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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 SEPTEMBER 30, 1999

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-11416

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

CALIFORNIA  
(State or other jurisdiction of  
incorporation or organization)

33-0459135  
(IRS Employer  
Identification No.)

16355 LAGUNA CANYON ROAD, 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 /X/ No / /

As of November 12, 1999, the registrant had 20,107,501 common shares  
outstanding.

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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)

	September 30,	December 31,
	----- 1999 -----	----- 1998 -----
<b>ASSETS</b>		
Cash	\$ 516	\$ 1,940
Restricted cash	1,661	1,619
Contracts held for sale (note 2)	4,564	165,582
Servicing fees receivable	9,711	11,148
Residual interest in securitizations (note 3)	205,984	217,848
Furniture and equipment, net	3,354	4,272
Deferred financing costs	2,653	2,817
Investment in unconsolidated affiliates	1,501	4,145
Related party receivables	1,032	3,268
Other assets	23,951	19,323
	-----	-----
	\$ 254,927	\$ 431,962
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable & accrued expenses	\$ 14,947	\$ 9,267
Warehouse line of credit	--	151,857
Taxes payable	10,484	29,068
Capital lease obligation	1,669	2,132
Notes payable	3,401	2,557
Residual financing	29,563	33,000
Subordinated debt	70,000	65,000
Related party debt	21,500	20,000
	-----	-----
	151,564	312,881
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$1 par value; authorized 5,000,000 shares; none issued	--	--
Series A preferred stock, \$1 par value; authorized 5,000,000 shares; 3,415,000 shares issued; none outstanding	--	--
Common stock, no par value; authorized 30,000,000 shares; 20,107,501 and 15,658,501 shares issued and outstanding at September 30, 1999 and December 31, 1998, respectively	62,421	52,533
Retained earnings	40,942	66,548
	-----	-----
	103,363	119,081
	-----	-----
	\$ 254,927	\$ 431,962
	=====	=====

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
<b>REVENUES:</b>				
Gain (loss) on sale of contracts, net (note 4)	\$ (9,725)	\$ 15,313	\$ (16,161)	\$ 34,650
Interest income (note 5)	(5,312)	12,060	20,019	35,655
Servicing fees	6,288	6,899	22,235	17,891
Other income (loss)	(455)	305	(1,066)	886
	(9,204)	34,577	25,027	89,082
<b>EXPENSES:</b>				
Employee costs	7,062	8,333	23,156	20,684
General and administrative	4,084	6,335	14,639	15,911
Interest	5,912	5,958	23,586	14,487
Marketing	1,175	2,362	4,162	4,895
Occupancy	683	522	2,127	1,501
Depreciation and amortization	351	304	1,245	906
Related party consulting fees	88	19	263	56
	19,355	23,833	69,178	58,440
Income (loss) before income taxes	(28,559)	10,744	(44,151)	30,642
Income taxes	(11,990)	4,506	(18,545)	12,876
Net income (loss)	\$ (16,569)	\$ 6,238	\$ (25,606)	\$ 17,766
Earnings (loss) per share (note 6):				
Basic	\$ (0.82)	\$ 0.40	\$ (1.41)	\$ 1.16
Diluted	\$ (0.82)	\$ 0.38	\$ (1.41)	\$ 1.08
Number of shares used in computing earnings (loss) per share (note 6):				
Basic	20,108	15,557	18,196	15,328
Diluted	20,108	16,948	18,196	16,745

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	1999 ----	1998 ----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (25,606)	\$ 17,766
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,245	906
Amortization of NIRs	24,222	19,367
Amortization of deferred financing costs	475	243
Provision for credit losses	4,843	12,875
NIR gains recognized	--	(36,704)
Gain on sale of subsidiary	--	(56)
Equity net (income) loss in unconsolidated affiliates	1,665	(617)
Net deposits into trusts	(12,358)	(63,834)
Changes in assets and liabilities:		
Restricted cash	(42)	--
Purchases of contracts held for sale	(306,725)	(895,581)
Liquidation of contracts held for sale	462,901	662,027
Net change in warehouse lines of credit	(151,857)	224,922
Other assets	6,358	(10,272)
Accrued taxes and expenses	(12,904)	23,781
	-----	-----
Net cash used in operating activities	(7,783)	(45,177)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investment in unconsolidated affiliate	979	--
Related party receivables	(11)	(242)
Repayment of related party receivables	2,248	707
Investment in unconsolidated affiliate	--	(65)
Purchases of furniture and equipment	(33)	(1,833)
Net cash from sale of subsidiary	--	381
	-----	-----
Net cash provided by (used in) investing activities	3,183	(1,052)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in residual financing	--	33,000
Issuance of related party debt	1,500	5,000
Issuance of subordinated debt	5,000	--
Issuance of notes payable	1,395	2,461
Repayment of residual financing debt	(3,438)	--
Repayment of capital lease obligations	(462)	(400)
Repayment of notes payable	(551)	(502)
Payment of financing costs	(312)	--
Issuance of common stock	--	5,000
Exercise of options and warrants	44	542
	-----	-----
Net cash provided by financing activities	3,176	45,101
	-----	-----
Decrease in cash	(1,424)	(1,128)
Cash at beginning of period	1,940	1,745
	-----	-----
Cash at end of period	\$ 516	\$ 617
	=====	=====
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 21,712	\$ 13,391
Income taxes	\$ 43	\$ 860
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Furniture and equipment acquired through capital leases	\$ --	\$ 839
Issuance and revaluation of common stock warrants	9,844	--
<b>Sale of PIC Leasing, Inc.</b>		
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 nine month periods ended September 30, 1999, are not necessarily indicative of the operating results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

PRINCIPLES OF CONSOLIDATION

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

CONTRACTS HELD FOR SALE

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

CONTRACTS HELD TO MATURITY

Contracts held to maturity are presented at fair market value and are included in other assets on the September 30, 1999, condensed consolidated balance sheet. Payments received on the \$3.1 million balance of Contracts held to maturity are restricted to certain securitized pools, and the related Contracts cannot be resold.

ALLOWANCE FOR CREDIT LOSSES

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

CONTRACT ACQUISITION FEES AND DISCOUNTS

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

RESIDUAL INTEREST IN SECURITIZATIONS AND GAIN ON SALE OF CONTRACTS

The Company historically has purchased Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. The Company has not sold Contracts in a securitization transaction since December of 1998, and there can be no assurance as to when the Company next will do so. The securitizations generally have been structured as follows: First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in an amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998 and have recently been decreased by agreement. See note 7 - "Liquidity" for a discussion of certain pre-conditions to the effectiveness of such decrease.

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

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

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





CONSUMER PORTFOLIO SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

(2) CONTRACTS HELD FOR SALE

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

	September 30, 1999	December 31, 1998
	(in thousands)	
Gross receivable balance.....	\$ 7,248	\$ 183,876
Unearned finance charges.....	(194)	(10,949)
Deferred acquisition fees and discounts.....	(313)	(4,594)
Allowance for credit losses.....	(2,177)	(2,751)
	-----	-----
Net contracts held for sale.....	\$ 4,564	\$ 165,582

(3) RESIDUAL INTEREST IN SECURITIZATIONS

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

	September 30, 1999	December 31, 1998
	(in thousands)	
Cash, commercial paper, US government securities and other qualifying investments (Spread Account).....	\$ 145,057	\$ 130,394
NIRs.....	30,578	54,800
Over collateralization.....	30,187	31,836
Funds held by investor.....	--	480
Investment in subordinated certificates .....	162	338
	-----	-----
Residual interest in securitizations:.....	\$ 205,984	\$ 217,848

CONSUMER PORTFOLIO SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the activity of the NIRs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Balance, beginning of period.....	\$ 40,010	\$ 57,573	\$ 54,800	\$ 45,112
NIR gains recognized.....	--	13,819	--	36,704
Amortization of NIRs.....	(9,432)	(8,943)	(24,222)	(19,367)
Balance, end of period.....	\$ 30,578	\$ 62,449	\$ 30,578	\$ 62,449

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

	September 30, 1999	December 31, 1998
	(in thousands)	
Undiscounted estimated credit losses.....	\$ 95,477	\$ 169,110
Servicing subject to recourse provisions.....	\$ 947,989	\$ 1,362,801
Undiscounted estimated credit losses as percentage of servicing subject to recourse provisions.....	10.07%	12.41%

(4) GAIN ON SALE OF CONTRACTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Gains (loss) recognized on sale.....	\$ (8,644)	\$ 13,820	\$ (17,917)	\$ 36,704
Deferred acquisition fees and discounts	1,745	5,528	7,596	13,839
Expenses related to sales.....	(576)	(1,164)	(997)	(3,018)
Provision for credit losses.....	(2,250)	(2,871)	(4,843)	(12,875)
Net gain (loss) on sale of contracts...	\$ (9,725)	\$ 15,313	\$ (16,161)	\$ 34,650

CONSUMER PORTFOLIO SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(5) INTEREST INCOME

The following table presents the components of interest income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Interest on Contracts held for sale	\$ 3,695	\$ 12,236	\$ 28,213	\$ 30,868
Residual interest income.....	425	8,766	16,028	24,154
Amortization of NIRs.....	(9,432)	(8,942)	(24,222)	(19,367)
Net interest income (loss).....	\$ (5,312)	\$ 12,060	\$ 20,019	\$ 35,655

(6) EARNINGS (LOSS) PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	(in thousands)		(in thousands)	
Weighted average number of common shares outstanding during the period used to compute basic earnings per share.....	20,108	15,557	18,196	15,328
Incremental common shares attributable to exercise of outstanding options and.....	--	240	--	535
Incremental common shares attributable to conversion of subordinated debt.....	--	1,151	--	882
Number of common shares used to compute diluted earnings (loss) per share.....	20,108	16,948	18,196	16,745

If the anti-dilutive effects of common stock equivalents were not considered, additional shares included in diluted loss per share calculation for the three and nine month periods ended September 30, 1999, would have included an additional 2,000 and 16,000, respectively, from outstanding stock options and warrants and an additional 2.4 million from incremental shares attributable to the conversion of certain subordinated debt, for an aggregate total of approximately 22.5 million diluted shares for the three month period ending September 30, 1999 and 20.6 million diluted shares for the nine month period ending September 30, 1999.

