of adopting ASC 326	n/a	127,000	n/a
Provision for credit losses on finance receivables	(14,590)	14,113	85,773
Charge-offs	(30,940)	(90,824)	(184,449)
Recoveries	20,946	18,861	42,940
Balance at end of year	<u>\$ 56,206</u>	<u>\$ 80,790</u>	<u>\$ 11,640</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Excluded from finance receivables are contracts that were previously classified as finance receivables but were reclassified as other assets because we have repossessed the vehicle securing the Contract. The following table presents a summary of such repossessed inventory together with the allowance for losses on repossessed inventory:

	December 31,	
	2021	2020
	(In thousands)	
Gross balance of repossessions in inventory	\$ 4,341	\$ 15,589
Allowance for losses on repossessed inventory	(1,871)	(11,790)
Net repossessed inventory included in other assets	<u>\$ 2,470</u>	<u>\$ 3,799</u>

(4) Furniture and Equipment

The following table presents the components of furniture and equipment:

	December 31,	
	2021	2020
	(In thousands)	
Furniture and fixtures	\$ 1,936	\$ 1,648
Computer and telephone equipment	5,216	4,672
Leasehold improvements	1,507	1,507
	8,659	7,827
Less: accumulated depreciation and amortization	(7,530)	(6,999)
	<u>\$ 1,129</u>	<u>\$ 828</u>

Depreciation expense totaled \$1,675,000, \$1,784,000, and \$1,076,000 for the years ended December 31, 2021, 2020 and 2019, respectively. There were \$21,000 in equipment disposals during the year ended December 31, 2021.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) *Securitization Trust Debt*

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

Series	Final Scheduled Payment Date (1)	Receivables Pledged at December 31, 2021 (2)	Initial Principal	Outstanding Principal at December 31, 2021	Outstanding Principal at December 31, 2020	Weighted Average Contractual Interest Rate at December 31, 2021
(Dollars in thousands)						
CPS 2015-B	September 2022	\$ –	\$ 250,000	\$ –	\$ 17,984	–
CPS 2015-C	December 2022	–	300,000	–	28,529	–
CPS 2016-A	March 2023	–	329,460	–	37,158	–
CPS 2016-B	June 2023	–	332,690	–	46,079	–
CPS 2016-C	September 2023	–	318,500	–	47,325	–
CPS 2016-D	April 2024	–	206,325	–	36,455	–
CPS 2017-A	April 2024	21,381	206,320	17,644	40,619	7.07%
CPS 2017-B	December 2023	27,922	225,170	12,491	39,016	5.75%
CPS 2017-C	September 2024	30,061	224,825	25,846	47,553	5.68%
CPS 2017-D	June 2024	30,994	196,300	26,744	49,297	4.95%
CPS 2018-A	March 2025	34,363	190,000	29,518	53,549	4.68%
CPS 2018-B	December 2024	42,054	201,823	36,092	66,955	5.10%
CPS 2018-C	September 2025	47,708	230,275	42,765	77,345	5.27%
CPS 2018-D	June 2025	58,204	233,730	49,634	88,228	5.12%
CPS 2019-A	March 2026	72,750	254,400	62,667	114,373	4.90%
CPS 2019-B	June 2026	72,683	228,275	61,730	118,982	4.61%
CPS 2019-C	September 2026	85,381	243,513	75,065	142,080	3.76%
CPS 2019-D	December 2026	109,469	274,313	98,625	181,485	3.20%
CPS 2020-A	March 2027	104,000	260,000	99,485	184,944	3.32%
CPS 2020-B	June 2027	110,962	202,343	87,048	164,403	4.58%
CPS 2020-C	November 2027	150,173	252,200	138,899	231,961	2.35%
CPS 2021-A	March 2028	162,217	230,545	147,516	–	0.97%
CPS 2021-B	June 2028	189,319	240,000	179,856	–	1.24%
CPS 2021-C	September 2028	264,525	291,000	250,003	–	1.11%
CPS 2021-D	December 2028	340,451	349,202	330,325	–	1.39%
		<u>\$ 1,954,617</u>	<u>\$ 6,271,209</u>	<u>\$ 1,771,953</u>	<u>\$ 1,814,320</u>	

(1) The Final Scheduled Payment Date represents final legal maturity of the securitization trust debt. Securitization trust debt is expected to become due and to be paid prior to those dates, based on amortization of the finance receivables pledged to the Trusts. Expected payments, which will depend on the performance of such receivables, as to which there can be no assurance, are \$687.9 million in 2022, \$621.2 million in 2023, \$150.6 million in 2024, \$167.0 million in 2025, \$92.1 million in 2026, and \$41.2 million in 2027.

(2) Includes repossessed assets that are included in Other Assets on our Consolidated Balance Sheets.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt issuance costs of \$12.0 million and \$10.6 million as of December 31, 2021 and December 31, 2020, respectively, have been excluded from the table above. These debt issuance costs are presented as a direct deduction to the carrying amount of the Securitization trust debt on our Consolidated Balance Sheets.

