

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1998

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

FOR THE TRANSITION PERIOD FROM _____ TO _____ .

COMMISSION FILE NUMBER: 1-11416

CONSUMER PORTFOLIO SERVICES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA
(STATE OR OTHER JURISDICTION OF INCORPORATION
OR ORGANIZATION)

33-0459135
(IRS EMPLOYER IDENTIFICATION NO.)

2 ADA, IRVINE, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

92618
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER: (949) 753-6800
FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST
REPORT: N/A

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

As of August 13, 1998, the registrant had 15,658,501 common shares
outstanding.

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES
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PART I -- FINANCIAL INFORMATION

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS

	JUNE 30, ----- 1998 -----	DECEMBER 31, ----- 1997 -----
Cash.....	\$ 982	\$ 1,745
Contracts held for sale (note 2).....	236,908	68,271
Servicing fees receivable.....	7,243	5,425
Residual interest in securitizations (note 3).....	164,054	124,616
Furniture and equipment, net.....	3,984	3,128
Taxes receivable.....	--	1,528
Deferred financing costs.....	1,678	1,840
Investment in unconsolidated affiliates.....	4,280	3,892
Related party receivables.....	8,244	7,295
Other assets.....	11,354	8,155
	-----	-----
	\$438,727	\$225,895
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Accounts payable and accrued expenses.....	\$ 17,186	\$ 10,427
Warehouse lines of credit.....	233,225	61,666
Taxes payable.....	18,891	13,143
Capital lease obligation.....	1,706	1,492
Notes payable.....	2,042	1,506
Residual financing.....	16,000	--
Subordinated debt.....	40,000	40,000
Related party debt.....	15,000	15,055
	-----	-----
	344,050	143,289
SHAREHOLDERS' EQUITY		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued.....	--	--
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding.....	--	--
Common stock, no par value; authorized 30,000,000 shares; 15,215,042 and 15,210,042 shares issued and outstanding at June 30, 1998 and December 31, 1997, respectively.....	42,304	42,261
Notes receivable from exercise of options.....	--	(500)
Retained earnings.....	52,373	40,845
	-----	-----
	94,677	82,606
	-----	-----
	\$438,727	\$225,895
	=====	=====

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
REVENUES:				
Gain on sale of contracts, net (note 4).....	\$ 16,560	\$ 7,942	\$ 29,341	\$ 15,275
Interest income (note 5).....	14,524	5,967	23,596	11,673
Servicing fees.....	5,896	3,301	10,992	6,130
Other.....	211	901	581	1,290
	-----	-----	-----	-----
	37,191	18,111	64,510	34,368
	-----	-----	-----	-----
EXPENSES:				
Employee costs.....	6,954	3,311	12,350	6,533
General and administrative.....	5,044	3,700	9,576	6,181
Interest.....	4,614	2,221	8,529	3,659
Provision for credit losses.....	7,467	569	10,004	1,596
Marketing.....	2,085	409	2,533	730
Occupancy.....	498	290	979	534
Depreciation and amortization.....	270	43	603	405
Related party consulting fees.....	19	19	38	38
	-----	-----	-----	-----
	26,951	10,562	44,612	19,676
	-----	-----	-----	-----
Earnings before income taxes.....	10,240	7,549	19,898	14,692
Income taxes.....	4,315	3,163	8,370	6,162
	-----	-----	-----	-----
Net earnings.....	\$ 5,925	\$ 4,386	\$ 11,528	\$ 8,530
	=====	=====	=====	=====
Earnings per share (note 6):				
Basic.....	\$ 0.39	\$ 0.31	\$ 0.76	\$ 0.60
Diluted.....	\$ 0.36	\$ 0.28	\$ 0.70	\$ 0.55
Number of shares used in computing earnings per share (note 6):				
Basic.....	15,215,042	14,297,464	15,215,042	14,233,895
Diluted.....	16,761,651	15,772,014	16,683,348	15,613,891

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	1998	1997
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings.....	\$ 11,528	\$ 8,530
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization.....	603	405
Amortization of net interest receivables.....	10,424	5,561
Amortization of deferred financing costs.....	162	106
Provision for credit losses.....	10,004	1,596
NIR gains recognized.....	(22,885)	(12,824)
Loss on sale of fixed asset.....	--	13
Gain on sale of subsidiary.....	(56)	--
(Gain) loss on investment in unconsolidated affiliates.....	(322)	(614)
Changes in operating assets and liabilities:		
Purchases of contracts held for sale.....	(592,624)	(276,095)
Liquidation of contracts held for sale.....	413,982	227,864
Servicing fees receivable.....	(1,818)	(2,631)
Initial deposits to spread accounts.....	(17,096)	(7,759)
Deposits to spread accounts and over-collateralization accounts.....	(25,708)	(13,049)
Release of cash from spread accounts.....	15,825	8,773
Other assets.....	(4,343)	(1,831)
Accounts payable and accrued expenses.....	6,957	8,363
Warehouse lines of credit.....	171,559	17,737
Taxes payable/receivable.....	7,437	4,277
	-----	-----
Net cash used in operating activities.....	(16,371)	(31,578)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances to related parties.....	(1,113)	--
Repayment of related party receivables.....	165	--
Investment in preferred stock of related party.....	--	(14,500)
Investment in unconsolidated affiliate.....	(65)	(482)
Purchases of furniture and equipment.....	(1,157)	(633)
Net cash from sale of subsidiary.....	381	--
Purchase of subsidiary, net of cash acquired.....	--	(80)
	-----	-----
Net cash used in investing activities.....	(1,789)	(15,695)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in residual financing.....	16,000	--
Issuance of notes to related party.....	--	29,500
Issuance of notes payable.....	1,453	20,000
Repayment of capital lease obligations.....	(267)	(47)
Repayment of notes payable.....	(332)	(440)
Repayment of related party debt.....	--	(403)
Payment of financing costs.....	--	(1,165)
Exercise of options and warrants.....	543	105
	-----	-----
Net cash provided by financing activities.....	17,397	47,550
	-----	-----
Increase (decrease) in cash.....	(763)	277
Cash at beginning of period.....	1,745	154
	-----	-----
Cash at end of period.....	\$ 982	\$ 431
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest.....	\$ 7,842	\$ 3,122
Income taxes.....	\$ 860	\$ 2,033
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of common stock upon conversion of debt.....	\$ --	\$ 3,000
Furniture and equipment acquired through capital leases.....	\$ 482	\$ 332
Purchase of CPS Leasing, Inc.		
Assets acquired.....	\$ --	\$ 2,718

Liabilities assumed.....	--	(2,638)
	-----	-----
Cash paid to acquire business.....	--	80
Less: cash acquired.....	--	(172)
	-----	-----
Net cash received upon acquisition.....	\$ --	\$ (92)
	=====	=====
Sale of PIC Leasing, Inc.		
Net assets sold.....	\$ 705	\$ --
Net assets retained.....	(155)	--
Gain on sale of subsidiary.....	56	--
	-----	-----
Cash received from sale of subsidiary.....	606	--
Less: cash relinquished upon disposition.....	(225)	--
	-----	-----
Net cash received from sale of subsidiary.....	\$ 381	\$ --
	=====	=====

See accompanying notes to condensed consolidated financial statements

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Condensed Consolidated Financial Statements

The unaudited condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include all adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. All such adjustments are, in the opinion of management, of a normal recurring nature. In addition, certain items in prior period financial statements have been reclassified for comparability to current period presentation. Results for the three and six month periods ended June 30, 1998, are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1997.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Alton Receivables Corp., CPS Receivables Corp., CPS Marketing, Inc., CPS Funding Corp., and CPS Warehouse Corp. The consolidated financial statements also include the accounts of SAMCO Acceptance Corp., LINC Acceptance Company, LLC and CPS Leasing, Inc., all of which are 80% owned subsidiaries of the Company. All significant intercompany transactions and balances have been eliminated. Investments in affiliates that are not majority owned are reported using the equity method.

Contracts Held for Sale

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

Allowance for Credit Losses

The Company provides an allowance for credit losses that management believes provides adequately for known and inherent losses that may develop in the Contracts held for sale. Management evaluates the adequacy of the allowance by examining current delinquencies, the characteristics of the portfolio, the value of underlying collateral, and general economic conditions and trends.

Contract Acquisition Fees and Discounts

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Residual Interest in Securitizations and Gain on Sale of Contracts

The Company purchases Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. The securitizations are generally structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts at face value and without recourse, except that the Company gives representation and warranties to the Trust regarding the Contracts, which are generally similar to the representations and warranties given to the Company by the originating Dealers. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. In addition, the Company provides a credit enhancement for the benefit of the investors in the form of an initial cash deposit to a specific account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the Spread Accounts be maintained at specified levels.