(7) LIQUIDITY

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

CONSUMER PORTFOLIO SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Net cash used in operating activities was \$7.8 million during the nine month period ended September 30, 1999, compared to \$45.2 million for the nine month period ended September 30, 1998. Net cash deposited into trusts was \$12.4 million, a decrease of \$51.5 million, or 80.6%, over net cash deposited into trusts in the nine month period ended September 30, 1998.

During the nine month period ended September 30, 1999, the Company did not complete a securitization transaction, and therefore, did not use any cash for initial deposits to Spread Accounts, compared to \$36.3 million used during the nine month period ended September 30, 1998. Cash used for subsequent deposits to Spread Accounts for the nine month period ended September 30, 1999, was \$21.1 million, a decrease of \$23.2 million, or 52.4%, over cash used for subsequent deposits to Spread Accounts in the nine month period ended September 30, 1998. Cash released from Spread Accounts for the nine month period ended September 30, 1999, was \$8.7 million, a decrease of \$8.0 million, or 47.9%, over cash released from Spread Accounts in the nine month period ended September 30, 1998. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

As of September 30, 1999, 17 of the 21 Trusts had incurred cumulative net losses as a percentage of the original Contract balance or average delinquency ratios in excess of the predetermined levels specified in the respective Servicing Agreements. Accordingly, pursuant to the Servicing Agreements, the specified levels applicable to the Company's Spread Accounts were increased. Due to cross collateralization provisions of the Servicing Agreements, the increased specified levels have been applicable to 19 of the Company's 21 Trusts. The higher requisite Spread Account levels ranged from 30% of the outstanding principal balance of the Certificates issued by the related Trusts up to an unlimited amount. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, some of which have been waived on a monthly basis by the Certificate Insurer. Increased specified levels for the Spread Accounts have been in effect from time to time in the past, including the entire period from June 1998 to September 1999. As a result of the increased Spread Account specified levels and cross collateralization provisions, excess cash flows that would otherwise have been released to the Company instead were retained in the Spread Accounts to bring the balance of those Spread Accounts up to a higher level. Due to the increase in the Spread Account requirements, there were no significant releases of cash from the Trusts from June 1998 through September 1999. Funding such balance increases has materially increased the Company's capital requirements, while the absence of cash releases has materially decreased its liquidity. As a result of the increased specified levels applicable to the Spread Accounts, approximately \$51.0 million of cash that would otherwise have been available to the Company had been delayed and retained in the Spread Accounts as of September 30, 1999. A portion of such cash was subsequently released to the Company, as discussed below.

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

As the first step in the plan, the Company in November 1998 and April 1999 issued \$25.0 million and \$5.0 million, respectively, of subordinated promissory notes (collectively, the "LLCP Notes"), to Levine Leichtman Capital Partners, L.P. ("LLCP"). The LLCP Notes are due in 2004, and bear interest at the rate of 14.5% per annum. Net proceeds received from the issuances were approximately \$28.5 million. In conjunction with the LLCP Notes, the Company issued warrants to purchase up to 4,450,000 shares of common stock at \$0.01 per share, 3,115,000 and 1,334,000 of which were exercised in April 1999 and May 1999, respectively. The effective cost of this new capital represents a material increase in the cost of capital to the Company. As part of the agreements for issuance of the LLCP Notes, Stanwich Financial Services Corp. ("SFSC") agreed to purchase an additional \$15.0 million of notes (at least \$7.5 million by July 31, 1999 and the remainder by August 31, 1999), and the Company agreed to sell such notes. The chairman and the president of the Company are the principal shareholders of SFSC, and the Company's chairman is the chief executive officer of SFSC. The terms of such additional notes are to be not less favorable to the Company than (i) those that would be available in a transaction with a non-affiliate, and (ii) those applicable to the LLCP Notes. Sale of such additional notes would likely therefore involve some degree of equity participation, which could be dilutive to other holders of the Company's common stock. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, \$5.0 million of the LLCP Notes have been personally guaranteed by the chairman of the Company's board of directors and the president of the Company. As of the date of this report, SFSC has purchased \$1.5 million of such additional notes, on the same terms applicable to the LLCP notes, but

subordinated to the LLC Notes and to the Company's outstanding public debt.

CONSUMER PORTFOLIO SERVICES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The Company has entered into an amendment agreement (the "Amendment"), which fixes the amount of cash to be retained in the Spread Accounts for 19 of the Company's 21 securitization Trusts. The amended level is 21% of the outstanding principal balance of the Certificates issued by such Trusts, computed on a pool by pool basis. The 21% level is subject to adjustment to reflect overcollateralization, and with respect to older Trusts that have amortized the Certificate balance to the extent that minimum levels are applicable.

In the event of certain defaults by the Company, the specified level applicable to such Spread Accounts could increase to an unlimited amount, but such defaults are narrowly defined, and the Company does not anticipate suffering such defaults. The Amendment by its terms is applicable from September 1999 onward, and on November 3, 1999, the necessary signatures and conditions were satisfied to make the Amendment effective. The Company on November 4, 1999, received its first material release of cash from the securitized portfolio pursuant to the terms of the Amendment. The releases of cash are expected to continue and to vary in amount from month to month. There can be no assurance that such releases of cash will continue in the future.

As a third part of its plan, the Company reduced its planned level of Contract purchases initially to not more than \$200.0 million per quarter beginning November 1998. In the first quarter of 1999, the Company purchased \$158.0 million of Contracts. During the second quarter of 1999, the Company purchased \$59.1 million of Contracts, of which \$20.3 million was on a flow basis, as discussed below. During the third quarter of 1999, the Company purchased \$89.6 million of Contracts, all of which was on a flow basis, and expects to purchase Contracts only on a flow basis in the remainder of 1999. The reduction in the amount of Contracts purchased for the Company's own account has materially reduced the Company's capital requirements.

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

Purchase of Contracts on a flow basis, as compared with purchase of Contracts for the Company's own account, has materially reduced the Company's cash requirements. The Company's plan for meeting its immediate liquidity needs is (1) to increase the quantity of Contracts that it purchases and sells on a flow basis, thus increasing the fees that it receives in connection with such purchases and sales, and (2) to continue to receive releases of cash from its Spread Accounts, pursuant to the Amendment, which became effective on November 3, 1999. There can be no assurance that this plan will be successful.

During the second and third quarters, the Company sold, on a servicing released basis, \$318.0 million of its Contracts held for sale. The remaining Contracts held for sale represent Contracts that did not meet the criteria for the various sales occurring in the second and third quarters. The Company's ability to increase the quantity of Contracts that it purchases and sells on a flow basis will be subject to general competitive conditions and other factors. Although the Company has continued to increase the amount of Contracts purchased and sold on a flow basis, there can be no assurance that the current level of flow production can be maintained or increased.

Obtaining release of cash from the Spread Accounts is dependent on collections from the related Trusts generating sufficient cash in excess of the amended specified levels. There can be no assurance that collections from the related trusts will generate cash in excess of the amended specified levels.

(8) COMMITMENTS AND CONTINGENCIES

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

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

OVERVIEW

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

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

The Company has purchased Contracts with the primary intention of reselling them in securitization transactions as asset-backed securities. From late May 1999 to the present, the Company has purchased Contracts on a flow basis for a third party; that is, the Company purchases a Contract from a Dealer, and sells the Contract the next day to the third party for the same price the Company paid. The Company also receives from the third party a fee for its services. The Company retains no interest in such Contracts, and neither services such Contracts nor earns a servicing fee. Although the Company has been unable to sell Contracts in a securitization transaction since December 1998, it does plan to securitize in the future, as to which there can be no assurance. The Company's securitization structure has been as follows:

First, the Company sells a portfolio of Contracts to a wholly owned subsidiary ("SPS"), which has been established for the limited purpose of buying and reselling the Company's Contracts. The SPS then transfers the same Contracts to either a grantor trust or an owner trust (the "Trust"). The Trust in turn issues interest-bearing asset-backed securities (the "Certificates"), generally in a principal amount equal to the aggregate principal balance of the Contracts. The Company typically sells these Contracts to the Trust at face value and without recourse, except that representations and warranties similar to those provided by the Dealer to the Company are provided by the Company to the Trust. One or more investors purchase the Certificates issued by the Trust; the proceeds from the sale of the Certificates are then used to purchase the Contracts from the Company. The Company purchases a financial guaranty insurance policy, guaranteeing timely payment of principal and interest on the senior Certificates, from an insurance company (the "Certificate Insurer"). In addition, the Company provides a credit enhancement for the benefit of the Certificate Insurer and the investors in the form of an initial cash deposit to an account ("Spread Account") held by the Trust. The agreements governing the securitization transactions (collectively referred to as the "Servicing Agreements") require that the initial deposits to the Spread Accounts be supplemented by a portion of collections from the Contracts until the Spread Accounts reach specified levels, and then maintained at those levels. The specified levels are generally computed as a percentage of the principal amount remaining unpaid under the related Certificates. The specified levels at which the Spread Accounts are to be maintained will vary depending on the performance of the portfolios of Contracts held by the Trusts and on other conditions, and may also be varied by agreement among the Company, the SPS, the Certificate Insurer and the trustee. Such levels have increased and decreased from time to time based on performance of the portfolios, and have also been varied by agreement. The specified levels applicable to the Company's sold pools increased materially in 1998. Effective November 3, 1999, as applied to monthly measurement dates from September 1999 onward, the specified levels have decreased, 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 ownership interest that the Company retains in the Contracts sold in the securitization. That retained interest (the "Residual") consists of (a) the cash held in the Spread Account and (b) the net interest receivables ("NIRs"). NIRs represent the estimated discounted cash flows to be received by the Trust in the future, net of principal and interest payable with respect to the Certificates, and certain expenses. The excess of the cash received and the assets retained by the Company over the carrying value of the Contracts sold, less transaction costs, equals the net gain on sale of Contracts recorded by the Company.