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

The terms of the various securitization agreements related to the issuance of the securitization trust debt require that certain delinquency and credit loss criteria be met with respect to the collateral pool, and require that we maintain minimum levels of liquidity and net worth and not exceed maximum leverage levels. We were in compliance with all such covenants as of December 31, 2021.

We are responsible for the administration and collection of the contracts. The securitization agreements also require certain funds be held in restricted cash accounts to provide additional credit enhancement for the Notes or to be applied to make payments on the securitization trust debt. As of December 31, 2021, restricted cash under the various agreements totaled approximately \$146.6 million. Interest expense on the securitization trust debt is composed of the stated rate of interest plus amortization of additional costs of borrowing. Additional costs of borrowing include facility fees, insurance premiums, amortization of deferred financing costs, and amortization of discounts required on the notes at the time of issuance. Deferred financing costs related to the securitization trust debt are amortized using the interest method. Accordingly, the effective cost of borrowing of the securitization trust debt is greater than the stated rate of interest.

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

(6) Debt

The terms of our debt outstanding at December 31, 2021 and 2020 are summarized below:

Description	Interest Rate	Maturity	Amount Outstanding at			
			December 31, 2021	December 31, 2020		
(In thousands)						
Warehouse lines of credit	5.50% over one month Libor (Minimum 6.50%)	N/A	\$	–	\$	42,558
	3.00% over one month Libor (Minimum 3.75%)	December 2022		70,590		45,689
	3.50% over a commercial paper rate (Minimum 4.50%)	January 2024		35,420		32,265
Residual interest financing	8.60%	January 2026		4,311		25,576
Residual interest financing	7.86%	June 2026		50,000		–
Subordinated renewable notes	Weighted average rate of 8.93% and 10.09% at December 31, 2021 and December 31, 2020, respectively	Weighted average maturity of January 2024 and January 2023 at December 31, 2021 and December 31, 2020, respectively		26,459		21,323
			\$	186,780	\$	167,411

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Debt issuance costs of \$400,000 and \$1.5 million as of December 31, 2021 and December 31, 2020, respectively, have been excluded from the table above. These debt issuance costs are presented as a direct deduction to the carrying amount of the Warehouse lines of credit and residual interest financing on our Consolidated Balance Sheets.

On May 11, 2012, we entered into a \$100 million one-year warehouse credit line with Citibank, N.A. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a credit facility to our consolidated subsidiary Page Eight Funding, LLC. The facility provides for effective advances up to 83.0% of eligible finance receivables. The loans under the facility accrue interest at one-month LIBOR plus 3.00% per annum, with a minimum rate of 3.75% per annum. In December 2020, this facility was amended to extend the revolving period to December 2022 and to include an amortization period through December 2023 for any receivables pledged to the facility at the end of the revolving period. At December 31, 2021 there was \$70.6 million outstanding under this facility.

On April 17, 2015, we entered into an additional \$100 million one-year warehouse credit line with Fortress Investment Group. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a credit facility to our consolidated subsidiary Page Six Funding, LLC. The facility provides for effective advances up to 88.0% of eligible finance receivables. The loans under the facility accrue interest at one-month LIBOR plus 5.50% per annum, with a minimum rate of 6.50% per annum. In February 2019, this facility was amended to extend the revolving period to February 2021 followed by an amortization period through February 2023 for any receivables pledged to the facility at the end of the revolving period.

On November 24, 2015, we entered into an additional \$100 million one-year warehouse credit line with affiliates of Credit Suisse Group and Ares Management LP. The facility is structured to allow us to fund a portion of the purchase price of automobile contracts by borrowing from a credit facility to our consolidated subsidiary Page Nine Funding, LLC. The facility provides for effective advances up to 88.0% of eligible finance receivables. The loans under the facility accrue interest at a commercial paper rate plus 4.00% per annum, with a minimum rate of 5.00% per annum. In December 2019, this facility was amended to extend the revolving period to December 2021 followed by an amortization period through December 2023 for any receivables pledged to the facility at the end of the revolving period. At December 31, 2021 there was \$35.4 million outstanding under this facility. In February 2021, we repaid this facility in full at its maturity date. This facility was most recently renewed in February 2022, extending the revolving period to January 2024, followed by an amortization period of January 2028.

The total outstanding debt on our three warehouse lines of credit was \$106.0 million as of December 31, 2021, compared to \$120.5 million outstanding as of December 31, 2020.

On May 16, 2018, we completed a \$40.0 million securitization of residual interests from previously issued securitizations. In this residual interest financing transaction, qualified institutional buyers purchased \$40.0 million of asset-backed notes secured by residual interests in thirteen CPS securitizations consecutively conducted from September 2013 through December 2016, and an 80% interest in a CPS affiliate that owns the residual interests in the four CPS securitizations conducted in 2017. The sold notes ("2018-1 Notes"), issued by CPS Auto Securitization Trust 2018-1, consist of a single class with a coupon of 8.595%. At December 31, 2021 there was \$4.3 million outstanding under this facility.