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

certain Servicing Agreements, is used to make accelerated principal paydowns on certain Certificates to create excess collateral (over-collateralization or OC account). Spread Account balances are held by the Trusts on behalf of the Company as owner of the Residuals. Such balances are generally defined as percentages of the principal amount remaining unpaid on the Contracts sold to the respective Trusts. The Spread Account includes both qualified investments and OC accounts (see Note 3).

The annual percentage rate ("APR") on the Contracts is relatively high in comparison to the pass-through rate on the Certificates. Accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they affect the amount and timing of estimated future cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the effect of trends in the industry. The Company's prepayment and default estimates have resulted in original estimated average lives of its Contracts of between 22 and 26 months. The Company has used a prepayment estimate of 7% to 15%. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. The Company estimates that default losses as a percentage of the original principal balance will total approximately 11% to 14%.

In future periods, if the actual performance of the Contracts is better than originally estimated by the Company, the Company would either recognize additional revenue from the Residuals or increase their estimated fair value. Alternatively, if the actual performance of the Contracts is less than originally estimated by the Company, then a reduction of the carrying value of the Residuals may be required.

(2) CONTRACTS HELD FOR SALE

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

	JUNE 30, 1998	DECEMBER 31, 1997
	-----	-----
	(IN THOUSANDS)	
Gross receivable balance.....	\$282,246	\$ 81,906
Unearned finance charges.....	(26,764)	(10,077)
Deferred acquisition fees and discounts.....	(7,050)	(1,092)
Allowance for credit losses.....	(11,524)	(2,466)
	-----	-----
Net contracts held for sale.....	\$236,908	\$ 68,271
	=====	=====

(3) RESIDUAL INTEREST IN SECURITIZATIONS

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

	JUNE 30, 1998	DECEMBER 31, 1997
	-----	-----
	(IN THOUSANDS)	
Cash, commercial paper, US government securities and other qualifying investments (Spread Account).....	\$ 86,357	\$ 68,513
NIRs.....	57,573	45,112
OC accounts.....	19,092	9,621
Investments in subordinated certificates.....	610	791
Funds held by investor.....	422	579
	-----	-----
Residual interest in securitizations:.....	\$164,054	\$124,616
	=====	=====

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table presents the activity of the NIRs for the six months ended June 30, 1998:

Balance, beginning of period.....	\$ 45,112
NIR gains recognized.....	22,885
Amortization of NIRs.....	(10,424)

Balance, end of period.....	\$ 57,573
	=====

Included in NIR balances are estimates of credit losses totaling the following:

	JUNE 30, 1998	DECEMBER 31, 1997
	-----	-----
	(IN THOUSANDS)	
Estimated credit losses.....	\$ 115,346	\$ 90,814
	=====	=====
Servicing subject to recourse provisions.....	\$1,048,599	\$830,918
	=====	=====
Estimated credit losses as percentage of servicing subject to recourse Provisions.....	11.00%	10.93%
	=====	=====

(4) GAIN ON SALE OF CONTRACTS

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	-----	-----	-----	-----
	1998	1997	1998	1997
	-----		-----	
	(IN THOUSANDS)		(IN THOUSANDS)	
NIRs gains recognized.....	\$12,135	\$6,723	\$22,885	\$12,824
Deferred acquisition fees and discounts.....	5,386	2,076	8,311	3,981
Expenses related to sales.....	(961)	(857)	(1,855)	(1,530)
	-----	-----	-----	-----
Net gain on sale of contracts.....	\$16,560	\$7,942	\$29,341	\$15,275
	=====	=====	=====	=====

(5) INTEREST INCOME

The following table presents the components of interest income:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	-----	-----	-----	-----
	1998	1997	1998	1997
	-----		-----	
	(IN THOUSANDS)		(IN THOUSANDS)	
Interest on Contracts held for sale.....	\$10,793	\$4,081	\$ 18,632	\$ 6,823
Residual interest income.....	9,203	4,860	15,388	10,411
Amortization of NIRs.....	(5,472)	(2,974)	(10,424)	(5,561)
	-----	-----	-----	-----
Net interest income.....	\$14,524	\$5,967	\$ 23,596	\$11,673
	=====	=====	=====	=====

(6) EARNINGS PER SHARE

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

CONSUMER PORTFOLIO SERVICES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1998	1997	1998	1997
	----- (IN THOUSANDS, EXCEPT PER SHARE DATA) -----			
NUMERATOR:				
Numerator for basic earnings per share -- net earnings.....	\$ 5,925	\$ 4,386	\$11,528	\$ 8,530
Interest on borrowings, net of tax effect on Conversion of convertible subordinated debt.....	117	69	232	78
Numerator for diluted earnings per share....	\$ 6,042	\$ 4,455	\$11,760	\$ 8,608
	=====	=====	=====	=====
DENOMINATOR:				
Denominator for basic earnings per share -- weighted average number of common shares outstanding during the period.....	15,215	14,297	15,215	14,234
Incremental common shares attributable to exercise of outstanding options and warrants.....	801	1,029	722	1,111
Incremental common shares attributable to Conversion of subordinated debt.....	746	446	746	269
Denominator for diluted earnings per share.....	16,762	15,772	16,683	15,614
	=====	=====	=====	=====
Basic earnings per share.....	\$ 0.39	\$ 0.31	\$.76	\$.60
	=====	=====	=====	=====
Diluted earnings per share.....	\$ 0.36	\$ 0.28	\$.70	\$.55
	=====	=====	=====	=====

(7) RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, entitled "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 established Standards for reporting and display of comprehensive income and its components in the financial statements. SFAS No. 130 is effective for the fiscal years beginning after December 15, 1997. Comprehensive income for the three and six month periods ended June 30, 1998 and 1997, respectively, was the same as net income as the Company had no components of other comprehensive income.

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

OVERVIEW

Consumer Portfolio Services, Inc. (the "Company") and its subsidiaries primarily engage in the business of purchasing, selling and servicing retail automobile installment sale contracts ("Contracts") originated by automobile dealers ("Dealers") located throughout the United States. Through its purchase of Contracts, the Company provides indirect financing to Dealer customers with limited credit histories, low incomes or past credit problems, who generally would not be expected to qualify for financing provided by banks or by automobile manufacturers' captive finance companies.

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

Residual Interest in Securitizations and Gain on Sale of Contracts

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

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

The Company allocates its basis in the Contracts between the portion of the Contracts sold (as Certificates) and the portion retained (the Residuals) based on the relative fair values of those portions on the date of the sale. The Company may recognize gains or losses attributable to the change in the fair value of the Residuals, which are recorded at estimated fair value and accounted for as "held-for-trading" securities. The

Company is not aware of an active market for the purchase or sale of such residual interests. Accordingly, the Company determines the estimated fair value of the Residuals by discounting the cash flows that it estimates will be released from the Spread Account (the cash out method), using a discount rate that the Company believes is commensurate with the risks involved. In valuing the Residuals, the Company has utilized an effective discount rate of approximately 14% per annum. The valuation of the Residuals is dependent on estimates of future events, and there can be no assurance that such estimates will prove to be correct. Factors that may affect the accuracy of such estimates include the inherent credit quality of the Contracts purchased by the Company and sold to the Trusts, the efficacy of the Company's collection efforts, and the state of the economy generally, all of which may affect the propensity of the obligors to pay as agreed.

The Company receives periodic base servicing fees for its servicing and collection of the Contracts. In addition, the Company is entitled to the cash flows from the Residuals that represent collections on the Contracts in excess of the amounts required to pay (i) the Certificate principal and interest, (ii) the base servicing fees and (iii) certain other fees (such as trustee and custodial fees). At the end of each collection period, the aggregate cash collections from the Contracts are allocated first to the base servicing fees and certain other fees (such as trustee and custodial fees) for the period, then to the Certificateholders for interest at the pass-through rate on the Certificates plus principal as defined in the Servicing Agreements. If the amount of cash required for the above allocations exceeds the amount collected during the collection period, the shortfall is drawn from the Spread Account. If the cash collected during the period exceeds the amount necessary for the above allocations, and there is no shortfall in the related Spread Account, the excess is released to the Company or in certain cases transferred to other Spread Accounts that may be below their required levels. If the Spread Account balance is not at the required credit enhancement level, then the excess cash collected is retained in the Spread Account until the specified level is achieved. The cash in the Spread Accounts is restricted from use by the Company. Cash held in the various Spread Accounts is invested in either high quality liquid investment securities, as specified in the Servicing Agreements, or, pursuant to certain Servicing Agreements, is used to make accelerated principal paydowns on certain Certificates to create excess collateral (over-collateralization or OC account). Spread Account balances are held by the Trusts on behalf of the Company as owner of the Residuals. Such balances are generally defined as percentages of the principal amount remaining unpaid on the Contracts sold to the respective Trusts. The Spread Account includes both qualified investments and OC accounts (see Note 3).