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

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

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

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



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

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

#### RESULTS OF OPERATIONS

The three month period ended September 30, 1999 compared to the three month  
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period ended September 30, 1998  
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REVENUES. During the three months ended September 30, 1999, revenues decreased \$43.8 million, or 126.6%, compared to the three month period ended September 30, 1998. Gain on sale of Contracts decreased by \$25.0 million, or 163.5%, from a \$15.3 million gain on sale in the third quarter of 1998 to a \$9.7 million loss in the third quarter of 1999. The change in gain on sale from positive to negative is due to the Company selling Contracts only on a servicing released basis and thus not recording any NIR gains during the period, as well as to selling Contracts at a loss. During the three month period ended September 30, 1999, the Company sold \$83.8 million of Contracts on a servicing released basis, that is, with no residual interest retained, with no servicing obligation, and with no right to receive a servicing fee. Those sales resulted in a net loss of approximately \$11.3 million. Expenses of approximately \$576,000 were incurred related to previous securitization transactions, including the amortization of a warrant issued to the Certificate Insurer in November 1998. In addition, for the three month periods ended September 30, 1999 and 1998, the Company charged against gain on sale \$2.3 million and \$2.9 million, respectively, of provision for losses on Contracts held for sale.

Interest income decreased by \$17.4 million, or 144.1%, from positive interest income of \$12.1 million in the third quarter of 1998 to negative interest income of \$5.3 million in the third quarter of 1999. Interest income consists of interest earned on Contracts held for sale and residual interest income earned on the Company's securitized portfolio, and is offset by amortization of the NIRs. The principal factors leading to the decrease in interest income were that the Company held fewer Contracts for sale, which reduces interest earned on such Contracts, and that the Company did not, in the most recent quarter, securitize any Contracts. It has been the Company's experience that residual interest income is greatest early in the term of a securitized pool. An increase in the amortization of NIRs in accordance with the seasoning of the underlying securitized pools, as compared to the same period in the prior year, also had an adverse effect on interest income. Due to the absence of new pools of securitized Contracts that could be expected to contribute materially to residual interest income, and a further decrease in Contracts held for sale, interest income can be expected to decrease further in future quarters.

Servicing fees decreased by approximately \$611,000, or 8.9%, and represented 68.3% of total revenues. The decrease in servicing fees is due to the decrease in the servicing portfolio. As of September 30, 1999, the Company was earning servicing fees on 101,383 sold Contracts with aggregate outstanding principal balances approximating \$948.0 million, compared to 110,945 Contracts with aggregate outstanding principal balances approximating \$1,175.7 million as of September 30, 1998. In addition to the \$948.0 million in sold Contracts, on which servicing fees were earned, the Company was holding for sale and servicing an additional \$7.1 million in Contracts, for an aggregate total servicing

portfolio of \$955.1 million. The Company is not currently acquiring Contracts for its servicing portfolio. In addition, those Contracts that remain in the Company's servicing portfolio are self-amortizing, and the aggregate principal balance of the servicing portfolio therefore decreases over time. Accordingly, the Company expects that its servicing portfolio will continue to decrease, and that servicing fees to be earned will therefore also decrease, at least through the remainder of 1999, and until such time as the Company is again acquiring Contracts for its own servicing portfolio. There can be no assurance as to when the Company may be able to do so.

EXPENSES. During the three month period ended September 30, 1999, operating expenses decreased \$4.5 million, or 18.8%, compared to the three month period ended September 30, 1998. Employee costs decreased by \$1.3 million, or 15.3%, and represented 36.5% of total operating expenses. The decrease is due to reductions in staff in accordance with the decrease in the Company's servicing portfolio and originations volume. General and administrative expenses decreased by \$2.3 million, or 35.5%, and represented 21.1% of total operating expenses.

Interest expense decreased approximately \$46,000, or 0.8%, and represented 30.6% of total operating expenses. See "Liquidity and Capital Resources." The decrease is primarily due to the decrease in the Company's warehouse lines of credit and reduction of the principal balance of senior secured debt (the "Senior Secured Line"). The warehouse lines of credit were paid down in their entirety as of September 30, 1999, compared to an outstanding balance of \$286.6 million at September 30, 1998. The outstanding balance of the Senior Secured Line was \$29.6 million at September 30, 1999, compared to \$33.0 million at September 30, 1998.

The Company expects to hold for sale fewer Contracts in the remainder of 1999 and the first part of 2000 than it held, on average, through the first three quarters of 1999, which would be expected to result in a decrease in interest earned on Contracts held for sale, and a decrease in interest expense incurred. Beyond the first two quarters of 2000, it is not possible to estimate the quantity of Contracts that the Company may hold for sale.

The nine month period ended September 30, 1999, compared to the nine month  
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period ended September 30, 1998  
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REVENUES. During the nine months ended September 30, 1999, revenues decreased \$64.1 million, or 71.9%, compared to the nine month period ended September 30, 1998. Net gain on sale of Contracts decreased by \$50.8 million, or 146.6%, for the nine month period ended September 30, 1999. The change in gain on sale from positive to negative is due to the Company selling Contracts only on a servicing released basis and thus not recording any NIR gains during the period, as well as to selling Contracts at a loss. During the nine month period ended September 30, 1999, the Company sold \$318.0 million of Contracts on a servicing released basis, resulting in a loss of \$17.6 million.

Interest income decreased by \$15.6 million, or 43.9%, and represented 80.0% of total revenues for the nine month period ended September 30, 1999. The decrease is primarily due to a lower average balance of Contracts held for sale, decrease in residual interest income primarily due to the absence of any new securitizations, and an increase in the amortization of NIRs during the nine month period ending September 30, 1999.

Servicing fees increased by \$4.3 million, or 24.3%, and represented 88.9% of total revenues. The increase in servicing fees is due to the increase in the Company's average servicing portfolio over the prior year's period.

EXPENSES. During the nine month period ended September 30, 1999, operating expenses increased \$10.7 million, or 18.4%, compared to the nine month period ended September 30, 1998. Employee costs increased by \$2.5 million, or 12.0%, and represented 33.5% of total operating expenses. The increase is due to the fact that on average, there were more staff on hand for the nine month period ended September 30, 1999, than in the same period in the prior year. The higher staff levels were necessary to accommodate the increase in the Company's average servicing portfolio during the first two quarters of 1999. General and administrative expenses decreased by \$1.3 million, or 8.0%, and represented 21.2% of total operating expenses. The decrease in general and administrative expenses is primarily due to decreases in telecommunications, stationery, credit reports and other related items as a result of the decrease in the Company's originations volume.

Interest expense increased \$9.1 million, or 62.8%, and represented 34.1% of total operating expenses. See "Liquidity and Capital Resources." The increase is primarily due to the interest paid on an additional \$35.0 million in subordinated debt securities and amounts borrowed under the Senior Secured Line. Most of such debt was issued by the Company at various times after September 30, 1998, or had a higher outstanding balance during 1999. Interest expense has also been increased by the Company being required to pay higher interest rates on borrowed money in the current period, as compared with the prior year's period.

#### LIQUIDITY AND CAPITAL RESOURCES

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

Net cash used in operating activities was \$7.8 million during the nine month period ended September 30, 1999, compared to \$45.2 million for the nine month period ended September 30, 1998. Net cash deposited into trusts was \$12.4 million, a decrease of \$51.5 million, or 80.6%, over net cash deposited into trusts in the nine month period ended September 30, 1998.

During the nine month period ended September 30, 1999, the Company did not complete a securitization transaction, and therefore, did not use any cash for initial deposits to Spread Accounts, compared to \$36.3 million used during the nine month period ended September 30, 1998. Cash used for subsequent deposits to Spread Accounts for the nine month period ended September 30, 1999, was \$21.1million, a decrease of \$23.2million, or 52.4%, from cash used for subsequent deposits to Spread Accounts in the nine month period ended September 30, 1998. Cash released from Spread Accounts for the nine month period ended September 30, 1999, was \$8.7 million, a decrease of \$8.0 million, or 47.9%, from cash released from Spread Accounts in the nine month period ended September 30, 1998. Changes in deposits to and releases from Spread Accounts are affected by the relative size, seasoning and performance of the various pools of sold Contracts that make up the Company's Servicing Portfolio.

As of September 30, 1999, 17 of the 21 Trusts had incurred cumulative net losses as a percentage of the original Contract balance or average delinquency ratios in excess of the predetermined levels specified in the respective Servicing Agreements. Accordingly, pursuant to the Servicing Agreements, the specified levels applicable to the Company's Spread Accounts were increased. Due to cross collateralization provisions of the Servicing Agreements, the increased specified levels have been applicable to 19 of the Company's 21 Trusts. The higher requisite Spread Account levels ranged from 30% of the outstanding principal balance of the Certificates issued by the related Trusts up to an unlimited amount. In addition to requiring higher Spread Account levels, the Servicing Agreements provide the Certificate Insurer with certain other rights and remedies, some of which have been waived on a monthly basis by the Certificate Insurer. Increased specified levels for the Spread Accounts have been in effect from time to time in the past, including the entire period from

June 1998 to September 1999. As a result of the increased Spread Account specified levels and cross collateralization provisions, excess cash flows that would otherwise have been released to the Company instead were retained in the Spread Accounts to bring the balance of those Spread Accounts up to a higher level. Due to the increase in the Spread Account requirements, there were no significant releases of cash from the Trusts from June 1998 through September 1999. Funding such balance increases has materially increased the Company's capital requirements, while the absence of cash releases has materially decreased its liquidity. As a result of the increased specified levels applicable to the Spread Accounts, approximately \$51.0 million of cash that would otherwise have been available to the Company had been delayed and retained in the Spread Accounts as of September 30, 1999. A portion of such cash was subsequently released to the Company, as discussed below.