On June 30, 2021, we completed a \$50 million securitization of residual interests from previously issued securitizations. In this residual interest financing transaction, qualified institutional buyers purchased \$50.0 million of asset-backed notes secured by residual interests in eleven CPS securitizations consecutively issued from January 2018 and September 2020. The sold notes ("2021-1 Notes"), issued by CPS Auto Securitization Trust 2021-1, consist of a single class with a coupon of 7.86%. At December 31, 2021 there was \$50.0 million outstanding under this facility.

The agreed valuation of the collateral for the 2018-1 and 2021-1 Notes is the sum of the amounts on deposit in the underlying spread accounts for each related securitization and the over-collateralization of each related securitization, which is the difference between the outstanding principal balances of the related receivables less the principal balance of the outstanding notes issued in the related securitization. On each monthly payment date, the 2018-1 and 2021-1 Notes are entitled to interest at the coupon rate and, if necessary, a principal payment necessary to maintain a specified minimum collateral ratio.

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Unamortized debt issuance costs of \$629,000 and \$150,000 as of December 31, 2021 and December 31, 2020, respectively, have been excluded from the amount reported above for residual interest financing. These debt issuance costs are presented as a direct deduction to the carrying amount of the debt on our Consolidated Balance Sheets.

We must comply with certain affirmative and negative covenants related to debt facilities, which require, among other things, that we maintain certain financial ratios related to liquidity, net worth and capitalization. Further covenants include matters relating to investments, acquisitions, restricted payments and certain dividend restrictions. See the discussion of financial covenants in Note 1.

The following table summarizes the contractual and expected maturity amounts of our outstanding subordinated renewable notes as of December 31, 2021:

<u>Contractual maturity date</u>	<u>Subordinated renewable notes</u>
	(In thousands)
2022	\$ 12,002
2023	5,235
2024	1,981
2025	2,436
2026	3,236
Thereafter	1,569
Total	<u>\$ 26,459</u>

(7) Shareholders' Equity

Common Stock

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

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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Stock Purchases

For the year ending December 31, 2021, we purchased 3,884,876 shares of our common stock at an average price of \$6.61. In November and December 2021 our board of directors authorized the repurchase of up to \$13.68 million of our common stock. There is approximately \$7.2 million of board authorization remaining under such plans, which have no expiration date. The table below describes the purchase of our common stock for the twelve-month periods ended December 31, 2021 and 2020:

	Twelve Months Ended			
	December 31, 2021		December 31, 2020	
	Shares	Avg. Price	Shares	Avg. Price
Open market purchases	1,639,138	\$ 6.98	105,017	\$ 3.60
Shares redeemed upon net exercise of stock options	245,743	6.95	46,909	2.86
Other	1,999,995	6.26	200,000	3.51
Total stock purchases	<u>3,884,876</u>	<u>\$ 6.61</u>	<u>351,926</u>	<u>\$ 3.97</u>

Options and Warrants

In 2006, the Company adopted and its shareholders approved the CPS 2006 Long-Term Equity Incentive Plan (the "2006 Plan") pursuant to which our Board of Directors, or a duly-authorized committee thereof, may grant stock options, restricted stock, restricted stock units and stock appreciation rights to our employees or employees of our subsidiaries, to directors of the Company, and to individuals acting as consultants to the Company or its subsidiaries. In June 2008, May 2012, April 2013, May 2015, July 2018 and again in November 2021, the shareholders of the Company approved an amendment to the 2006 Plan to increase the maximum number of shares that may be subject to awards under the 2006 Plan to 5,000,000, 7,200,000, 12,200,000, 17,200,000, 19,200,000 and 22,200,000, respectively, in each case plus shares authorized under prior plans and not issued. Options that have been granted under the 2006 Plan and a previous plan approved in 1997 have been granted at an exercise price equal to (or greater than) the stock's fair value at the date of the grant, with terms generally of 7-10 years and vesting generally over 4-5 years.

The per share weighted-average fair value of stock options granted during the years ended December 31, 2021, 2020 and 2019 was \$2.65, \$1.33 and \$1.11, respectively. That fair value was estimated using a binomial option pricing model using the weighted average assumptions noted in the following table. We use historical data to estimate the expected term of each option. The volatility estimate is based on the historical and implied volatility of our stock over the period that equals the expected life of the option. Volatility assumptions ranged from 79% to 71% for 2021, 72% to 80% for 2020, and 37% to 39% for 2019. The risk-free interest rate is based on the yield on a U.S. Treasury bond with a maturity comparable to the expected life of the option. The dividend yield is estimated to be zero based on our intention not to issue dividends for the foreseeable future.

	Year Ended December 31,		
	2021	2020	2019
Expected life (years)	4.00	4.01	4.02
Risk-free interest rate	0.49%	0.25%	1.53%
Volatility	72%	73%	37%
Expected dividend yield	—	—	—

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021, 2020 and 2019, we recorded stock-based compensation costs in the amount of \$2.0 million, \$1.9 million and \$2.1 million, respectively. As of December 31, 2021, the unrecognized stock-based compensation costs to be recognized over future periods was equal to \$4.9 million. This amount will be recognized as expense over a weighted-average period of 2.3 years.