The annual percentage rate ("APR") on the Contracts is relatively high in comparison to the pass-through rate on the Certificates. Accordingly, the Residuals described above are a significant asset of the Company. In determining the value of the Residuals described above, the Company must estimate the future rates of prepayments, delinquencies, defaults and default loss severity as they affect the amount and timing of estimated future cash flows. The Company estimates prepayments by evaluating historical prepayment performance of comparable Contracts and the affect of trends in the industry. The Company's prepayment and default estimates have resulted in original estimated average lives of its Contracts of between 22 and 26 months. The Company has used a prepayment estimate of 7% to 15%. The Company estimates defaults and default loss severity using available historical loss data for comparable Contracts and the specific characteristics of the Contracts purchased by the Company. The Company estimates that default losses as a percentage of the original principal balance will total approximately 11% to 14%.

In future periods, if the actual performance of the Contracts is better than originally estimated by the Company, the Company would either recognize additional revenue from the Residuals or increase their estimated fair value. Alternatively, if the actual performance of the Contracts is less than originally estimated by the Company, then a reduction of the carrying value of the Residuals may be required. The future actual performance of the Contracts will be dependent on factors that include the inherent credit quality of the Contracts purchased by the Company and sold to the Trusts, the efficacy of the Company's collection efforts, and the state of the economy generally, all of which may affect the propensity of the obligors to pay as agreed.

RESULTS OF OPERATIONS

THE THREE MONTH PERIOD ENDED JUNE 30, 1998 COMPARED TO THE THREE MONTH PERIOD ENDED JUNE 30, 1997

Revenues. During the three months ended June 30, 1998, revenues increased \$19.1 million, or 105.4%, compared to the three month period ended June 30, 1997. Gain on sale of Contracts increased by \$8.6 million, or 108.5%, and represented 44.5% of total revenues for the three month period ended June 30, 1998. The increase in gain on sale is largely due to the increased volume of Contracts sold in the period. During the three month period ended June 30, 1998, the Company sold \$211.0 million in Contracts, compared to \$119.4 million in the three month period ended June 30, 1997, a 76.7% increase. As of June 30, 1998, certain direct origination expenses were excluded from gain on sale and expensed as incurred.

Interest income increased by \$8.6 million, or 143.4%, and represented 39.1% of total revenues for the three month period ended June 30, 1998. The increase is due to the increase in the volume of Contracts purchased and held for sale, and the increase in the amount of sold Contracts and related Residuals. During the three month period ended June 30, 1998, the Company purchased \$338.4 million in Contracts from Dealers, compared to \$156.7 million in the three month period ended June 30, 1997.

Servicing fees increased by \$2.6 million, or 78.6%, and represented 15.9% of total revenues. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities. As of June 30, 1998, the Company was earning servicing fees on 98,772 Contracts with aggregate outstanding principal balances approximating \$1,048.6 million, compared to 57,365 Contracts with aggregate outstanding principal balances approximating \$602.6 million as of June 30, 1997. In addition to the \$1,048.6 million in sold Contracts, on which servicing fees were earned, the Company was holding for sale and servicing an additional \$236.9 million in Contracts, for an aggregate total servicing portfolio of \$1,285.5 million.

The growth in the Company's revenue and expenses is a result of increases in the volume of Contract purchases and in the Company's servicing portfolio. The Company has achieved these increases primarily by increasing market penetration in existing geographic areas and increasing the number of marketing representatives and Dealer relationships. At June 30, 1998, the Company had 104 marketing representatives servicing 4,208 Dealers, compared to 67 representatives servicing 2,292 Dealers at June 30, 1997.

Expenses. During the three month period ended June 30, 1998, operating expenses increased \$16.4 million, or 155.2%, compared to the three month period ended June 30, 1997. Employee costs increased by \$3.6 million, or 110.0%, and represented 25.8% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. The Company continues to expand its staff to accommodate increases in its purchases of Contracts and in its servicing portfolio. The Company therefore expects to incur commensurate additional employee costs in future periods. There can be no assurance that such expansion will occur, as any such expansion is dependent, among other things, on the availability of qualified personnel. General and administrative expenses increased by \$1.3 million, or 36.3% and represented 18.7% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased \$2.4 million, or 107.7%, and represented 17.1% of total operating expenses. During the three month period ended June 30, 1998, interest expense consisted primarily of interest on (i) borrowings under two warehouse lines of credit ("Warehouse Lines") used to acquire Contracts and hold them pending securitization, (ii) \$20 million of outstanding Rising Interest Subordinated Redeemable Securities due 2006 ("RISRS"), (iii) \$20 million of outstanding Participating Equity Notes due 2004, (iv) \$15 million of unsecured related party debt due 2004, and borrowings under a revolving line of credit (the "Revolving Line") due 2003. With respect to the Warehouse Lines, the Company's cost of borrowed funds varies with market rates, and the total interest payable is affected in proportion to the amount of Contract purchases funded under the Warehouse Lines and the average time such Contracts are held prior to securitization. With respect to the RISRS debt, the interest paid on the debt increases each calendar year from 10.25% at present to 12.00% in 2004, and then to 12.50% until maturity at December 31, 2005. With

respect to the PENS, interest is payable at a fixed rate of 10.50% per annum. With respect to the \$15 million unsecured related party loan due 2004, interest is payable at a fixed rate of 9.0% per annum. With respect to the Revolving Line due 2003, interest is payable at a variable rate of LIBOR + 4.0% of the outstanding balance. The increase in interest expense as compared to the prior year's period is due primarily to increased average borrowings under the Warehouse Lines to finance purchases of Contracts. Also not included in the prior year's period was interest payable with respect to the Revolving Line.

During the three month period ended June 30, 1998, the provision for losses on Contracts held for sale increased by \$6.9 million, or 1,212.3%, and represented 27.7% of total operating expenses. The provision for losses on Contracts held for sale and the related allowance for credit losses vary from quarter to quarter based on a number of factors, including (i) the dollar amount of Contracts held for sale at the end of the period, (ii) the relative age of those Contracts, (iii) the estimated credit risk of those Contracts, and (iv) the portion of Contracts that are seriously past due or are assigned for, or in, repossession. The principal factor that caused the provision for losses on Contracts held for sale to increase as compared to the prior year's period was an increase in the amount of Contracts held for sale.

In March 1997, the Company opened a satellite collections facility in Chesapeake, Virginia. In April 1998, the Company obtained additional contiguous space at the Virginia facility. In addition, the Company obtained additional leased space in the vicinity of its California headquarters in September 1997. Lease of such additional space resulted in increased occupancy and general and administrative expenses in the three month period ended June 30, 1998, which should be expected to increase further in future periods. In October 1997, the Company entered into an agreement to have constructed a building of approximately 115,000 square feet, and to lease that building for a ten-year period commencing with its completion. The Company intends to occupy the new building, located approximately two miles from the Company's current principal location, as its headquarters. Increased occupancy expenses commensurate with the increase in space leased should be anticipated for future periods.

THE SIX MONTH PERIOD ENDED JUNE 30, 1998, COMPARED TO THE SIX MONTH PERIOD ENDED JUNE 30, 1997

Revenues. During the six months ended June 30, 1998, revenues increased \$30.1 million, or 87.7%, compared to the six month period ended June 30, 1997. Net gain on sale of Contracts increased by \$14.1 million, or 92.1%, and represented 45.5% of total revenues for the six month period ended June 30, 1998. The increase in gain on sale is largely due to the increased volume of Contracts which were sold in the period. During the six month period ended June 30, 1998, the Company sold \$398.0 million in Contracts, compared to \$221.7 million in the six month period ended June 30, 1997. As of June 30, 1998, certain direct origination expenses were excluded from gain on sale and expensed as incurred.

Interest income increased by \$11.9 million, or 102.1%, and represented 36.6% of total revenues for the six month period ended June 30, 1998. The increase is due to the increase in the volume of Contracts purchased and held for sale and the increase in the amount of sold Contracts and related Residuals. During the six month period ended June 30, 1998, the Company purchased \$592.6 million in Contracts from Dealers, compared to \$276.1 million in the six month period ended June 30, 1997.

Servicing fees increased by \$4.9 million, or 79.3%, and represented 17.0% of total revenues. The increase in servicing fees is due to the Company's continued expansion of its Contract purchase, sale and servicing activities.

Expenses. During the six month period ended June 30, 1998, operating expenses increased \$24.9 million, or 126.7%, compared to the six month period ended June 30, 1997. Employee costs increased by \$5.8 million, or 89.0%, and represented 27.7% of total operating expenses. The increase is due to the addition of staff necessary to accommodate the Company's growth and certain increases in salaries of existing staff. General and administrative expenses increased by \$3.4 million, or 54.9% and represented 21.5% of total operating expenses. Increases in general and administrative expenses included increases in telecommunications, stationery, credit reports and other related items as a result of increases in the volume of purchasing and servicing of Contracts.