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

As the first step in the plan, the Company in November 1998 and April 1999 issued \$25.0 million and \$5.0 million, respectively, of subordinated promissory notes (collectively, the "LLCP Notes"), to Levine Leichtman Capital Partners, L.P. ("LLCP"). The LLCP Notes are due in 2004, and bear interest at the rate of 14.5% per annum. Net proceeds received from the issuances were approximately \$28.5 million. In conjunction with the LLCP Notes, the Company issued warrants to purchase up to 4,450,000 shares of common stock at \$0.01 per share, 3,115,000 and 1,334,000 of which were exercised in April 1999 and May 1999, respectively. The effective cost of this new capital represents a material increase in the cost of capital to the Company. As part of the agreements for issuance of the LLCP Notes, Stanwich Financial Services Corp. ("SFSC") agreed to purchase an additional \$15.0 million of notes (at least \$7.5 million by July 31, 1999, and the remainder by August 31, 1999), and the Company agreed to sell such notes. The chairman and the president of the Company are the principal shareholders of SFSC, and the Company's chairman is the chief executive officer of SFSC. The terms of such additional notes are to be not less favorable to the Company than (i) those that would be available in a transaction with a non-affiliate, and (ii) those applicable to the LLCP Notes. Sale of such additional notes would likely therefore involve some degree of equity participation, which could be dilutive to other holders of the Company's common stock. SFSC's commitment in turn has been collateralized by certain assets pledged by the chairman of the Company's board of directors and the president of the Company. Additionally, \$5.0 million of the LLCP Notes have been personally guaranteed by the chairman of the Company's board of directors and the president of the Company. As of the date of this report, SFSC has purchased \$1.5 million of such additional notes, on the same terms applicable to the LLCP Notes, but subordinated to the LLCP Notes and to the Company's outstanding public debt.

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

The Company has entered into an amendment agreement (the "Amendment"), which fixes the amount of cash to be retained in the Spread Accounts for 19 of the Company's 21 securitization Trusts. The amended level is 21% of the outstanding principal balance of the Certificates issued by such Trusts, computed on a pool by pool basis. The 21% level is subject to adjustment to reflect overcollateralization, and with respect to older Trusts that have amortized the Certificate balance to the extent that minimum levels are applicable.

In the event of certain defaults by the Company, the specified level applicable to such Spread Accounts could increase to an unlimited amount, but such defaults are narrowly defined, and the Company does not anticipate suffering such defaults. The Amendment by its terms is applicable from September 1999 onward, and on November 3, 1999, the necessary signatures and conditions were satisfied to make the Amendment effective. The Company on November 4, 1999, received its first material release of cash from the securitized portfolio pursuant to the terms of the Amendment. The releases of cash are expected to continue and to vary in amount from month to month. There can be no assurance that such releases of cash will continue in the future.

As a third part of its plan, the Company reduced its planned level of Contract purchases initially to not more than \$200.0 million per quarter beginning November 1998. In the first quarter of 1999, the Company purchased \$158.0 million of Contracts. During the second quarter of 1999, the Company purchased \$59.1 million of Contracts, of which \$20.3 million was on a flow basis, as discussed below. During the third quarter of 1999, the Company purchased \$89.6 million of Contracts, all of which was on a flow basis, and expects to purchase Contracts only on a flow basis for the remainder of 1999, and until the Company is able to identify appropriate sources of capital to acquire and hold Contracts for the Company's own account. The reduction in the amount of Contracts purchased for the Company's own account has materially reduced the Company's capital requirements.

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

Purchase of Contracts on a flow basis, as compared with purchase of Contracts for the Company's own account, has materially reduced the Company's cash requirements. The Company's plan for meeting its immediate liquidity needs is (1) to increase the quantity of Contracts that it purchases and sells on a flow basis, thus increasing the fees that it receives in connection with such purchases and sales, and (2) to continue to receive releases of cash from its Spread Accounts, pursuant to the Amendment, which became effective on November 3, 1999. There can be no assurance that this plan will be successful.

During the second and third quarters, the Company sold, on a servicing released basis, \$318.0 million of its Contracts held for sale. The remaining Contracts held for sale represent Contracts that did not meet the criteria for the various sales occurring in the second and third quarters. The Company's ability to increase the quantity of Contracts that it purchases and sells on a flow basis will be subject to general competitive conditions and other factors. Although the Company has continued to increase the amount of Contracts purchased and sold on a flow basis, there can be no assurance that the current level of flow production can be maintained or increased.

Obtaining release of cash from the Spread Accounts is dependent on collections from the related Trusts generating sufficient cash in excess of the amended specified levels. There can be no assurance that collections from the related trusts will generate cash in excess of the amended specified levels.

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

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

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

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

The third and final phase consisted of identifying key vendors of the Company's operations and requesting that those vendors complete a Year 2000 compliance questionnaire. The Company has collected and confirmed the Y2K readiness of key vendors. In addition, the Company has established back-up vendors should the primary vendors have temporary work stoppages.

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

At this time, the risks associated with the Company's Year 2000 issues internally have been identified and corrected. Through the Company's plan of analysis and identification, it expects to identify substantially all of its Year 2000 related risks. Although the risks have not been completely identified, the Company believes that the most realistic worst case scenario would be that the Company would suffer from full or intermittent power outages at some or all of its locations. Depending upon the locations affected and estimated duration, this would entail recovery of the main application server systems at other locations and or move to manual processes. Manual processes have been developed as part of the overall contingency plan. In relation to this, complete system data dumps are scheduled to take place prior to the millennium date change to ensure access to all Company mission critical data should any system not be accessible for any reason.

#### FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains certain "forward-looking statements," including, without limitation, the statements to the effect that the Company (i) plans to securitize Contracts in the future, and (ii) expects that forbearances and waivers will be granted, and amendments agreed to, with respect to defaults under existing indebtedness. Such plans and expectations are based on the Company's assessment of the decisions likely to be made by third parties, over which the Company has no control.

Specifically, the reader should bear in mind the following considerations: As to future securitizations, there can be no assurance that the Company will have the liquidity or capital resources to enable it to post the reserves required for credit enhancement of such transactions, or that the securitization markets will be receptive at the time that the Company seeks to engage in such transactions.

As to defaults under existing indebtedness, the Company's ability to cure such defaults and ultimately repay such debt is dependent on the willingness of the various lenders to agree to a number of waivers and amendments. Although the lenders under the Senior Secured Line have agreed to forbear from exercising their remedies with respect to such indebtedness, provided that the Company meets the payment schedule and other conditions set forth in such agreement, it is possible that the Company could fail to meet such terms. Such a possibility could be realized, for example, if the Company were forced to pay material unexpected expenses during the repayment period specified in the agreement with the senior secured lenders. Payment of such expenses, in turn, could leave the Company unable to repay the senior secured lenders on the agreed schedule. A material decrease in collections on the Company's securitized portfolio could also result in the Company being unable to meet that schedule. With respect to the LLC Notes, the Company, as of the date of this report, is in negotiations with LLC (the holder of such Notes) regarding possible waivers and amendments that would allow the Company to comply fully with the amended terms. There can be no assurance that such negotiations will result in an agreement. Although LLC may agree to grant such waivers and execute such amendments, its decisions will be determined by LLC's evaluation of its own interest, and there can be no assurance that any such waivers will be granted or amendments agreed to.

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

#### INTEREST RATE RISK

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

PART II - OTHER INFORMATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company's having incurred a loss in two consecutive quarters, and other events, have placed it in default under its Senior Secured Line. The Company's failure to obtain the \$15.0 million of capital committed by SFSC, late payment of monthly interest of \$375,000, and certain other events, have placed it in default under the LLCP Notes.

The Company has reached an agreement with the lenders under the Senior Secured Line under which such lenders agree to refrain from exercising their remedies occasioned by such default, and under which the Company and such lenders agree to a repayment schedule with respect to all indebtedness under the Senior Secured Line. Such repayment schedule is somewhat less rapid than the schedule that was required in the original agreement creating the Senior Secured Line, and the Company anticipates that it will be able to make all required payments to the lenders under the Senior Secured Line. There can be no assurance that the Company will be able to make all such payments as scheduled.

The Company is in discussions with LLCP regarding possible waivers of defaults and amendments of the existing agreements concerning the LLCP Notes. There can be no assurance that such discussions will result in waivers or in the cure of all applicable defaults. Failure to obtain such waivers could have a material adverse effect on the Company's ability to continue its regular business operations.

A previously reported default with respect to approximately \$69 million of warehouse indebtedness in favor of General Electric Capital Corporation has been cured. The Company cured that default by selling, in a series of transactions in August 1999, substantially all of the collateral securing such indebtedness. To the extent that such sales yielded proceeds in excess of such indebtedness, the Company has used such excess to meet a portion of its liquidity requirements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

- 10.41 Amendment and Forbearance Agreement.
- 27 Financial Data Schedule

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



SIGNATURES

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

CONSUMER PORTFOLIO SERVICES, INC.  
(REGISTRANT)

Date: November 15, 1999

/s/ Charles E. Bradley, Jr.

-----  
Charles E. Bradley, Jr., President and  
Chief Executive Officer  
(PRINCIPAL EXECUTIVE OFFICER)

Date: November 15, 1999

/s/ James L. Stock

-----  
James L. Stock, Vice President - Finance  
(PRINCIPAL FINANCIAL OFFICER AND PRINCIPAL  
ACCOUNTING OFFICER)

EXHIBIT INDEX

10.41	Amendment and Forbearance Agreement.
27	Financial Data Schedule

LOAN AMENDMENT AND FORBEARANCE AGREEMENT

THIS AMENDMENT AND FORBEARANCE AGREEMENT (the "FORBEARANCE AGREEMENT") is dated as of November 3, 1999, by and among Consumer Portfolio Services, Inc., a California corporation (the "BORROWER"), and State Street Bank and Trust Company as agent and lender ("STATE STREET"), The Structured Finance High Yield Fund, LLC, as lender and The Prudential Insurance Company of America, as lender. Said lenders are sometimes herein collectively referred to as the "LENDERS" and each individually a "LENDER". State Street in its capacity as agent for the Lenders hereunder and under each of the Loan Documents is sometimes herein referred to as the "AGENT".

PRELIMINARY STATEMENT

This Forbearance Agreement (i) amends certain provisions of that certain Residual Interest in Securitizations Revolving Credit and Term Loan Agreement dated as of April 30, 1998 by and among the Borrower, State Street, for itself and as Agent, and the Lenders (as amended by a certain letter agreement dated November 2, 1998 by and between the Borrower, the Agent and the Lenders, as further amended by the Second Amendment Agreement dated November 17, 1998 by and between the Borrower, the Agent and the Lenders, as further amended by the Third Amendment Agreement and Confirmation of Security Documents dated April 15, 1999 by and between the Borrower, the Agent and the Lenders, as further amended by a certain letter agreement dated May 28, 1999 by and between the Borrower, the Agent and the Lenders, as further amended by a certain letter agreement dated August 25, 1999 by and between the Borrower, the Agent and the Lenders, as further amended by a letter agreement dated September 3, 1999 by and between the Borrower, the Agent and the Lenders, all as further amended by this Forbearance Agreement, the "LOAN AGREEMENT") and (ii) amends certain provisions of that certain Pledge and Security Agreement dated as of April 30, 1998 by and among the Borrower, State Street, for itself and as Agent, and the Lenders (as amended by and through to the date hereof, the "PLEDGE AND SECURITY AGREEMENT", together with all other Loan Documents heretofore executed in connection with the Loan Agreement. Certain capitalized terms relating to the transactions contemplated by this Forbearance Agreement are defined in Section 4.16 below. Other capitalized terms used herein and not otherwise defined shall have the same meanings herein as in the Loan Agreement.