At December 31, 2021 and 2020, options outstanding had intrinsic values of \$13.1 million and \$11.9 million, respectively. At December 31, 2021 and 2020, options exercisable had intrinsic values of \$9.7 million and \$8.2 million, respectively. The total intrinsic value of options exercised was \$9.0 million and \$1.0 million for the years ended December 31, 2021 and 2020, respectively. New shares were issued for all options exercised during the year ended December 2021 and cash of \$6.0 million was received. At December 31, 2021, there were a total of 3,881,000 additional shares available for grant under the 2006 Plan.

Stock option activity for the year ended December 31, 2021 for stock options under the 2006 and 1997 plans is as follows:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Options outstanding at the beginning of period	15,977	\$ 4.46	N/A
Granted	1,460	4.95	N/A
Exercised	(2,291)	2.64	N/A
Forfeited/Expired	(2,071)	6.31	N/A
Options outstanding at the end of period	<u>13,075</u>	<u>\$ 4.54</u>	<u>2.85 years</u>
Options exercisable at the end of period	<u>9,685</u>	<u>\$ 4.80</u>	<u>1.89 years</u>

The following table presents the price distribution of stock options outstanding and exercisable for the years ended December 31, 2021 and 2020:

	Number of shares as of December 31, 2021		Number of shares as of December 31, 2020	
	Outstanding	Exercisable	Outstanding	Exercisable
Range of exercise prices:	(In thousands)		(In thousands)	
\$0.95 - \$1.99	577	577	1,904	1,904
\$2.00 - \$2.99	1,517	489	1,570	180
\$3.00 - \$3.99	4,285	3,382	4,973	3,306
\$4.00 - \$4.99	2,870	1,410	1,540	1,217
\$5.00 - \$5.99	-	-	-	-
\$6.00 - \$6.99	2,651	2,652	4,770	4,770
\$7.00 - \$7.99	<u>1,175</u>	<u>1,175</u>	<u>1,220</u>	<u>1,220</u>
Total shares	<u>13,075</u>	<u>9,685</u>	<u>15,977</u>	<u>12,597</u>

We did not issue any stock options with an exercise price above or below the market price of the stock on the grant date for the years ended December 31, 2021, 2020 and 2019.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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(8) Interest Income and Interest Expense

The following table presents the components of interest income:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Interest on finance receivables	\$ 69,783	\$ 126,043	\$ 211,138
Interest on finance receivables at fair value	196,461	168,266	123,059
Mark to finance receivables measured at fair value	(4,417)	(29,528)	–
Other interest income	22	673	2,899
Interest income	<u>\$ 261,849</u>	<u>\$ 265,454</u>	<u>\$ 337,096</u>

The following table presents the components of interest expense:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Securitization trust debt	\$ 64,387	\$ 88,031	\$ 96,870
Warehouse lines of credit	4,448	7,678	8,402
Residual interest financing	3,763	3,454	3,822
Subordinated renewable notes	2,641	2,175	1,434
Interest expense	<u>\$ 75,239</u>	<u>\$ 101,338</u>	<u>\$ 110,528</u>

(9) Income Taxes

Income taxes consist of the following:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Current federal tax expense	\$ 8,992	\$ (23,576)	\$ (574)
Current state tax expense	2,845	472	105
Deferred federal tax expense	3,012	18,937	2,759
Deferred state tax expense	3,373	2,610	1,466
Income tax expense	<u>\$ 18,222</u>	<u>\$ (1,557)</u>	<u>\$ 3,756</u>

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

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Income tax expense for the years ended December 31, 2021, 2020 and 2019 differs from the amount determined by applying the statutory federal rate to income before income taxes as follows:

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Expense at federal tax rate	\$ 13,807	\$ 4,225	\$ 1,924
State taxes, net of federal income tax effect	3,974	1,505	1,027
Stock-based compensation	(947)	35	169
Non-deductible expenses	1,129	974	856
Net operating loss carryback	(1,694)	(9,435)	–
Effect of change in tax rate	–	–	–
Accounting method change	–	–	–
Other	1,953	1,139	(220)
	<u>\$ 18,222</u>	<u>\$ (1,557)</u>	<u>\$ 3,756</u>

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was adopted, providing wide ranging economic relief for individuals and businesses. One component of the CARES Act provides the Company with an opportunity to carry back net operating losses (“NOLs”) arising from 2018, 2019 and 2020 to the prior five tax years. The Company has such NOLs reflected on its balance sheet as a portion of deferred tax assets. The Company has previously valued its NOLs at the federal corporate income tax rate of 21%. However, the provisions of the CARES Act provide for NOL carryback claims to be calculated based on a rate of 35%, which was the federal corporate tax rate in effect for the carryback years. Consequently, the Company has revalued the benefit from its NOLs to reflect a 35% tax rate. The result of the revaluation of NOLs and other tax adjustments is a net tax benefit reflected in income taxes of \$680,000 and \$8.8 million respectively, for the years ended December 31, 2021 and 2020.