Interest expense increased \$4.9 million, or 133.1%, and represented 19.1% of total operating expenses. During the six month period ended June 30, 1998, interest expense consisted primarily of interest on (i) borrowings under two warehouse lines of credit ("Warehouse Lines") used to acquire Contracts and hold them pending securitization, (ii) \$20 million of outstanding Rising Interest Subordinated Redeemable Securities due 2006 ("RISRS"), (iii) \$20 million of outstanding Participating Equity Notes due 2004, (iv) \$15 million of unsecured related party debt due 2004, and borrowings under a revolving line of credit (the "Revolving Line") due 2003. With respect to the Warehouse Lines, the Company's cost of borrowed funds varies with market rates, and the total interest payable is affected in proportion to the amount of Contract purchases funded under the Warehouse Lines and the average time such Contracts are held prior to securitization. With respect to the RISRS debt, the interest paid on the debt increases each calendar year from 10.25% at present to 12.00% in 2004, and then to 12.50% until maturity at December 31, 2005. With respect to the PENs, interest is payable at a fixed rate of 10.50% per annum. With respect to the \$15 million unsecured related party loan due 2004, interest is payable at a fixed rate of 9.0% per annum. With respect to the Revolving Line due 2003, interest is payable at a variable rate of LIBOR + 4.0% of the outstanding balance. The increase in interest expense as compared to the prior year's period is due primarily to increased average borrowings under the Warehouse Lines to finance purchases of Contracts. Also not included in the prior year's period was interest payable with respect to the Revolving Line.

During the six month period ended June 30, 1998, the provision for losses on Contracts held for sale increased by \$8.4 million, or 526.8%, and represented 22.4% of total operating expenses.

In March 1997, the Company opened a satellite collections facility in Chesapeake, Virginia. In April 1998, the Company obtained additional contiguous space at the Virginia facility. In addition, the Company obtained additional leased space in the vicinity of its California headquarters in September 1997. Lease of such additional space resulted in increased occupancy and general and administrative expenses in the three month period ended June 30, 1998, which should be expected to increase further in future periods. In October 1997, the Company entered into an agreement to have constructed a building of approximately 115,000 square feet, and to lease that building for a ten-year period commencing with its completion. The Company intends to occupy the new building, located approximately two miles from the Company's current principal location, as its headquarters. Increased occupancy expenses commensurate with the increase in space leased should be anticipated for future periods.

The Company continues to expand its staff to accommodate increases in its purchases of Contracts and in its servicing portfolio. The Company therefore expects to incur commensurate additional employee costs in future periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of cash from operating activities include amounts borrowed under the Warehouse Lines, servicing fees on portfolios of Contracts it has previously sold, cash flows released from Spread Accounts, proceeds from sales of Contracts, customer payments on Contracts held for sale, and interest earned on Contracts held for sale. The Company's primary uses of cash include the purchase of Contracts, repayment of amounts borrowed under the Warehouse Lines, operating expenses such as employee, interest, and occupancy expenses, the establishment of and further contributions to Spread Accounts, and income taxes.

Net cash used in operating activities was \$16.4 million during the six month period ended June 30, 1998, compared to net cash used in operating activities of \$31.6 million during the six month period ended June 30, 1997. Cash used for purchasing Contracts was \$592.6 million, an increase of \$316.5 million, or 114.6%, over cash used for purchasing Contracts in the prior year's period. Cash provided from the liquidation of Contracts was \$414.0 million, an increase of \$186.1 million, or 81.7%, over cash provided from the liquidation of Contracts in the prior year's period.

The Company's cash requirements have been and will continue to be significant. The Servicing Agreements require the Company to make a significant initial cash deposit, for purposes of credit enhancement, to the Spread Accounts. Excess cash flows from the securitized Contracts are also deposited into the

Spread Accounts until such time as the Spread Account balance reaches its requisite level, which is computed as a specified percent of the outstanding balance of the related asset-backed securities.

During the six month period ended June 30, 1998, cash used for initial deposits to Spread Accounts was \$17.1 million, an increase of \$9.3 million, or 120.3%, from the amount of cash used for initial deposits to Spread Accounts in the prior year's period. The cash used increased because (i) the Company sold more Contracts in the current period than in the prior year's period, and (ii) in order to achieve the desired ratings for the transactions, the required percentage initial deposit was raised from 3.5% in the prior year's transactions to 5.0% in the transactions completed in the current period. The required initial deposit has since been raised again, to a level of 8.0%, which would increase the Company's future cash requirements. However, the Company is reviewing alternative structures for its securitization, which may involve reduced cash deposits. Cash deposited to Spread Accounts for the six month period ended June 30, 1998, was \$25.7 million, an increase of \$12.7 million, or 97.0%, over cash deposited to Spread Accounts in the prior year's period. The cash deposited in Spread Accounts for the six month period ended June 30, 1998, includes \$9.5 million of cash used to pay down certain Certificates to create excess collateral in an over-collateralization account.

Cash released from Spread Accounts for the six month period ended June 30, 1998, was \$15.8 million, an increase of \$7.1 million, or 80.0%, over cash released from Spread Accounts in the prior year's period. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's servicing portfolio. The Company expects that cash releases from Spread Accounts for the remainder of 1998 may be less than those for the first six months of 1998.

The Servicing Agreements call for the requisite levels of the various Spread Accounts to increase if the related receivables experience delinquencies, repossessions or net losses in excess of certain predetermined levels. During the Company's history, the predetermined levels have frequently been reached, causing the requisite levels of certain Spread Accounts to be raised. The requisite levels of the Spread Accounts may be returned to the original lower levels if the related receivables delinquency, repossession and net loss performance is reduced below the pre-determined levels. In addition, on two occasions, the parties to the pertinent agreements have made modifications that effectively raised the permissible delinquency, repossession and net loss levels, thus resulting in Spread Accounts reverting to their original requisite levels. As of June 30, 1998, the Spread Accounts for seven of the Company's 23 securitized pools were at higher than original requisite levels due to delinquency, repossession or net loss performance. Such Spread Account balances therefore included approximately \$5.1 million more than would have been required at the original requisite level.

On a day-to-day basis, the Company funds its purchases of Contracts from Dealers by drawing on either of two Warehouse Lines of Credit (collectively referred to as the "Warehouse Lines"), and pledges the purchased Contracts to one or the other warehouse lender. The amount borrowed under the Warehouse Lines increases until the Company sells the pledged Contracts in a securitization transaction, at which time the majority of the proceeds of the sale are used to pay down the balance of the Warehouse Lines. Securitization transactions are typically completed on a quarterly basis. The Company has experienced continued growth in the levels of Contracts purchased and securitized and expects that such growth may continue. The amount of Contracts that the Company can hold for sale prior to a securitization is limited by its available cash and the two Warehouse Lines, which Warehouse Lines aggregated to \$280 million at June 30, 1998. In July 1998, one of the existing lenders agreed to increase the amount available under its Warehouse Line from \$180 million to \$200 million, giving the Company a total of \$300 million of Warehouse Line availability.

The Company funds the increase in its servicing portfolio through off balance sheet securitization transactions, and funds its other capital needs with cash from operations and with the proceeds from the issuance of various debt instruments. During the six month period ended June 30, 1998, the Company engaged in two securitization transactions, and established a \$33.3 million revolving line of credit, discussed below. The interest rate payable on the senior Certificates issued in the securitization transaction ranged from 6.00% - 6.09% as compared with 6.55% - 6.65% payable on the similar securities issued in the prior year's period. The change in the rates is primarily due to changes in rates payable on U.S. Treasuries of similar maturities.

In April 1998, the Company established a \$33.3 million revolving line of credit (the "Revolving Line") with State Street Bank and Trust Company, Prudential Insurance and an affiliate of Prudential. Borrowings under the Revolving Line bear interest at LIBOR + 4.0%, and are secured by the Company's assets, including its residual interest in Securitizations. The Revolving Line is a revolving facility for one year, after which it converts into a loan with a maximum term of four years.

There can be no assurance that such financing will continue to be available to the Company, nor that the cost of any such financing will not increase materially in the future.

Due to the Company's ongoing growth and the need to fund Spread Accounts, the Company will be required to obtain new capital in order to continue to meet its projected cash requirements. The Company is exploring its alternatives to raise capital of approximately \$100 million, which could include sale of debt or equity instruments. The sale of any equity or convertible debt could be dilutive to existing stockholders. The terms of any such issuance have not been determined as of the date of this report, and there can be no assurance that any such transaction will occur. The Company has also received \$5 million of new capital from the sale of common stock to an affiliated party.