The Borrower is in default of its obligations to the Lenders by reason of the occurrence of the Events of Default listed on EXHIBIT A hereto (collectively, the "EXISTING EVENTS OF DEFAULT"). Notwithstanding the occurrence of the Existing Events of Default, the Borrower has requested that the Lenders forbear from exercising their rights and remedies with respect to the Existing Events of Default and amend the Loan Documents on the terms set forth herein. The Lenders are willing, subject to the terms and conditions set forth herein (including without limitation the grant of various waivers set forth below), to forbear from exercising their rights in respect of the Existing Events of Default and to amend the Loan Agreement and the Pledge and Security Agreement as and to the extent herein provided.

NOW, THEREFORE, in consideration of the mutual promises and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and subject to the terms and conditions of this Forbearance Agreement, the parties agree as follows:

SS.1. CONFIRMATION OF INDEBTEDNESS. The Borrower owes the Lenders \$28,875,000 in respect of the outstanding principal balance of the Loans as of the date of this Forbearance Agreement, and as of November 1, 1999, accrued and unpaid interest thereon in the amount of \$141,578.04, with a PER DIEM interest charge as of November 1, 1999 of \$8,221.36 and \$7,792.36 of unpaid fees and unreimbursed expenses. The total amount of the Borrower's indebtedness and obligations to the Lenders evidenced by and/or related to the Loan Agreement, the Notes, the Security Documents and each agreement and instrument executed in connection therewith (collectively with this Agreement and any agreement or instrument executed in connection herewith, and as the same have been or may hereafter be amended and/or restated from time to time, the "LOAN DOCUMENTS"), including without limitation principal, interest and reasonable fees and

reasonable expenses of counsel is, by the execution hereof by the Borrower, ratified, confirmed and approved by the Borrower in all respects (the indebtedness and obligations referred to in this sentence and all obligations of the Borrower to the Lenders under this Agreement, in each case whether now existing or hereafter arising and whether incurred before or after the filing of any reorganization petition, are hereinafter referred to collectively as the "OBLIGATIONS"). The Borrower acknowledges and agrees that (i) the Obligations are valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their terms, and (ii) the Obligations are due and payable in full and the Borrower is presently obligated to pay the amounts referred to in the first sentence of this SS.1 and all of its other existing Obligations in accordance with the terms of the Loan Documents, all without any further demand, notice or claim by the Lenders. Without limiting the foregoing, the Borrower acknowledges and agrees that the Lenders have no forbearance obligation whatsoever except as expressly provided in this Forbearance Agreement. The Borrower further acknowledges and agrees that the value of the Collateral (as defined below) securing the Obligations is substantially in excess of the amount of the Obligations.

SS.2. RATIFICATION AND CONFIRMATION OF SECURITY. The Borrower acknowledges, confirms and agrees that all of the Obligations are and shall be

secured by and entitled to the benefits of each of the Security Documents and that the liens granted to the Agent on behalf of the Lenders thereunder remain valid, perfected liens, enforceable against the Borrower and shall extend to all Collateral acquired or arising and Obligations incurred following the filing of any reorganization petition. To the extent any Security Document does not currently provide that the Obligations constitute "Obligations" and/or "Secured Obligations" for purposes thereof, such Security Document is hereby amended to provide for the same. The Borrower acknowledges, confirms and agrees that, except for certain specific equipment on which vendors have existing purchase money liens, the Lenders have and shall retain a first priority perfected security interest in and lien on all of the Borrower's tangible and intangible personal properties and assets, whether now existing or hereafter acquired or arising (collectively, the "COLLATERAL"). The Borrower agrees to take, or cause to be taken, all actions requested by the Lenders in order to create, maintain, renew and/or perfect the Lenders' security interest in the Collateral.

SS.3. DELIBERATELY OMITTED.

SS.4. AMENDMENTS TO LOAN AGREEMENT. The Borrower wishes to amend and supplement the Loan Agreement to (i) amend the Maturity Date and amortization schedule for the Loans; (ii) decrease the Total Commitment from \$33,333,333 to \$29,562,500; (iii) change the interest rate on the Notes; and (iv) make certain other changes in the Loan Agreement. The Lenders are willing, subject to the terms and conditions set forth herein, to agree to amend the Loan Agreement as aforesaid on the terms herein provided.

4.1 AMENDMENT TO SECTION 1. Subsections 1.1 through 1.8 of the Loan Agreement are hereby amended by deleting them in their entirety and replacing them with the following new subsections:

"1.1 RECITALS; COMMITMENTS. The Company wishes to establish a term loan with the Lenders in an aggregate principal amount at any one time outstanding not in excess of Twenty-Nine Million Five Hundred Sixty-Two Thousand Five Hundred Dollars (\$29,562,500) (the "AMENDED TERM LOAN FACILITY"), to expire September 15, 2000 or on such earlier date as may be determined in accordance with SECTION 8.3.

Each Lender is severally willing to make such loans to the Company, subject to the terms and conditions hereafter set forth, in the following maximum amounts at any one time outstanding set forth opposite each Lender's name (each of such amounts being hereinafter called each Lender's "COMMITMENT", and collectively for all of the Lenders, the "TOTAL COMMITMENT") and in the respective percentages set forth opposite each Lender's name which shall be applicable to such loans hereunder (hereinafter such Lender's "PERCENTAGE"):

LENDER -----	COMMITMENT -----	PERCENTAGE -----
State Street Bank and Trust Company	\$14,781,250	50.0%
The Structured Finance High Yield Fund, LLC	\$ 4,434,375	15.0%
The Prudential Insurance Company of America	\$10,346,875 -----	35.0% -----
TOTAL	\$29,562,500 =====	100.0% =====

1.2 AVAILABLE TERM LOAN COMMITMENT; BORROWING BASE; MECHANICS OF  
BLOCKED ACCOUNT; BORROWING BASE Reports.

(a) The Lenders hereby establish the Amended Term Loan Facility in an aggregate principal amount not to exceed the Total Commitment. Under the Amended Term Loan Facility, subject to the terms and conditions hereof, the Company may have outstanding, from time to time, an aggregate principal amount at any one time not in excess of the Available Term Loan Commitment in effect on such date. As used herein, the term "AVAILABLE TERM LOAN COMMITMENT" shall mean, as of any date of determination prior to the Maturity Date, the lesser of (i) the Total Commitment or (ii) the Borrowing Base. As used herein, the term "BORROWING BASE" shall mean, as of any date of determination, an amount equal to the LEAST of:

(A) 80% of the Company's (and/or CPSRC's) interest in Investments in Credit Enhancements relating to Eligible Securitization Transactions (without duplication); or

(B) 65% of the Lenders' Value Model; or

(C) 8% of the aggregate outstanding Certificate Balance relating to Eligible Securitization Transactions;

in each instance as reported on the most recently submitted Borrowing Base Report. Each such loan pursuant to the Amended Term Loan Facility is herein called an "AMENDED TERM LOAN" and such borrowings are collectively called the "AMENDED TERM LOANS". The Company agrees that regardless of the amount of availability hereunder, the Lenders shall not under any circumstances be obligated to make any additional Loans hereunder.

(b) DELIBERATELY OMITTED.

(c) MECHANICS OF BLOCKED ACCOUNT. Pursuant to the Eligible Securitization Transaction Documents (including, but not limited to, the Irrevocable Payment Directives), and the documents governing any additional Eligible Securitization Transaction(s) and any other notices, agreements or documents necessary, the Company shall cause (i) the trustee, depository or paying agent maintaining any Spread Account or other account from which Base Servicing Fees relating to any transaction in the Company's aggregate servicing portfolio are to be released or paid to the Company (or any Subsidiary), to release such proceeds directly to the Blocked Account, (ii) CPSRC to make any and all distributions and to pay any dividends or other amounts of any kind or nature from time to time made or paid from CPSRC to the Company to be paid directly to the Blocked Account and (iii) the Company to provide (by, among other things, notifying each of its account debtors to remit payment of all invoices directly to the Blocked Account) that all of its receipts, including but not limited to, Base Servicing Fees, origination fees, proceeds from the sale of loans or any other assets of the Company, and the release of any amount relating to any transaction including but not limited to "holdback" purchase price, are sent directly to the Blocked Account, PROVIDED that the Company shall NOT be obligated to send to the Blocked Account (i) any origination fees arising

from the Pass Through Sale to Fairlane, (ii) loan payments received by the Company in the ordinary course of business relating to Automobile Contracts that are owned by the Company, and (iii) loan payments received by the Company in the ordinary course of business relating to Automobile Contracts that are serviced but not owned by the Company (collectively, (i), (ii) and (iii) shall be referred to herein as the "EXCLUDED ITEMS" and (III) shall be referred to as the "NON-OWNED EXCLUDED ITEM"). On the 15th day of each month, prior to the occurrence of a Forbearance Event of Default, the Agent shall apply the funds on deposit in the Blocked Account to pay the amounts due under this Agreement in accordance with subsections 1.3, 1.5 and 1.8 below. After the occurrence of a Forbearance Event of Default, the Agent shall apply the funds on deposit in the Blocked Account in accordance with subsection 1.7.

(d) DELIBERATELY OMITTED.