The tax effected cumulative temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2021 and 2020 are as follows:

	December 31,	
	2021	2020
	(In thousands)	
Deferred Tax Assets:		
Finance receivables	\$ 10,644	\$ 10,930
Accrued liabilities	1,694	541
NOL carryforwards	2,070	7,470
Built in losses	2,679	3,312
Pension accrual	–	1,745
Stock compensation	3,584	4,463
Lease liability	2,737	3,843
Other	–	46
Total deferred tax assets	<u>23,408</u>	<u>32,350</u>
Deferred Tax Liabilities:		
Finance receivables	\$ –	\$ –
Deferred loan costs	–	(205)
Pension accrual	(1,026)	–
Lease right-of-use assets	(2,487)	(3,517)
Furniture and equipment and other	(320)	(116)
Total deferred tax liabilities	<u>(3,833)</u>	<u>(3,838)</u>
Net deferred tax asset	<u>\$ 19,575</u>	<u>\$ 28,512</u>

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We acquired certain net operating losses and built-in loss assets as part of our acquisitions of MFN Financial Corp. (“MFN”) in 2002 and TFC Enterprises, Inc. (“TFC”) in 2003. Moreover, both MFN and TFC have undergone an ownership change for purposes of Internal Revenue Code (“IRC”) Section 382. In general, IRC Section 382 imposes an annual limitation on the ability of a loss corporation (that is, a corporation with a net operating loss (“NOL”) carryforward, credit carryforward, or certain built-in losses (“BILs”)) to utilize its pre-change NOL carryforwards or BILs to offset taxable income arising after an ownership change.

In determining the possible future realization of deferred tax assets, we have considered future taxable income from the following sources: (a) reversal of taxable temporary differences; and (b) tax planning strategies that, if necessary, would be implemented to accelerate taxable income into years in which net operating losses might otherwise expire.

Deferred tax assets are recognized subject to management’s judgment that realization is more likely than not. A valuation allowance is recognized for a deferred tax asset if, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. In making such judgements, significant weight is given to evidence that can be objectively verified. Although realization is not assured, we believe that the realization of the recognized net deferred tax asset of \$19.6 million as of December 31, 2021 is more likely than not based on forecasted future net earnings. Our net deferred tax asset of \$19.6 million consists of approximately \$12.2 million of net U.S. federal deferred tax assets and \$7.4 million of net state deferred tax assets.

As of December 31, 2021, we had net operating loss carryforwards for state income tax purposes of \$42.4 million. These state net operating losses begin to expire in 2024.

We recognize a tax position as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. We recognize potential interest and penalties related to unrecognized tax benefits as income tax expense. At December 31, 2021, we had no unrecognized tax benefits for uncertain tax positions.

We are subject to taxation in the US and various state jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state, or local examinations by tax authorities for years before 2018.

(10) Commitments and Contingencies

Leases

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

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

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

	December 31, 2021	December 31, 2020
	(In thousands)	
Operating Leases		
Operating lease right-of-use assets	\$ 25,819	\$ 23,735
Less: Accumulated amortization right-of-use assets	(17,624)	(12,792)
Operating lease right-of-use assets, net	<u>\$ 8,195</u>	<u>\$ 10,943</u>
Operating lease liabilities	\$ (9,058)	\$ (12,096)
Finance Leases		
Property and equipment, at cost	\$ 3,407	\$ 3,407
Less: Accumulated depreciation	(2,348)	(1,226)
Property and equipment, net	<u>\$ 1,059</u>	<u>\$ 2,181</u>
Finance lease liabilities	\$ (1,124)	\$ (2,243)
Weighted Average Discount Rate		
Operating lease	5.0%	5.0%
Finance lease	6.5%	6.5%

Maturities of lease liabilities were as follows:

(In thousands) Year Ending December 31,	Operating Lease	Finance Lease
2022	\$ 6,434	\$ 1,050
2023	1,888	84
2024	920	26
2025	795	9
2026	501	-
Thereafter	1,160	-
Total undiscounted lease payments	<u>11,698</u>	<u>1,169</u>
Less amounts representing interest	(2,640)	(45)
Lease Liability	<u>\$ 9,058</u>	<u>\$ 1,124</u>

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

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Operating lease cost	\$ 7,184	\$ 7,523	\$ 7,521
Finance lease cost	1,229	1,179	160
Total lease cost	<u>\$ 8,413</u>	<u>\$ 8,702</u>	<u>\$ 7,681</u>

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

	Year Ended December 31,		
	2021	2020	2019
	(In thousands)		
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 7,474	\$ 7,762	\$ 7,584
Operating cash flows from finance leases	1,118	1,007	133
Financing cash flows from finance leases	\$ 111	\$ 172	\$ 27

Legal Proceedings

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

For the most part, we have legal and factual defenses to consumer claims, which we routinely contest or settle (for immaterial amounts) depending on the particular circumstances of each case. There are as of the date of this report two civil actions that could possibly result in a material liability, if resolved adversely and on a class basis, as the respective plaintiffs allege would be appropriate.