In January 1997, the Company acquired a company engaged in the equipment leasing business. Any material growth in that subsidiary's business will require significant capital resources, to allow that subsidiary to purchase equipment for lease. As of June 30, 1998, the leasing company had a line of credit for \$20.0 million to purchase equipment for lease. Borrowings under the line are collateralized by the underlying equipment and bear interest at a variable rate ranging from 1.85% to 3.0% over the five year U.S. Treasuries rate, depending on the investment rating of the lessee to whom the equipment is leased. The line of credit expires December 31, 2005.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") SFAS No. 131 establishes standards for reporting financial and descriptive information about an enterprise's operating segments in its annual financial statements and selected segment information in interim financial reports. SFAS No. 131 becomes effective for the Company's 1998 annual financial statements. Reclassification or restatement of comparative financial statements or financial information for earlier periods is required upon adoption of SFAS No. 131. Application of SFAS No. 131 is not expected to have a material impact on the Company's consolidated financial position, results of operations or liquidity.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in foreign operation, an unrecognized firm commitment, an available for sale security, or a foreign-currency-denominated forecasted transaction.

Under SFAS 133, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. Those methods must be consistent with the entity's approach to managing risk. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999.

YEAR 2000

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

FORWARD-LOOKING STATEMENTS

The descriptions of the Company's business and activities set forth in this Form 10-Q and in other past and future reports and announcements by the Company may contain forward-looking statements and assumptions regarding the future activities and results of operations of the Company. In particular, the statement that the Company expects continued growth in levels of Contracts purchased is a forward-looking statement. Statements concerning uses of cash in connection with Contracts and Spread Accounts, and the levels of cash required to be contributed to Spread Accounts for credit enhancement are also forward-looking statements, as are statements regarding future capital requirements and liquidity, the availability and terms of future financing and statements regarding expansion of operations or increases in personnel. Actual results may be adversely affected by various factors including the following: increases in unemployment or other changes in domestic economic conditions which adversely affect the sales of new and used automobiles and may result in increased delinquencies, foreclosures and losses on Contracts; adverse economic conditions in geographic areas in which the Company's business is concentrated; changes in interest rates, adverse changes in the market for securitized receivables pools, or a substantial lengthening of the Company's warehousing period, each of which could restrict the Company's ability to obtain cash for new Contract originations and purchases; increases in the amounts required to be set aside in Spread Accounts for existing or future securitizations or to be expended for other forms of credit enhancement to support future securitizations; the reduction or unavailability of warehouse lines of credit which the Company uses to accumulate Contracts for securitization transactions; increased competition from other automobile finance sources; reduction in the number and amount of acceptable Contracts submitted to the Company by its automobile dealer network; changes in government regulations affecting consumer credit; and other economic, financial and regulatory factors beyond the Company's control.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On July 21, 1998, the Company sold 443,459 shares of its common stock for cash consideration of \$5 million. The securities were sold in a private transaction to Stanwich Financial Services Corp., which is a corporation of which the Company's chairman of the board, Charles E. Bradley, Sr., is the sole director, chief executive officer, and principal shareholder. No underwriting discount or commission was involved in this transaction. The Company believes this transaction was exempt from registration under the Securities Act of 1933 under Section 4(2) of that Act as a transaction not involving a public offering. The number of persons to whom these securities were offered was less than ten.

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

The annual meeting of shareholders of the Company was held on June 25, 1998. At the meeting, each of the six nominees to the Board of Directors was elected for a one-year term by the shareholders, with votes cast as follows:

NOMINEE -----	VOTES FOR -----	VOTES WITHHELD -----
Charles E. Bradley, Sr.....	12,798,729	27,828
Charles E. Bradley, Jr.....	12,798,829	27,728
Thomas L. Chrystie.....	12,798,829	27,728
John G. Poole.....	12,798,829	27,728
William B. Roberts.....	12,798,829	27,728
Robert A. Simms.....	12,798,829	27,728

The shareholders also approved each other proposal placed before the annual meeting. Such proposals were (i) approval of the Company's 1998 Key Executive Incentive Plan, and (ii) ratification of the appointment of KPMG Peat Marwick LLP as independent auditors of the Company. Votes on such proposals were cast as follows:

	KEY EXECUTIVE INCENTIVE PLAN -----	RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS -----
For.....	12,079,410	12,700,138
Against.....	507,788	18,001
Abstain.....	135,408	108,418
Broker nonvote.....	103,951	0
Total.....	<u>12,826,557</u>	<u>12,826,557</u>

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

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

EXHIBIT NUMBER -----	DESCRIPTION -----
10.1	Amendment dated July 17, 1998 to the Receivables Funding and Servicing Agreement relating to First Union Warehouse Line.
10.2	Subscription Agreement regarding shares issued in July 1998.
10.3	Registration Rights Agreement regarding shares issued in July 1998.
27	Financial Data Schedule.

(b) During the three-month period ended June 30, 1998, the Company filed two reports on Form 8-K. The table below presents information concerning such reports:

DATE OF THE REPORT (DATE OF EVENT TO WHICH REPORT RELATES) -----	TYPE OF INFORMATION INCLUDED IN REPORT -----
May 1, 1998	Item 5 and Item 7. The Item 5 disclosure announced that certain exhibits were being filed. The exhibits were related to the Company's May 1998 securitization of receivables.
May 8, 1998	Item 5 and Item 7. The Item 5 disclosure announced that certain exhibits were being filed. The exhibits were related to the Company's May 1998 securitization of

receivables.

No financial statements were filed with either of such reports.

SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.
(Registrant)

Date: August 13, 1998

/s/ CHARLES E. BRADLEY, JR.

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

Date: August 13, 1998

/s/ JEFFREY P. FRITZ

Jeffrey P. Fritz
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

EXHIBIT INDEX

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27	Financial Data Schedule.

AMENDMENT NO. 2
TO THE
RECEIVABLES FUNDING AND SERVICING AGREEMENT,
AS AMENDED

dated as of July 17, 1998

AMENDMENT NO. 2 TO THE RECEIVABLES FUNDING AND SERVICING AGREEMENT, AS AMENDED, dated as of July 17, 1998 ("Amendment No. 2") to that certain Receivables Funding and Servicing Agreement, as amended, dated as of November 24, 1997 (the "Receivables Funding and Servicing Agreement") among CPS WAREHOUSE CORP., a Delaware corporation (the "Borrower"), the financial institutions listed on the signature pages of this Agreement under the heading "Investors" and their respective successors and assigns; VARIABLE FUNDING CAPITAL CORPORATION, a Delaware corporation, ("VFCC") as lender (a "Lender"), FIRST UNION CAPITAL MARKETS, a division of WHEAT FIRST SECURITIES, INC. ("FCMC"), as deal agent (the "Deal Agent"); FIRST UNION NATIONAL BANK ("First Union"), as the liquidity agent (the "Liquidity Agent") and as the collateral agent (the "Collateral Agent") and CONSUMER PORTFOLIO SERVICES, INC., a California corporation (as such, together with its successors and assigns, the "Parent"), as servicer hereunder (as such, together with its successors and permitted assigns, the "Servicer").

PRELIMINARY STATEMENTS

WHEREAS, the parties hereto have entered into that certain Receivables Funding and Servicing Agreement, whereby the Lenders make advances to the Borrower and such advances are secured by certain receivables and other collateral owned by the Borrower;

WHEREAS, pursuant to Section 2.01(c) of the Receivables Funding and Servicing Agreement, the Borrower may by written notice to the Deal Agent, request an increase in the Maximum Facility Amount; and

WHEREAS, Section 14.06 provides the Receivables Funding and Servicing Agreement may be amended in writing by the parties thereto;

NOW, THEREFORE, in consideration of the promises and the mutual agreements hereinafter set forth, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions. Unless otherwise defined herein, all capitalized terms shall have the meaning set forth in the Receivables Funding and Servicing Agreement thereto.

2. Amendment to Receivables Funding and Servicing Agreement.

(a) Section 1.01 is hereby amended by:

(i) deleting the definition of "Advance Rate" and by replacing such definition with the following:

"Advance Rate" means, for any Receivable within a Subgroup of Receivables and date within a Report Period, a percentage equal to the lesser of (a) 95% and (b) 1 minus the product of (i) three (3) and (ii) the Net Loss Factor applicable to the related Subgroup of Receivables during such Report Period.

(ii) deleting the definition of "CP Rate" and by replacing such definition with the following:

"CP Rate" means for any Fixed Period, the per annum rate equivalent to the weighted average of the per annum rates paid or payable by VFCC from time to time as interest on or otherwise (by means of interest rate hedges or otherwise) in respect of the short-term promissory notes issued by VFCC that are allocated, in whole or in part, by the Deal Agent (on behalf of VFCC) to fund or maintain the Contracts during such Fixed Period, as determined by the Deal Agent (on behalf of VFCC) and reported to the Borrower and the Servicer, which rates shall reflect and give effect to the reasonable and customary commissions of placement agents and dealers in respect of such promissory notes, to the extent such commissions are allocated, in whole or in part, to such promissory notes by the Deal Agent (on behalf of VFCC); provided, however, that if any component of such rate is a discount rate, in calculating the "CP Rate" for such Fixed Period, the Deal Agent shall for such component use the rate resulting from converting such discount rate to an interest-bearing equivalent rate per annum.