(e) BORROWING BASE REPORTS. On the later of (i) the 12th business day of each month and (ii) one business day prior to the 15th day of the month, or the next succeeding Banking Day if the 12th business day of any month is not a Banking Day (or after and during the continuance of a Default, on such more frequent basis as the Majority Lenders may from time to time specify by notice to the Company), the Company shall deliver to the Lenders a Borrowing Base Report, substantially in the form of EXHIBIT A hereto (the "BORROWING BASE REPORT"), each such Borrowing Base Report to set forth in reasonable detail the information specified therein as of the close of business on the immediately preceding month-end, and shall be signed by the Chief Executive Officer, President, any Vice-President and/or Chief Financial Officer of the Company. Such Borrowing Base Reports may be delivered by overnight mail, courier, telex, telecopy or other facsimile transmission. Each Borrowing Base Report will set forth, in such detail as the Lenders may from time to time reasonably require, the Borrowing Base calculated in accordance with SUBSECTION 1.2(a) above.

### 1.3 AMENDED TERM NOTES; INTEREST.

(a) FORM OF AMENDED TERM NOTE. The Amended Term Loans made by each Lender pursuant to SECTION 1 shall not exceed such Lender's Commitment and shall be evidenced by an amended term note of the Company in a principal amount equal to such Lender's Commitment and in the form attached hereto as EXHIBIT B-1. There shall be one (1) note payable to the order of each Lender (each such note being herein called an "AMENDED TERM NOTE" and all such notes being herein collectively called the "AMENDED TERM NOTES").

(b) INTEREST RATE. Each Amended Term Note shall bear interest (computed on the basis of the actual number of days elapsed over a 360-day year) on the unpaid balance thereof at a rate per annum determined as follows:

- (i) the per annum rate for any portion of the outstanding principal balance of the Amended Term Notes which is not the subject of a LIBOR Option shall be equal to the Prime Rate plus one and three quarters percent (1 3/4%) (the "APPLICABLE PRIME RATE"); and
- (ii) the per annum rate for any LIBOR Portion shall be equal to the LIBOR Rate plus five percent (5%) (the "APPLICABLE LIBOR RATE"). It is agreed that all Loans shall be subject to the LIBOR Option unless the Lenders agree otherwise.

(c) INTEREST PAYMENT DATE. Interest on the Amended Term Notes shall be payable monthly in arrears on the fifteenth day of each month (or the next succeeding Banking Day, if such day of any month is not a Banking Day), commencing on the first such date next succeeding the date of issuance, and at maturity (whether by acceleration or otherwise) and subject to the additional default rate provided for in subsection 1.10. Notwithstanding anything contained herein or any other Loan Document to the contrary, in no event shall the amount paid or agreed to be paid by the Company as interest on the Amended Term Notes exceed the highest lawful rate permissible under any law applicable thereto.

1.4 DELIBERATELY OMITTED.

1.5 AMORTIZATION OF AMENDED TERM LOANS; MATURITY DATE.

(a) In addition to the Company's ongoing obligation to pay accrued interest on the Amended Term Loans pursuant to subsection 1.3, the Company shall repay the outstanding principal balance of the Amended Term Notes in consecutive monthly installments, due and payable on the fifteenth day of each month (or the next succeeding Banking Day, if such day of any month is not a Banking Day) as set forth in the table below. The Agent is hereby authorized to apply amounts in the Blocked Account against principal and interest due on the Notes on the fifteenth day of each month. Such monthly payments from the Blocked Account shall commence on November 15, 1999.

AMENDED TERM LOAN PRINCIPAL PAYMENT DATES -----	PRINCIPAL PAYMENT DUE -----
October 21, 1999	\$ 687,500
November 15, 1999	2,000,000
December 15, 1999	2,000,000
January 15, 2000	3,000,000
February 15, 2000	3,000,000
March 15, 2000	3,000,000
April 15, 2000	3,000,000
May 15, 2000	3,000,000
June 15, 2000	3,000,000
July 15, 2000	3,000,000
August 15, 2000	3,000,000
September 15, 2000	875,000
TOTAL:	----- \$29,562,500 =====

(b) Subject to acceleration pursuant to SECTION 8, the full outstanding balance of principal and accrued but unpaid interest on the Amended Term Loans shall be due on September 15, 2000 (the "MATURITY DATE").

1.6 DELIBERATELY OMITTED.

1.7 APPLICATION OF FUNDS DEPOSITED INTO BLOCKED ACCOUNT AFTER EVENT OF DEFAULT. From and after the occurrence of a Default or Forbearance Event of Default, such Default or Forbearance Event of Default not having previously been remedied or cured in accordance with SECTION 12 below, and without prejudice to any other rights or remedies of the Agent or the Lenders, all amounts paid into the Blocked Account from whatever source shall be applied by the Agent as follows:

FIRST, to the payment of the reasonable costs and expenses incurred by the Agent and the Lenders in connection with such Default or Forbearance Event of Default;

SECOND, to the payment in full of all accrued and unpaid interest due and owing on the Notes;

THIRD, to the payment in full of all unpaid principal of the Notes; and  
FOURTH, to the payment in full of all other amounts owed by the Borrower to the Agent or any Lender pursuant to any Loan Document.

The Agent's application of amounts paid into the Blocked Account in accordance with this SUBSECTION 1.7 shall not affect, limit or impair in any manner the rights and remedies of the Agent or the Lenders set forth in SUBSECTION 8.2 below.

**1.8 PREPAYMENTS; REPAYMENT OF OUTSTANDING LOANS IN EXCESS OF AVAILABLE COMMITMENT.**

(a) VOLUNTARY PREPAYMENT. On at least three (3) Banking Days' prior written notice to each Lender, the Company may, at its option, prepay the Amended Term Notes in whole at any time or in part from time to time, without a premium or penalty of any kind attributable to such prepayment. Any optional prepayment of the Notes in part shall be in an aggregate principal amount of not less than \$300,000 to all of the Lenders. Any prepayment in full of the Amended Term Notes shall be made together with accrued interest on the amount prepaid to the date of such prepayment and all other fees and expenses due the Lenders, including, but not limited to, the LIBOR Premium, if applicable.

(b) MANDATORY PREPAYMENTS.

(i) If at any time the aggregate outstanding principal amount of the Amended Term Loans exceeds the Available Term Loan Commitment, the Company will immediately repay the Amended Term Notes, without penalty or premium, except the LIBOR Premium, if applicable, in an amount necessary to cause the outstanding principal amount of the Amended Term Loans not to exceed the Available Term Commitment. Prepayments of the Amended Term Notes will be applied in inverse order of maturity.

(ii) On or prior to the date seven (7) days after the execution of the Forbearance Agreement and thereafter on the 15th of each calendar month (the "ACTUAL MONTH") the Company shall make a mandatory prepayment on the Amended Term Notes in the amount of fifty percent (50%) of the Company's Net Free Cash Flow for that month (the "CASH FLOW PAYMENT"). The "NET FREE CASH FLOW" for each month shall equal (A) the sum of the Company's actual cash receipts from the sixteenth day of the previous month through the fifteenth day of the Actual Month, such cash receipts to include but not be limited to (1) Base Servicing Fees; (2) origination fees paid to the Company; (3) cash released from any Spread Account whether released to the Company or any Subsidiary; (4) proceeds from the Company's sale of any loans or any other sale of assets; and (5) the release of any "holdback" purchase price or any other amounts to the Company relating to any transaction, LESS (B) the Company's projected cash uses for the Actual Month in accordance with the schedule set forth below.

MONTH	BORROWER'S PROJECTED CASH USES
October 1999	\$6,588,026
November 1999	\$8,692,904
December 1999	\$9,502,440
January 2000	\$9,000,674
February 2000	\$8,964,151
March 2000	\$8,459,381
April 2000	\$8,416,607
May 2000	\$8,374,398
June 2000	\$8,332,898
July 2000	\$8,306,898
August 2000	\$8,270,743
September 2000	\$6,210,517



It is expressly agreed that the term "Net Free Cash Flow" SHALL include the Excluded Items other than the Non-Owned Excluded Item, PROVIDED that the calculation of Net Free Cash Flow as of any month will include the Excluded Items (other than the Non-Owned Excluded Item) received by the Company from the first day of the previous month through the last day of the previous month.

(c) DELIVERY OF EXCESS CASH FLOW CERTIFICATE. On the execution date of the Forbearance Agreement and thereafter on the 15th day of each calendar month, the Company shall submit to the Agent an Excess Cash Flow Certificate, certified by an appropriate officer of the Company, in the form of EXHIBIT B-2. No funds will be released to the Company from the Blocked Account until the Agent has received an executed Excess Cash Flow Certificate for the month."

4.2 AMENDMENT TO SUBSECTION 1.9. Subsection 1.9 of the Loan Agreement (Security) is hereby amended by deleting the figure "\$1,000,000" where it appears in subsection (f) thereof and replacing it with the figure "\$1,660,000".

4.3 AMENDMENT TO SECTION 3.19. Section 3.19 of the Loan Agreement (Chief Executive Offices, Principal Place of Business, Real Property Owned or Leased) is hereby amended by changing the address that appears therein to "16355 Laguna Canyon Road, Irvine, California 92618".