Following our filing of a complaint for a deficiency judgment in the Superior Court at Waterbury, Connecticut, the defendant filed a cross-claim alleging that our deficiency notices were not compliant with Connecticut law, and seeking relief on behalf of a class of Connecticut obligors whose vehicles we had repossessed.

The defendant's contract provided for resolution of disputes exclusively by arbitration, and exclusively on an individual basis, not a class basis. Nevertheless, in August 2021, the court denied our motion to compel arbitration, without opinion. As of the date of this report, no motion for certification of a class has been filed or granted; however, it would be reasonable to expect that resolution of these claims will be on a class basis.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

In General. There can be no assurance as to the outcomes of the matters described or referenced above. We record at each measurement date, most recently as of December 31, 2021, our best estimate of probable incurred losses for legal contingencies, including the matters identified above, and consumer claims. The amount of losses that may ultimately be incurred cannot be estimated with certainty. However, based on such information as is available to us, we believe that the total of probable incurred losses for legal contingencies as of December 31, 2021 is \$3.4 million, and that the range of reasonably possible losses for the legal proceedings and contingencies we face, including those described or identified above, as of December 31, 2021 does not exceed \$11.3 million.

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

(11) Employee Benefits

We sponsor a pretax savings and profit sharing plan (the “401(k) Plan”) qualified under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, eligible employees are able to contribute up to the maximum allowed under the law. We may, at our discretion, match 100% of employees’ contributions up to \$2,000 per employee per calendar year. Our matching contributions to the 401(k) Plan were \$1.3 million, \$1.4 million, and \$1.6 million respectively, for the years ended December 31, 2021, 2020 and 2019.

We also sponsor a defined benefit plan, the MFN Financial Corporation Pension Plan (the “Plan”). The Plan benefits were frozen on June 30, 2001.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables represents a reconciliation of the change in the plan's benefit obligations, fair value of plan assets, and funded status at December 31, 2021 and 2020:

	December 31,	
	2021	2020
(In thousands)		
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of year	\$ 24,678	\$ 22,997
Interest cost	553	693
Assumption changes	(1,074)	2,418
Actuarial (gain) loss	(222)	(89)
Settlements	(865)	-
Benefits paid	(790)	(1,341)
Projected benefit obligation, end of year	\$ 22,280	\$ 24,678
Change in Plan Assets		
Fair value of plan assets, beginning of year	\$ 18,165	\$ 15,910
Return on assets	8,703	2,775
Employer contribution	1,124	1,161
Expenses	(239)	(340)
Settlements	(865)	-
Benefits paid	(790)	(1,341)
Fair value of plan assets, end of year	\$ 26,098	\$ 18,165
Funded Status at end of year	\$ 3,818	\$ (6,513)

Additional Information

Weighted average assumptions used to determine benefit obligations and cost at December 31, 2021 and 2020 were as follows:

	December 31	
	2021	2020
Weighted average assumptions used to determine benefit obligations		
Discount rate	2.65%	2.28%
Weighted average assumptions used to determine net periodic benefit cost		
Discount rate	2.28%	3.07%
Expected return on plan assets	7.25%	7.25%

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Our overall expected long-term rate of return on assets is 7.25% per annum as of December 31, 2021. The expected long-term rate of return is based on the weighted average of historical returns on individual asset categories, which are described in more detail below.

	December 31,		
	2021	2020	2019
(In thousands)			
Amounts recognized on Consolidated Balance Sheet			
Other assets	\$ 3,818	\$ –	\$ –
Other liabilities	–	(6,513)	(7,087)
Net amount recognized	<u>\$ 3,818</u>	<u>\$ (6,513)</u>	<u>\$ (7,087)</u>
Amounts recognized in accumulated other comprehensive loss consists of:			
Net loss	\$ 3,794	\$ 13,297	\$ 13,092
Unrecognized transition asset	–	–	–
Net amount recognized	<u>\$ 3,794</u>	<u>\$ 13,297</u>	<u>\$ 13,092</u>
Components of net periodic benefit cost			
Interest cost	\$ 553	\$ 693	\$ 808
Expected return on assets	(1,301)	(1,150)	(1,012)
Amortization of transition asset	–	–	–
Amortization of net loss	896	839	376
Net periodic benefit cost	148	382	172
Settlement (gain)/loss	(865)	–	–
Total	<u>\$ (717)</u>	<u>\$ 382</u>	<u>\$ 172</u>
Benefit Obligation Recognized in Other Comprehensive Loss (Income)			
Net loss (gain)	\$ (9,503)	\$ 205	\$ 1,197
Prior service cost (credit)	–	–	–
Amortization of prior service cost	–	–	–
Net amount recognized in other comprehensive loss (income)	<u>\$ (9,503)</u>	<u>\$ 205</u>	<u>\$ 1,197</u>

The estimated net gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2022 is \$1.2 million.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The weighted average asset allocation of our pension benefits at December 31, 2021 and 2020 were as follows:

Weighted Average Asset Allocation at Year-End	December 31,	
	2021	2020
Asset Category		
Equity securities	78%	82%
Debt securities	22%	18%
Cash and cash equivalents	0%	0%
Total	100%	100%

Our investment policies and strategies for the pension benefits plan utilize a target allocation of 75% equity securities and 25% fixed income securities (excluding Company stock). Our investment goals are to maximize returns subject to specific risk management policies. We address risk management and diversification by the use of a professional investment advisor and several sub-advisors which invest in domestic and international equity securities and domestic fixed income securities. Each sub-advisor focuses its investments within a specific sector of the equity or fixed income market. For the sub-advisors focused on the equity markets, the sectors are differentiated by the market capitalization, the relative valuation and the location of the underlying issuer. For the sub-advisors focused on the fixed income markets, the sectors are differentiated by the credit quality and the maturity of the underlying fixed income investment. The investments made by the sub-advisors are readily marketable and can be sold to fund benefit payment obligations as they become payable.

Cash Flows

Estimated Future Benefit Payments (In thousands)

2022	\$	904
2023		934
2024		957
2025		989
2026		1,034
Years 2027 - 2031		5,605
Anticipated Contributions in 2022	\$	-

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of plan assets at December 31, 2021 and 2020, by asset category, is as follows:

Investment Name:	December 31, 2021			Total
	Level 1 (1)	Level 2 (2)	Level 3 (3)	
	(in thousands)			
Company Common Stock	\$ 10,472	\$ –	\$ –	\$ 10,472
Large Cap Value	–	2,933	–	2,933
Mid Cap Index	–	836	–	836
Small Cap Growth	–	714	–	714
Small Cap Value	–	868	–	868
Large Cap Blend	–	859	–	859
Growth	–	2,915	–	2,915
International Growth	–	3,036	–	3,036
Core Bond	–	2,316	–	2,316
High Yield	–	473	–	473
Inflation Protected Bond	–	641	–	641
Money Market	–	35	–	35
Total	<u>\$ 10,472</u>	<u>\$ 15,626</u>	<u>\$ –</u>	<u>\$ 26,098</u>

Investment Name:	December 31, 2020			Total
	Level 1 (1)	Level 2 (2)	Level 3 (3)	
	(in thousands)			
Company Common Stock	\$ 3,811	\$ –	\$ –	\$ 3,811
Large Cap Value	–	2,523	\$ –	2,523
Mid Cap Index	–	757	–	757
Small Cap Growth	–	765	–	765
Small Cap Value	–	785	–	785
Large Cap Blend	–	691	–	691
Growth	–	2,342	–	2,342
International Growth	–	3,003	–	3,003
Core Bond	–	1,809	–	1,809
High Yield	–	381	–	381
Inflation Protected Bond	–	485	–	485
Money Market	–	813	\$ –	813
Total	<u>\$ 3,811</u>	<u>\$ 14,354</u>	<u>\$ –</u>	<u>\$ 18,165</u>

- (1) Company common stock is classified as level 1 and valued using quoted prices in active markets for identical assets.
- (2) All other plan assets in stock, bond and money market funds are classified as level 2 and valued using significant observable inputs.
- (3) There are no plan assets classified as level 3 in the fair value hierarchy as a result of having significant unobservable inputs.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) Fair Value Measurements

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

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

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

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

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

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

	Twelve Months Ended	
	December 31,	
	2021	2020
	(In thousands)	
Balance at beginning of period	\$ 1,523,726	\$ 1,444,038
Finance receivables at fair value acquired during period	1,107,537	739,734
Payments received on finance receivables at fair value	(743,728)	(496,747)
Net interest income accretion on fair value receivables	(134,020)	(133,771)
Mark to fair value	(4,417)	(29,528)
Balance at end of period	<u>\$ 1,749,098</u>	<u>\$ 1,523,726</u>

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	December 31, 2021		December 31, 2020	
	Contractual Balance	Fair Value	Contractual Balance	Fair Value
(In thousands)				
Finance receivables measured at fair value	\$ 1,972,699	\$ 1,749,098	\$ 1,668,076	\$ 1,523,726

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

Financial Instrument	Fair Values as of		Unobservable Inputs	Inputs as of	
	December 31, 2021	December 31, 2020		December 31, 2021	December 31, 2020
(In thousands)					
Assets:					
Finance receivables measured at fair value	\$ 1,749,098	\$ 1,523,726	Discount rate	10.6% - 11.3%	10.4% - 11.1%
			Cumulative net losses	10.0% - 18.4%	15.3% - 18.4%

The following table summarizes the delinquency status using the contractual balance of these finance receivables measured at fair value as of December 31, 2021 and December 31, 2020:

Delinquency Status	December 31, 2021	December 31, 2020
	(In thousands)	
Current	\$ 1,787,641	\$ 1,505,486
31 - 60 days	115,924	96,296
61 - 90 days	38,999	36,436
91 + days	11,564	9,607
Repo	18,571	20,251
	<u>\$ 1,972,699</u>	<u>\$ 1,668,076</u>

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Repossessed vehicle inventory, which is included in Other assets on our consolidated balance sheet, is measured at fair value using level 2 assumptions based on our actual loss experience on sale of repossessed vehicles. At December 31, 2021, the finance receivables related to the repossessed vehicles in inventory totaled \$4.3 million. We have applied a valuation adjustment, or loss allowance, of \$1.9 million, which is based on a recovery rate of approximately 57%, resulting in an estimated fair value and carrying amount of \$2.4 million. The fair value and carrying amount of the repossessed inventory at December 31, 2020 was \$3.8 million after applying a valuation adjustment of \$11.8 million.