(iii) adding the following after the word "months" in the first line of item (d) in the definition of "Eligible Receivables":

"(or, in the case of a Contract originated under the Super Alpha Program (as defined in the Credit and Collection Policies), seventy-two (72) months)"

(iv) deleting the definition of "Final Maturity Date" and by replacing such definition with the following:

"Final Maturity Date" means July 16, 1999 or, if extended, in the sole discretion of VFCC and each Investor in accordance with the terms of Section 2.01(b), the Extension Date.

(v) deleting the definition of "Maximum Facility Amount" and by replacing such definition with the following:

"Maximum Facility Amount" means at any time, \$200,000,000, as such amount may be adjusted from time to time pursuant to Section 2.01(c) and Section 2.03,

provided, however, that at all times, on or after the Termination Date, the "Maximum Facility Amount" shall mean the aggregate outstanding principal amount of Advances.

(vi) deleting the word "and" in the fifth line of item (iii) in the definition of "Portfolio Requirements" and by adding the following clause after the words "Settlement Period" in the last line thereof:

" , and (c) originated under the Super Alpha Program (as defined in the Credit and Collection Policies) with an initial Contract term in excess of sixty (60) months shall not exceed 5% of the aggregate Contract Principal Balance of Eligible Receivables at the end of such Settlement Period"

(vii) deleting the definition of "Yield Rate" and by replacing such definition with the following:

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

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

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

(b) Section 14.11 is hereby amended by inserting "(a)" before the first sentence thereof and by adding the following at the end thereof:

"(b) Notwithstanding anything contained in this Agreement, VFCC shall have no obligation to pay any amount required to be paid by it hereunder or thereunder to any of the Liquidity Agent, the Documentation Agent, the Deal Agent or any Investor, in excess of any amount available to VFCC after paying or making provision for the payment of its Commercial Paper Notes. All payment obligations of VFCC hereunder are contingent upon the availability of funds in excess of the amounts necessary to pay Commercial Paper Notes; and each of the Liquidity Agent, the Documentation Agent, the Deal Agent and each Investor agrees that they shall not have a claim under Section 101(5) of the United States Bankruptcy Code if and to the extent that any such payment obligation exceeds the amount available to the Seller to pay such amounts after paying or making provision for the payment of its Commercial Paper Notes."

(c) Article XIV is hereby amended by adding the following section:

"Section 14.12 Investor Assumption of Hedging Instruments.

Upon a funding of the Liquidity Facility on behalf of the Investors specified in the Liquidity Purchase Agreement, the following provisions shall apply with respect to the Hedging Instruments. Capitalized terms used in this Section 14.12 and not otherwise defined in this Agreement shall have the meanings ascribed to them in the Liquidity Purchase Agreement:

Each Investor shall assume and hereby does agree to assume a pro rata interest (equal to its Percentage Interest) in obligations (including, without limitation, any obligations to make termination payments thereunder) and duties of VFCC under each Hedging Instrument as of the date of such purchase and shall also be entitled to a corresponding portion of the rights and benefits of VFCC under the related Hedging Instrument subsequent to such date.

VFCC shall execute and deliver all Required Assignment Documentation that may be requested by the Deal Agent or VFCC in connection therewith."

3. Full Force and Effect. Except as modified by this Amendment No. 2, the Receivables Funding and Servicing Agreement shall otherwise remain in full force and effect against any and all of the parties thereunder.

4. Governing Law. This Amendment No. 2 shall be governed by, and construed in accordance with, the laws of the State of New York, without reference to its conflicts of laws provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance therewith.

5. Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF the parties have executed this Amendment No. 2 as of the date first above written.

CONSUMER PORTFOLIO SERVICES, INC.,
as Servicer

By: _____
Name:
Title:

CPS WAREHOUSE CORP., as
Borrower

By: _____
Name:
Title:

VARIABLE FUNDING CAPITAL CORPORATION,
as a Lender

By: First Union Capital Markets, a
division of Wheat First Securities,
Inc., as attorney-in-fact

By: _____
Name:
Title:

FIRST UNION CAPITAL MARKETS, a division
of WHEAT FIRST SECURITIES, INC.,
as Deal Agent

By: _____
Name:
Title:

FIRST UNION NATIONAL BANK, as
Liquidity Agent

By: _____
Name:
Title:

FIRST UNION NATIONAL BANK, as
Collateral Agent

By: _____
Name:
Title:

FIRST UNION NATIONAL BANK, as Investors

By: _____
Name:
Title:

Commitment: \$200,000,000

SUBSCRIPTION AGREEMENT FOR COMMON STOCK

SUBSCRIPTION AGREEMENT made as of the 21st day of July, 1998 between Consumer Portfolio Services, Inc., a California corporation ("Issuer"), and Stanwich Financial Services Corp., a Rhode Island corporation ("Purchaser").

CPS desires to increase its capital by selling shares of its common stock. SFSC desires to purchase 443,459 such shares.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter set forth, the parties hereto do hereby agree as follows:

1. SUBSCRIPTION FOR SHARES AND REPRESENTATIONS BY PURCHASER

1.1 Purchaser agrees to purchase 443,459 shares (the "Shares") of the common stock of Issuer for consideration of Five Million Dollars (\$5,000,000).

1.2 Purchaser recognizes that the purchase of the Shares involves a high degree of risk and is suitable only for investors that have no need for immediate liquidity in this investment.

1.3 The Purchaser acknowledges that it has been furnished by the Issuer during the course of this transaction with all information regarding the Issuer that Purchaser requested or desired to know; that all other documents which could be reasonably provided have been made available for Purchaser's inspection and review; and that Purchaser has been afforded the opportunity to ask questions of and receive answers from duly authorized officers or other representatives of the Issuer concerning the terms and conditions of the offering, and any additional information that Purchaser has requested.

1.4 The Purchaser hereby acknowledges that this offering of Shares has been a nonpublic offering pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "1933 Act"). The Purchaser represents that the Shares are being purchased for its own account, for investment and not for distribution or resale to unless they are registered under the 1933 Act or unless an exemption from such registration is available. The Purchaser is aware that registration of the Shares with the SEC cannot be assured.

1.5 The Purchaser understands that the Shares have not been registered under the 1933 Act by reason of a claimed exemption under the provisions of the 1933 Act which depends, in part, upon Purchaser's investment intention. In this connection, the Purchaser understands that it is the position of the Securities and Exchange Commission (the "SEC") that the statutory basis for such exemption would not be present if Purchaser's representation merely meant that Purchaser's present intention was to hold the Shares for a short period, for a deferred sale, or for any other fixed period. The Purchaser realizes that, in the view of the SEC, a purchase now with an intent to resell would represent a purchase with an intent inconsistent with Purchaser's representation to the Issuer, and the SEC might regard such a sale, transfer or other disposition as a deferred sale for which the exemption is not available.

1.6 Purchaser represents that (i) it has not been formed for the purpose of acquiring the Shares, (ii) the person signing this Agreement on behalf of the Purchaser has been authorized to do so.

1.7 The Purchaser agrees that the Issuer may refuse to permit the transfer of the Shares by the Purchaser unless the Issuer is supplied an opinion of counsel reasonably satisfactory to the Issuer that the proposed sale, transfer or disposition does not result in a violation of the 1933 Act or any applicable state "blue sky" laws (collectively, "Securities Laws"). The Purchaser agrees to hold the Issuer and its directors, officers and any controlling persons and their respective heirs, representatives, successors and assigns harmless and to indemnify them against all liabilities, costs and expenses incurred by them as a result of any sale, transfer or other disposition of the Shares by the Purchaser in violation of any Securities Laws or any misrepresentation herein.

1.8 The Purchaser consents to the placement of a legend on any certificate evidencing the Shares stating that they have not been registered under the 1933 Act and setting forth or referring to the restrictions on the sale, transfer or other disposition thereof.

2. REPRESENTATIONS BY THE ISSUER.

The Issuer represents and warrants to the Purchaser as follows:

(a) The Issuer is a corporation duly organized, existing and in good standing under the laws of the State of California.

(b) The execution, delivery and performance of this Agreement by the Issuer has been duly approved by the board of directors of the Issuer.

3. MISCELLANEOUS

3.1 Any notice or other communication given hereunder shall be deemed sufficient if in writing and sent by registered or certified mail, return receipt requested, addressed to the Issuer at 2 Ada, Irvine, California 92618, and to the Purchaser at the address indicated below Purchaser's signature.

3.2 This Agreement shall not be changed, modified, or amended except by a writing signed by the parties to be charged, and this Agreement may not be discharged except by performance in accordance with its terms or by a writing signed by the party to be charged.

3.3 This Agreement shall be binding upon and inure to the benefit of the parties hereto and to their respective heirs, legal representatives, successors and assigns. This Agreement sets forth the entire agreement and understanding between the parties as to the subject matter thereof and merges and supersedes all prior discussions, agreements and understandings of any and every nature among them.

3.4 This Agreement and its validity, construction and performance shall be governed in all respects by the internal laws of the State of California.