4.4 AMENDMENT TO SUBSECTION 5.1. (i) Subsection 5.1 of the Loan Agreement (Financial Statements) is hereby amended by deleting clause (a) thereof in its entirety and replacing it with the following new clause (a):

"(a) Within 90 days after the end of each fiscal year of the Company, (i) the audited consolidated and consolidating balance sheets of the Company and its Subsidiaries as at the end of such year; (ii) the related audited consolidated and consolidating statements of income and surplus and cash flows for such year, setting forth in comparative form with respect to such consolidated financial statements figures for the previous fiscal year, all in reasonable detail, together with (A) the opinion thereon of independent public accountants selected by the Company and satisfactory to the Lenders, which opinion shall be in a form generally recognized as unqualified and shall state that such financial statements have been prepared in accordance with GAAP applied on a basis consistent with that of the preceding fiscal year (except for changes, if any, which shall be specified and approved in such opinion) and that the audit by such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards related to reporting; and (B) a management letter from such independent public accountants indicating that the Company has the appropriate accounting systems and personnel in place, and that such accounting systems are performing adequately; and (iii) a Compliance Certificate substantially in the form of EXHIBIT D attached hereto (the "COMPLIANCE CERTIFICATE") signed by a principal officer of the Borrower and certifying that no event or condition which constitutes a Default or Forbearance Event of Default or Credit Trigger exists, and demonstrating the calculations used to determine compliance with the financial covenants listed in such Compliance Certificate;"

(ii) Subsection 5.1 of the Loan Agreement is further amended by deleting clause (b) thereof and replacing it with the following new clauses (b), (bb), (bbb) and (bbbb):

"(b) within 45 days after the end of each of the first three quarterly accounting periods in each fiscal year of the Company, (i) the unaudited consolidated balance sheets of the Company and its Subsidiaries as at the end of such period, and (ii) the related unaudited consolidated and consolidating statements of income and surplus and cash flows for such period and for the period from the beginning of the current fiscal year to the end of such period, all in reasonable detail and signed by a principal officer of the Company;

(bb) no later than the seventh (7th) business day of every month, a Pool Summary report substantially in the form attached hereto as EXHIBIT F (the "POOL SUMMARY REPORT");

(bbb) no later than the twentieth business day of every month (1) unaudited consolidated balance sheets of the Company and its Subsidiaries as at the end of the prior month and related unaudited consolidated and consolidating statements of income and surplus and cash flows for such period, prepared by the Company or its independent public accountants, but in any event, certified by an authorized officer of the Company, (2) a Compliance Certificate signed by a principal officer of the Company and (3) the Company and the Subsidiaries' accounts payable listing as of the previous month-end;

(bbbb) within 30 days after the end of each month, a copy of the Company's monthly financial statement package for the immediately preceding month, such monthly financial statement package to contain statistical information on the financial performance of all securitization transactions including, but not limited to, the Eligible Securitization Transactions, and to be substantially in the form currently produced by the Company, with such changes as are reasonably satisfactory to the Lenders;"

(iii) Subsection 5.1 of the Loan Agreement is further amended by adding a new clause (k) to the end thereof as follows:

"(k) Each Wednesday the Company shall submit to the Agent (i) a report of the Company's actual cash receipts and disbursements as compared to the Company's projections, for the previous week and (ii) a weekly forecast of the Company's cash disbursements and receipts for the next twelve weeks."

4.5 AMENDMENT TO SUBSECTION 5.7. Subsection 5.7 of the Loan Agreement (Maintenance of Blocked Account; Eligible Securitization Transaction Documents; Agreements to Hold in Trust) is hereby amended by deleting it in its entirety and replacing it with the following:

"5.7 MAINTENANCE OF BLOCKED ACCOUNT; ELIGIBLE SECURITIZATION TRANSACTION DOCUMENTS; AGREEMENT TO HOLD IN TRUST.

(i) As of the Closing Date, the Company will (a) establish a blocked account arrangement (the "BLOCKED ACCOUNT") with the Agent and (b) execute and cause to be executed by all necessary parties all such agreements, instruments or notices as may be deemed necessary (1) by the Lenders or the trustee or paying agent under each Eligible Securitization Transaction so as to ensure that such trustee or paying agent is directed to make payments due the Company directly to the Blocked Account and (2) by the Lenders and any other necessary third parties, included but not limited to account debtors, so as to ensure that all of the Borrower's receipts, including but not limited to, Base Servicing Fees, origination fees paid to the Company, cash released from any Spread Account, whether released to the Company or any Subsidiary, proceeds from the Company's sale of any loans or any other assets and the release of "holdback" purchase price or any other amount relating to any transaction, are sent directly by the applicable payor to the Blocked Account, PROVIDED that the Company is not obligated to forward the Excluded Items to the Blocked Account. The Company agrees to contact each of its account debtors (other than account debtors related to the Excluded Items unless such account debtors owe amounts to the Company unrelated to the Excluded Items) in writing within twenty (20) days of the execution of the Forbearance Agreement and notify the account debtors to remit all payments to the Blocked Account. All agreements, documents or instruments now or hereafter necessary to ensure that the Collateral and all proceeds thereof will be deposited directly into the Blocked Account, and to otherwise give effect to the transactions contemplated by this Agreement, including but not limited to, the Irrevocable Payment Directives, are referred to herein collectively as the "ELIGIBLE SECURITIZATION TRANSACTION DOCUMENTS".

(b) To the extent that notwithstanding the foregoing, the Company or CPSRC receives any amounts directly (relating to an Eligible Securitization Transaction or otherwise), which should have been deposited in the Blocked Account, the Company will, and will cause CPSRC to, hold the same in trust for the Lenders immediately upon receipt thereof, and deliver the same to the Agent in the form received, together with the Company's or CPSRC's (as the case may be) endorsement thereon where necessary to permit collection thereof for deposit into the Blocked Account."

4.6 AMENDMENT TO SUBSECTION 6.1. (i) Subsection 6.1 of the Loan Agreement (Indebtedness) is hereby amended by deleting the existing subsection (e) thereof and replacing it with the following:

"(e) Unsecured Subordinated Debt consented to in writing by the Lenders, PROVIDED that at the time of delivery of any such written consent, the Lenders will decide, in their sole discretion, whether the proceeds of such Subordinated Debt must be delivered to the Blocked Account pursuant to subsection 1.2(c) hereof;"

(ii) Subsection 6.1 of the Loan Agreement is further amended by adding the following subsections (n) and (o) thereto:

"(n) Contingent Indebtedness relating to the Company's obligation, under certain limited circumstances, to repurchase certain retail installment contracts sold by Fundco and Wareco to each of the following entities: (i) Customized Auto Credit Services, Inc. pursuant to an Asset Purchase Agreement dated on or about May 28, 1999 (the "GE SALE"); (ii) NuVell Credit Corporation pursuant to a Sale and Purchase Agreement dated on or about August 25, 1999 (the "NUVELL SALE"); (iii) Crescent Bank and Trust pursuant to a Purchase and Sale Agreements dated on or about August 25, 1999 and August 30, 1999 (collectively, the "CRESCENT SALE"); and (iv) Fairlane Credit LLC pursuant to an Agreement to Purchase Retail Installment Contracts dated on or about September 3, 1999 (the "FAIRLANE SALE"); and

(o) Contingent Indebtedness relating to the Company's obligation, under certain limited circumstances, to repurchase retail installment contracts sold to Fairlane Credit LLC ("FAIRLANE") pursuant to the Contract Sale Agreement dated May 1999 by and between the Company and Fairlane (the "PASS THROUGH Sale")."

4.6A AMENDMENT TO SUBSECTION 6.1. Subsection 6.1(f) of the Loan Agreement (Indebtedness) is hereby amended by deleting the figure "\$5,000,000" where it appears therein and replacing it with the figure "\$5,500,000".

4.7 AMENDMENT TO SUBSECTION 6.2. Subsection 6.2 of the Loan Agreement (Liens; etc.) is hereby amended by adding the following clause (iii) to the end thereof:

"(iii) , PROVIDED further that the aggregate principal amount of indebtedness secured by all such liens incurred after September 30, 1999 shall at no time exceed \$500,000."

4.8 AMENDMENT TO SUBSECTION 6.5. Subsection 6.3 of the Loan Agreement (Loans, Guarantees and Investments) is hereby amended by adding the subsection (g) thereto:

"(g) Investments consisting of the Company's purchase of up to \$1,000,000 (face value) of RISRS for retirement on or before January 1, 2000, subject to the limitations in subsection 6.5."

4.9 AMENDMENT TO SUBSECTION 6.5. Subsection 6.5 of the Loan Agreement (Restricted Payments) is hereby amended by deleting it in its entirety and replacing it with the following:

"6.5 RESTRICTED PAYMENTS. The Company will not, and will not permit any Subsidiary to, directly or indirectly declare, order, pay or make any Restricted Payment or set aside any sum or property therefor if at the time of such proposed action or immediately after giving effect thereto, any Default or Event of Default exists, AND unless expressly permitted by this subsection 6.5.

As used herein, the term "RESTRICTED PAYMENTS" means (i) any dividend or other distribution, direct or indirect, on or on account of any shares of any class of stock of the Company now or hereafter outstanding (including dividends payable exclusively in shares of the Company's common or preferred stock); (ii) any redemption, purchase or other acquisition, direct or indirect, of any shares of any class of stock of the Company now or hereafter outstanding or of any warrants or rights to purchase any such stock (including, without limitation, the repurchase price thereof in connection with the exercise by the holder thereof of any right of rescission or similar remedies with respect thereto); (iii) any direct salary, non-salary managerial fees, fee (consulting, management or others), fringe benefit, allowance or other expense directly or indirectly paid or payable by the Borrower or any Subsidiary (as compensation or otherwise) to any shareholder or Affiliate of the Borrower (other than to an employee, to the extent of such employee's normal compensation) and (iv) any payment in respect of Subordinated Debt (including, without limitation, the 10.5% Subordinated Participating Equity Notes due 2004 in the amount of \$20,000,000 (the "PENS"), the Rising Interest Subordinated Redeemable Securities due 2006 in the amount of \$20,000,000 (the "RISRS") and the 9% Subordinated Partially Convertible Note to Stanwich Financial Services Corp. due 2004 in the amount of \$15,000,000 and \$5,500,000 of other subordinated debt owed to Stanwich Financial Services Corp. and \$1,000,000 of other subordinated debt owed to John G. Poole (collectively, the \$20,500,000 of subordinated debt owed to Stanwich Financial Services Corp. and the \$1,000,000 owed to Mr. Poole, is referred to herein as the "STANWICH SUBORDINATED DEBT"), the Levine Subordinated Debt and the April Levine Subordinated Debt).

Subject to the foregoing, the Company may make scheduled (but NOT accelerated) monthly payments of interest ONLY on the PENS, RISRS, Stanwich Subordinated Debt, Levine Subordinated Debt and April Levine Subordinated Debt and, in the Company may (i) retire up to an aggregate of \$1,000,000 in face amount of the RISRS by repurchasing such securities at price(s) not in excess of the face amount of such securities and/or (ii) make the minimum sinking fund payment of the redemption price required for such securities, PROVIDED that in any event the Company's cash outlay for the foregoing (i) and (ii) in the aggregate shall not exceed \$800,000. Notwithstanding anything to the contrary in the documents relating to the PENS, RISRS, Stanwich Subordinated Debt, Levine Subordinated Debt or April Levine Subordinated Debt, the Company agrees that, except as expressly set forth above, it will not at any time make any payment of any kind or nature (or set aside any sums therefor), in respect any Subordinated Debt. For the avoidance of doubt, the Company shall not make any voluntary or involuntary principal payments at all under the Subordinated Debt while the Amended Term Loans are outstanding other than as expressly permitted by this paragraph.