There were no transfers in or out of level 1 or level 2 assets and liabilities for 2021 and 2020. We have no level 3 assets or liabilities that are measured at fair value on a non-recurring basis.

The estimated fair values of financial assets and liabilities at December 31, 2021 and 2020, were as follows:

<u>Financial Instrument</u>	As of December 31, 2021				
	Carrying Value	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 29,928	\$ 29,928	\$ –	\$ –	\$ 29,928
Restricted cash and equivalents	146,620	146,620	–	–	146,620
Finance receivables, net	176,184	–	–	178,795	178,795
Accrued interest receivable	2,269	–	–	2,269	2,269
Liabilities:					
Warehouse lines of credit	\$ 105,610	\$ –	\$ –	\$ 105,610	\$ 105,610
Accrued interest payable	3,568	–	–	3,568	3,568
Securitization trust debt	1,759,972	–	–	1,740,901	1,740,901
Subordinated renewable notes	26,459	–	–	26,459	26,459

<u>Financial Instrument</u>	As of December 31, 2020				
	Carrying Value	Fair Value Measurements Using:			Total
		Level 1	Level 2	Level 3	
Assets:					
Cash and cash equivalents	\$ 13,466	\$ 13,466	\$ –	\$ –	\$ 13,466
Restricted cash and equivalents	130,686	130,686	–	–	130,686
Finance receivables, net	411,343	–	–	429,972	429,972
Accrued interest receivable	5,017	–	–	5,017	5,017
Liabilities:					
Warehouse lines of credit	\$ 118,999	\$ –	\$ –	\$ 118,999	\$ 118,999
Accrued interest payable	4,919	–	–	4,919	4,919
Securitization trust debt	1,803,673	–	–	1,862,630	1,862,630
Subordinated renewable notes	21,323	–	–	21,323	21,323

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13) Subsequent Events

On February 2, 2022 we executed our first securitization of 2022. In the transaction, qualified institutional buyers purchased \$316.8 million of asset-backed notes secured by \$330.0 million in automobile receivables originated by CPS. The sold notes, issued by CPS Auto Receivables Trust 2022-A, consist of five classes. Ratings of the notes were provided by Standard & Poor's and DBRS Morningstar, and were based on the structure of the transaction, the historical performance of similar receivables and CPS's experience as a servicer. The weighted average yield on the notes is approximately 2.54%.

The 2022-A transaction has initial credit enhancement consisting of a cash deposit equal to 1.00% of the original receivable pool balance and overcollateralization of 4.00%. The transaction agreements require accelerated payment of principal on the notes to reach overcollateralization of the lesser of 8.40% of the original receivable pool balance, or 25.80% of the then outstanding pool balance. The transaction utilizes a pre-funding structure, in which CPS sold approximately \$217.8 million of receivables at inception and plans to sell approximately \$112.2 million of additional receivables in February 2022. The transaction was a private offering of securities, not registered under the Securities Act of 1933, or any state securities law.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-168976 and 333-190766 on Form S-1, Nos. 333-152969 and 333-204492 on Form S-3, and Nos. 333-58199, 333-35758, 333-75594, 333-115622, 333-135907, 333-161448, 333-166892 and 333-193926 on form S-8 of Consumer Portfolio Services, Inc. and subsidiaries of our report dated March 15, 2022 relating to the financial statements appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Crowe LLP

Dallas, Texas
March 15, 2022

CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2021 of Consumer Portfolio Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2022

/s/ Charles E. Bradley, Jr.

Charles E. Bradley, Jr.

Chairman, President and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey P. Fritz, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2021 of Consumer Portfolio Services, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2022

/s/ Jeffrey P. Fritz

Jeffrey P. Fritz

Executive Vice President and Chief Financial Officer

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Consumer Portfolio Services, Inc. (“Registrant”) on Form 10-K for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission on March 15, 2022 (the “Report”), Charles E. Bradley, Jr., chairman, president and chief executive officer, and Jeffrey P. Fritz , chief financial officer and executive vice president, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations as of December 31, 2021.

March 15, 2022

/s/ Charles E. Bradley, Jr.

Charles E. Bradley, Jr.

Chairman, President and Chief Executive Officer

March 15, 2022

/s/ Jeffrey P. Fritz

Jeffrey P. Fritz

Chief Financial Officer and Executive Vice President