3.5 This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

STANWICH FINANCIAL SERVICES CORP.
a Rhode Island corporation

By: _____

Address: c/o Stanwich Partners, Inc.
62 Southfield Ave.
Stamford, CT 06902

CONSUMER PORTFOLIO SERVICES, INC.

By: _____

REGISTRATION RIGHTS AGREEMENT

AGREEMENT made as of July 21, 1998, between CONSUMER PORTFOLIO SERVICES, INC., a California corporation (the "Company"), and STANWICH FINANCIAL SERVICES CORP., a Rhode Island corporation ("Purchaser").

RECITALS

This Agreement is made pursuant to the Subscription Agreement for Common Stock ("Subscription Agreement"), dated July 21, 1998, between the Company and the Purchaser, under which the Company has agreed to issue and sell, and the Purchaser has agreed to buy, Four Hundred Forty-Three Thousand Four Hundred Fifty-Nine shares of the common stock, no par value, of the Company.

To induce the Purchaser to provide funds to the Company pursuant to the terms of the Subscription Agreement, the Company has agreed to provide the registration rights set forth in this Agreement. This Agreement shall become effective upon the issuance of any shares of common stock of the Company to the Purchaser (or any other assignee of the Purchaser's rights under the Subscription Agreement) pursuant to the terms of the Subscription Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) "Agreement" shall mean this Registration Rights Agreement.

(b) "Exchange Act" shall mean the Securities Exchange Act of 1934, as the same has been or may hereafter be amended.

(c) "Holder" means any person owning or having the right to acquire the Shares or the Prior Shares, respectively.

(d) "Indemnified Party" shall mean a party entitled to indemnification under Section 7 of this Agreement.

(e) "Indemnifying Party" shall mean the party required to provide indemnification under Section 7 of this Agreement.

(f) "Other Shareholders" shall mean, collectively, officers or directors of the Company who own common stock of the Company or other holders of the Company common stock who are entitled, by contract with the Company, to have their common stock included in a registration of the Company's securities.

(g) "Prior Shares" shall mean the shares of capital stock of the Company defined as the "Shares" in that certain Registration Rights Agreement between the Company and the Purchaser dated as of June 12, 1997.

(h) "Register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and

applicable rules and regulations thereunder, and such registration statement becoming effective.

(i) "Registration Expenses" shall mean all expenses incurred by the Company in compliance with Sections 2 and 3, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration, but excluding fees and disbursements of counsel to, or other experts retained by, any Holder.

(j) "Securities Act" shall mean the Securities Act of 1933, as the same has been or may hereafter be amended.

(k) "Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of securities registered.

(l) "Shares" shall mean the 443,459 shares of the common stock of the Company issued pursuant to the Subscription Agreement, and any shares of the Company's capital stock issued in respect of or exchange for such shares, whether by stock split, stock dividend or otherwise.

2. Registration under Securities Act, etc.

2.1 Demand Registration.

(a) Request. At any time on or after the date of this Agreement, upon the written request of the Purchaser, or an assignee of Shares as provided in Section 9, that the Company effect the registration under the Securities Act of all or part of the Shares specifying the number of Shares to be registered and the intended method of disposition thereof, the Company will give prompt written notice of such request to all registered holders of the Shares, and thereupon the Company will use its best efforts to effect the registration under the Securities Act of:

(i) those Shares that the Company has been requested to register by the Purchaser, and

(ii) all other Shares that the Company has been requested to register by written request of the Holders thereof given to the Company within 30 days after the giving of the aforesaid written notice by the Company (specifying the intended method of disposition of such Shares), all to the extent requisite to permit the intended disposition of the Shares to be so registered.

(b) Registration of Other Securities. Whenever the Company shall effect a registration pursuant to this Section 2.1 in connection with an underwritten offering by one or more Holders of the Shares, no securities other than the Shares and the Prior Shares shall be included among the securities covered by such registration unless (i) the managing underwriter of such offering shall have advised the Purchaser in writing that the inclusion of such other securities would not adversely affect such offering or (ii) the Purchaser shall have consented in writing to the inclusion of such other securities.

(c) Registration Statement Form. Registrations under this Section 2.1 shall be on such appropriate registration form (i) as shall be selected by the Company and as shall be reasonably acceptable to the Purchaser and (ii) as shall permit the disposition of the Shares in accordance with the intended method or methods of disposition specified in the request for such registration. The Company agrees to include in any such registration statement all information which, in the opinion of counsel to the Purchaser and counsel to the Company, is required to be included.

(d) Effective Registration Statement. A registration statement requested pursuant to this Section 2.1 shall not be deemed to have been effected and will not be considered a demand registration which may be requested pursuant to this Agreement (i) unless a registration statement with respect thereto has become effective, (ii) if after it has become effective, it does not remain effective for a period of at least 180 days (unless the Shares registered thereunder have been sold or disposed of prior to the expiration of such 180 day period) or such registration is interfered with by any stop order, injunction or other order or requirement of the Securities and Exchange Commission ("SEC") or other governmental agency or court for any reason and has not thereafter become effective, or (iii) if the conditions to closing specified in the underwriting agreement entered into in connection with such registration are not satisfied or waived other than by reason of the failure or refusal of a Holder of Shares to satisfy or perform a condition to such closing.

(e) Priority in Demand Registrations. If a demand registration pursuant to this Section 2.1 involves an underwritten offering, and the managing underwriter shall advise the Company in writing (with a copy sent to each Holder of the Shares requesting registration) that the number of securities requested to be included in such registration exceeds the number which can be sold in such offering within a price range acceptable to the Purchaser, or such other Person demanding registration pursuant to Section 9 hereof, such registration will include only that number of the Shares and Prior Shares which the Company is so advised can be sold in such offering, drawn pro rata from the Holders of the Shares and the Prior Shares requesting such registration on the basis of the percentage of Shares and the Prior Shares held by the Holders of Shares which have requested that such securities be included. In connection with any such registration, no securities other than the Shares and the Prior Shares shall be covered by such registration.

(f) Demand Registration. Without limiting the ability of other Holders of Shares to have such securities registered once a demand registration has been requested, a demand registration may only be requested by the Purchaser and any other Person entitled to demand registration pursuant to Section 9 hereof, and notwithstanding anything in this Section 2.1 to the contrary, the Company shall not be required to effect more than one registration pursuant to this Section 2.1; provided, however, that the Purchaser, or any other Person entitled to demand registration pursuant to Section 9 hereof, shall be entitled to one additional demand registration if all of the Shares which the Purchaser or such other Person requested to be included in any prior demand registration were not, for whatever reason, registered pursuant to such prior demand registration.

2.2 Company Registration.

(a) If at any time during the period commencing on the date on which the Shares are issued pursuant to the Subscription Agreement and ending on the third anniversary of such date, the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock or other securities under the Securities Act in connection with the public offering of such securities solely for cash (other than (i) a registration on Form S-8 of securities to be offered to employees pursuant to an employee benefit plan, (ii) a registration in connection with an exchange offer or any acquisition, (iii) a registration of asset-backed securities to be issued by a trust, or (iv) a registration on any form which does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Shares), the Company shall, each such time, give each Holder written notice of such proposed registration at least twenty (20) days prior to filing the registration statement respecting such proposed registration. Upon the written request of any Holder given within fifteen (15) days after mailing of such notice by the Company, the Company shall cause to be registered under the Securities Act all of the Shares that each such Holder has requested to be registered, subject to Section 6 hereof.

(b) Priority in Incidental Registrations. In a registration pursuant to this Section 2.2 involving an underwritten offering of the securities so being registered, whether or not for sale for the account of the Company by or through one or more underwriters of recognized standing, if the managing underwriter of such underwritten offering shall inform the Company and the Holders of the Shares requesting registration in such offering by letter of its belief that the number or type of securities to be included in such registration would materially adversely affect its ability to effect such offering, then the Company will be required to include in such registration only that number, if any, and type of Shares which it is so advised can be sold in such offering, drawn pro rata from the Holders of the Shares and Prior Shares requesting such registration on the basis of the percentage of the Shares and Prior Shares held by the Holders of Shares and Prior Shares which have requested that such securities be included.

3. Obligations of the Company. Whenever required under this Agreement to effect the registration of any Shares, the Company shall use its best efforts to, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC a registration statement with respect to such Shares and use its best efforts to cause such registration statement to become effective.

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

(c) Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Shares owned by them.

(d) Make every reasonable effort to obtain the withdrawal of any order suspending the effectiveness of a registration statement, or the lifting of any suspension of the qualification of any of the Shares for sale in any jurisdiction, at the earliest possible moment;

(e) Register and qualify the securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions as shall be reasonably requested by the Holders provided that in no event shall: the Company be required to qualify to do business in any state or to take any action which would subject it to general or unlimited service of process in any state where it is not now so subject, any stockholder be required to escrow their shares of capital stock of the Company, or the Company or any stockholder be required to comply with any other requirement which they deem unduly burdensome; and

(f) Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission and make generally available to its security holders earnings statements satisfying the provisions of Section 11(a) of the Securities Act, no later than 90 days after the end of any 12-month period (i) commencing at the end of any fiscal quarter in which Shares are sold to underwriters in a firm or best efforts underwriting offering and (ii) beginning with the first day of the Company's first fiscal quarter next succeeding each sale of Shares after the effective date of a registration statement, which statements shall cover said 12-month periods;

The Company may require each holder of Shares as to which any registration is being effected to furnish to the Company such information regarding such Holder and the distribution of such Shares as the Company may from time to time reasonably request in writing in order to comply with the Securities Act. Each Holder of Shares as to which any registration is being effected agrees to notify the Company as promptly as practicable of any inaccuracy or change in information previously furnished by such Holder to

the Company or of the happening of any event in either case as a result of which any prospectus relating to such registration contains an untrue statement of a material fact regarding such Holder or the distribution of such Shares or omits to state any material fact regarding such Holder or the distribution of such Shares required to be stated therein or necessary to make the statement therein not misleading in light of the circumstances then existing, and to promptly furnish to the Company any additional information required to correct and update any previously furnished information or required such that such prospectus shall not contain, with respect to such Holder or the distribution of such Shares, an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

Each Holder of Shares agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3(d) hereof, or notice from the Company that revision or correction of any of the information contained in such registration statement or prospectus is then required, such holder will forthwith discontinue disposition of such Shares covered by such registration statement or prospectus until such Holder's receipt of the copies of the supplemented or amended prospectus relating to such registration statement or prospectus, or until it is advised in writing by the Company that the use of the applicable prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in such Prospectus, and, if so directed by the Company, such Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the prospectus covering the Shares current at the time of receipt of such notice.

(g) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement with terms generally satisfactory to the managing underwriter of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

4. **Furnish Information.** It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Agreement, that the selling Holders shall furnish to the Company such information regarding themselves, the Shares held by them, and the intended method of disposition of such securities as shall be required to effect the registration of their Shares.

5. **Expenses Of Registration.** All expenses incurred in connection with any registration pursuant to this Agreement (other than underwriter's commissions and fees or any fees of others employed by a selling Holder, including attorneys' fees), including without limitation all registration, filing and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company, shall be borne by the Company.

6. **Underwriting Requirements.** In connection with any offering involving an underwriting of securities being issued by the Company, the Company shall not be required under Section 2 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by it, and then only in such quantity, if any, as will not, in the opinion of the underwriters, jeopardize or in any way reduce the success of the offering by the Company. If the total amount of Shares that all Holders with registration rights under Section 2 and any Holders of Prior Shares request to be included in such offering exceed the amount of such securities that the underwriters reasonably believe compatible with the success of the offering, then the Company shall be required to include in the offering only that number of Shares and Prior Shares of the Holders that the underwriters believe will not jeopardize the success of the offering; provided that the Shares and Prior Shares to be included in such case shall be apportioned pro rata among the Holders according to the total amount of Shares and Prior Shares requested to be registered.

7. Indemnification. In the event any Shares are included in a registration statement under this Agreement:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the Exchange Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or Securities Exchange Act of 1934, as amended ("Exchange Act") against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or any state securities law or regulation, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and the Company will reimburse each such Holder, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in a connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this paragraph 7(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter or controlling person or his or their representative or agent.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors and officers, any underwriter (as defined in the Securities Act) for the Company, each person, if any, who controls the Company or any such underwriter within the meaning of the Securities Act or the Exchange Act, and any other holder selling securities in such registration statement or any of its directors or officers or any person who controls such Holder, against any losses, claims, damages, or liabilities (or actions in respect thereto) which arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder or his representative or agent expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, any person who controls the Company, any underwriter or controlling person of any such underwriter, any other such Holder, officer, director, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this paragraph 7(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld), and provided further that the obligations of each selling Holder hereunder shall be limited to an amount equal to the proceeds of each such selling Holder of the shares sold by such selling Holder pursuant to such registration.

(c) Promptly after receipt by an indemnified party under this Section 7 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 7, notify the indemnifying party in writing of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however,

that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to notify an indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability that it may have to any indemnified party otherwise than under this Section 7.

8. Reports Under the Exchange Act. With a view to making available to the Holders the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration form which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC, the Company agrees that it shall, for at least three (3) years from the date on which the Shares are issued pursuant to exercise of the conversion right under the Note:

(a) Make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times;

(b) File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act; and

(c) Furnish to any Holder, so long as the Holder owns any Shares, forthwith upon reasonable request (i) a written statement by the Company that it has complied with the reporting requirements of the Exchange Act (at any time after it has become subject to such reporting requirements), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC permitting the selling of any such securities without registration or pursuant to such form.

9. Assignment of Registration Rights. The rights to cause the Company to register Shares pursuant to this Agreement may be assigned by a Holder to a transferee or assignee of such securities by providing the Company, within a reasonable time after such transfer, with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; provided, however, that such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Securities Act, (i) such transferee explicitly accepts all obligations of the transferor hereunder, and (ii) such transfer is of not less than 50% of the total number of the Shares initially issued under the Subscription Agreement.

10. Exceptions to Registration. Notwithstanding any other provision of this Agreement, the Company shall not be required to register any of the Shares if and to the extent that the Holder may at such time dispose of all of such Shares pursuant to Rule 144 promulgated under the Securities Act, or pursuant to any currently effective registration statement previously filed by the Company.

11. Nominees for Beneficial Owners. In the event that any Shares are held by a nominee for the beneficial owner thereof, the beneficial owner thereof may, at its election, be treated as the holder of such securities for purposes of any request or other action by any holder or holders of securities pursuant to this Agreement or any determination of any number or percentage of shares of securities held by any holder

or holders of securities contemplated by this Agreement. If the beneficial owner of any Shares so elects, the Company may require assurances reasonably satisfactory to it of such owner's beneficial ownership of such Shares.

12. Legend. Prior to the sale of the Shares pursuant to a registration under the Securities Act, a legend in substantially the following form will be placed on all documents or certificates evidencing the Shares:

"THE SECURITIES EVIDENCED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAW OF ANY STATE OR OTHER JURISDICTION. THE SECURITIES MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION, OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED."

13. Transfer of Note and/or Shares. The Purchaser hereby represents that the Note and the Shares are being acquired solely for investment purposes, for the Purchaser's own account and not for the interest of any other Person and not with a view to the resale or distribution thereof other than pursuant to an exemption under the Securities Act and in compliance with the terms hereof.

14. GENERAL AND MISCELLANEOUS

14.1 Survival Of Warranties. The warranties, representations and covenants of the parties contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement.

14.2 Entire Agreement. This Agreement constitutes the entire agreement among the parties concerning registration of the Shares, and no party shall be liable or bound to any other party in any manner by any warranties, representations, guarantees or covenants except as specifically set forth in this Agreement. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

14.3 Governing Law. This Agreement shall be governed by and construed under the internal laws of the State of California without regard to conflicts of law.

14.4 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14.5 Notices. Except as otherwise provided herein, all notices, demands and requests that any party is required or elects to give to any other shall be in writing, or by a telecommunications device capable of creating a written record, and any such notice shall become effective (a) upon personal delivery thereof, including, but not limited to, delivery by overnight mail and courier service, (b) three (3) days after it shall have been mailed by United States mail, first class, certified or registered, return receipt requested, with postage prepaid, or (c) in the case of notice by such a telecommunications device, when properly transmitted, in each case addressed to the party to be notified as follows:

If to Purchaser: Stanwich Financial Services Corp.
c/o Stanwich Partners, Inc.
One Stamford Landing
62 Southfield Ave.
Stamford, CT 06902
Attention: Chief Executive Officer

If to the Company: Consumer Portfolio Services, Inc.
2 Ada
Irvine, CA 92618
Attention: Chief Executive Officer

or to such other address as each party may designate for itself by like notice.

14.6 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first written.

CONSUMER PORTFOLIO SERVICES, INC.
a California corporation

By: _____

Its: _____

STANWICH FINANCIAL SERVICES CORP.
a Rhode Island corporation

By: _____

Its: _____

3-MOS		3-MOS	
DEC-31-1998		DEC-31-1997	
APR-01-1998		APR-01-1997	
JUN-30-1998		JUN-30-1997	
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	0		0
	225,384		73,696
	11,524		2,465
	0		0
	0		0
	3,984		3,128
	2,056		1,734
	438,727		225,095
250,411		72,092	
	40,000		40,000
0		0	
	0		0
	42,304		41,761
	52,373		40,845
438,727			
	225,895		0
	0		0
	37,191		18,111
			0
	26,951		10,562
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	7,467		569
	4,614		2,221
	10,240		7,549
	4,315		3,163
5,925		4,386	
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	0		0
	0		0
	5,925		4,386
	0.39		0.31
	0.36		0.28