The provisions of this subsection 6.5 are solely for the purpose of defining the relative rights of the Agent and the Lenders on the one hand, and the holders of Subordinated Debt on the other hand, and none of such provisions shall impair, as between the Company and any holder of the Subordinated Debt, the obligations of the Company, which are unconditional and absolute, to pay to such holder all of the Subordinated Debt in accordance with the terms thereof, subject in each instance to the rights of the Agent and the Lenders under the provisions of this Agreement and under the subordination provisions of such Subordinated Debt."

4.10 AMENDMENT TO SUBSECTION 6.6. Subsection 6.6 of the Loan Agreement (Capital Expenditures) is hereby amended by deleting it in its entirety and replacing it with the following:

"6.6 CAPITAL EXPENDITURES. The Company will not make, or permit any Subsidiary to make, Capital Expenditures during the period beginning October 1, 1999 through the Maturity Date in excess of \$500,000."

4.11 AMENDMENT TO SUBSECTION 6.8. Subsection 6.8 of the Loan Agreement (Sale of Assets) is hereby amended by deleting it in its entirety and replacing it with the following paragraph:

"The Company will not, and will not permit any Subsidiary to, sell, lease or otherwise dispose of any of its properties or assets, EXCEPT for: (i) BONA FIDE sales of repossessed automobiles; (ii) sales or other dispositions in the ordinary course of business of obsolete or unusable property or assets (it being understood that Automobile Contracts and related receivables are excluded from this clause (ii)) in each instance, with the prior written consent of the Majority Lenders, such consent not to be unreasonably withheld, PROVIDED that notwithstanding any of the foregoing, the GE Sale, the NuVell Sale, the Crescent Sale, the Fairlane Sale and the Pass Through Sale, each in accordance with the terms set out in the forms of agreement provided to the Lenders for each such sale, are permitted sales of assets hereunder; and (iii) any other sale of assets by the Company, consented to in writing by the Lenders. The proceeds of any permitted sale of assets shall be deposited into the Blocked Account unless they are Excluded Items."

4.12 AMENDMENT TO SUBSECTION 7.2. Subsection 7.2 of the Loan Agreement (Minimum Cash Balance) is hereby amended by deleting the figure "\$500,000" appearing therein and replacing it with the figure "\$250,000."

4.13 AMENDMENT TO SUBSECTION 7.3. Subsection 7.3 of the Loan Agreement (Minimum Net Worth) is hereby amended by deleting it in its entirety.

4.14 AMENDMENT TO SUBSECTION 7.5. Subsection 7.5 of the Loan Agreement (Limitation on Quarterly Losses) is hereby deleted in its entirety.

4.15 AMENDMENT TO SUBSECTION 7.6. Subsection 7.6 of the Loan Agreement (Minimum Servicing Balance) is hereby amended by deleting it in its entirety.

4.16 AMENDMENT TO SECTION 9. Section 9 of the Loan Agreement (Definition) is hereby amended by including the following definitions in alphabetical order:

"ACTUAL MONTH: shall have the meaning set forth in Section 1.8(b) hereof."

"AMENDED TERM LOAN(S): shall have the meaning set forth in Section 1.2(a) hereof."

"AMENDED TERM LOAN FACILITY: shall have the meaning set forth in Section 1.1 hereof."

"AMENDED TERM NOTE(S): shall have the meaning set forth in Section 1.3 hereof."

"AVAILABLE TERM LOAN COMMITMENT: shall have the meaning set forth in Section 1.2(a) hereof."

"CASH FLOW PAYMENT": shall have the meaning set forth in Section 1.8 hereof."

"CRESCENT SALE: shall have the meaning set forth in Section 7.1(n) hereof."

"EXCLUDED ITEMS: shall have the meaning set forth in Section 1.2(c)."

"GE SALE: shall have the meaning set forth in Section 6.1 hereof."

"FAIRLANE: shall have the meaning set forth in Section 6.1(o) hereof."

"FAIRLANE SALE: shall have the meaning set forth in Section 6.1(n) hereof."

"MATURITY DATE: shall have the meaning set forth in subsection 1.5(b) hereof."

"NET FREE CASH FLOW: shall have the meaning set forth in Section 1.8(b) hereof."

"NON-OWNED EXCLUDED ITEM shall have the meaning set forth in subsection 1.2 hereof."

"NUVELL SALE: shall have the meaning set forth in Section 6.1(n) hereof."

"PASS THROUGH SALE: shall have the meaning set forth in Section 6.1(o) hereof."

"PENS: shall have the meaning set forth in Section 6.5 hereof."

"RISRS: shall have the meaning set forth in Section 6.5 hereof."

"STANWICH SUBORDINATED DEBT: shall have the meaning set forth in Section 6.5 hereof."

SS.5. RATIFICATION AND CONFIRMATION OF LOAN AGREEMENT AND SECURITY DOCUMENTS; UPDATED SCHEDULES AND EXHIBITS.

(a) The Borrower acknowledges and agrees with the Lenders that for all purposes of this Forbearance Agreement, the Loan Agreement, the Notes and the respective Security Documents, as the context permits or requires:

(i) The terms "Loan Agreement" and "Agreement" shall mean the Loan Agreement, as amended through the date of the Forbearance Agreement, and as the same may be further amended, restated and/or extended from time to time;

(ii) The term "Notes" shall mean the Amended Term Notes, as amended and extended through the date of the Forbearance Agreement, and as the same may be further amended, restated and/or extended from time to time;

(iii) The terms "Security Documents" and "Security Document" shall mean the several Security Documents, as amended through the date of this Forbearance Agreement, and as each such Security Document may hereafter be amended, restated and/or extended from time to time;

(iv) The terms "Secured Obligations" and/or "Obligations" shall include the Amended Term Loans heretofore or hereafter made by the Lenders pursuant to the Loan Agreement, together with interest thereon and all fees and expenses owing under the Agreement, the Amended Term Notes and/or under the Security Documents, together with all other obligations of any nature of the Company to the Lenders; and

(v) All Indebtedness of the Borrower to the Lenders in respect of the Loan Agreement and the Amended Term Notes, whether now existing or hereafter arising, shall be secured by and entitled to the benefits of each of the Security Documents.

(b) Except to the extent specifically amended hereby, and, with respect to the Security Documents, as such are simultaneously being amended and confirmed, the Loan Agreement, the Amended Term Notes and each of the Security Documents shall be unaffected hereby and shall continue in full force and effect. As so amended, the Loan Agreement, the Amended Term Notes, each of the Security Documents and the rights of the Agent and the Lenders and the obligations of the Borrower thereunder, are hereby ratified, affirmed and approved in all respects by the Borrower.

(c) The Loan Agreement is amended by adding to the respective Schedules attached thereto the additional information or modifications set forth on the corresponding Schedules submitted herewith. The Borrower represents and warrants to the Lenders that the information set forth on the respective Schedules attached to the Loan Agreement or hereto, as the case may be, is true and complete in all material respects.

(d) The Exhibits to the Loan Agreement are hereby amended by inserting a new EXHIBIT B-1 (Form of Amended Term Note), attached hereto.

#### SS.6. FORBEARANCE; ACKNOWLEDGMENT OF EXISTING EVENTS OF DEFAULT.

(a) Subject to the Borrower's compliance with the terms and conditions of this Forbearance Agreement, and PROVIDED that no Forbearance Event of Default shall have occurred, the Lenders shall forbear from enforcing their rights under the Loan Documents until September 15, 2000. The Borrower acknowledges and agrees that the provisions of this SS.6 relate solely to the Lenders' agreement (subject to the terms and conditions hereof) to forbear from exercising their existing rights and remedies in respect of Existing Events of Defaults under the Loan Documents and are not, and shall in no way be deemed or construed as, a waiver by the Lenders of such Existing Events of Default or any other Event of Default now existing or occurring subsequent to the date hereof.

(b) The Borrower acknowledges and confirms to the Lenders that the Borrower is in default of its obligations under the Loan Agreement by reason of the occurrence of the Existing Events of Default listed on EXHIBIT A hereto. The Borrower acknowledges and agrees with the Lenders that the Lenders' forbearance agreement hereunder relates solely to the Existing Events of Default and to NO OTHER defaults or Events of Default, now existing or hereafter arising and now known or unknown to the Lenders. The Borrower acknowledges and agrees with the Lenders that by reason of the occurrence of the Existing Events of Default, the Lenders are currently entitled to exercise the full range of their rights and remedies against the Borrower under the Loan Documents, without defense or counterclaim of any kind on the part of the Borrower.

SS.7. FORBEARANCE FEE. The Borrower shall pay the Agent (for the ratable benefit of the Lenders) a forbearance fee (the "FORBEARANCE FEE") of \$300,000 which Forbearance Fee shall be earned in full as of the execution of this Forbearance Agreement. One-half of the Forbearance Fee shall be paid to the Agent on the date the Cash Flow Payment is made for the month of October 1999 and the balance shall be paid to the Agent in three equal monthly installments of \$50,000 on the 15th of each month beginning on April 15, 2000. If the Amended Term Loans and all other Obligations have been repaid in full prior to the due date for any deferred portion of the Forbearance Fee, such deferred portion shall be waived by the Lenders.

SS.8. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. In order to induce the Lenders to enter into this Agreement, the Borrower represents, covenants and warrants to the Lenders as follows:

(a) AUTHORITY, ETC. The execution and delivery by the Borrower of this Forbearance Agreement and the performance of its obligations hereunder have been duly authorized by all necessary action and do not and will not (i) violate any provision of any law, rule, regulation, order, judgment, injunction, decree or determination applicable to the Borrower or of the Borrower's charter or (ii) result in a breach of or constitute a default under any agreement, lease or instrument to which the Borrower is a party or by which it may be bound or affected.

(b) BINDING OBLIGATION. This Agreement, the Amended Term Notes, the Loan Documents and each other agreement executed by the Borrower in connection herewith or therewith constitute legal, valid and binding obligations of the Borrower.

(c) LOAN DOCUMENTS. Except as indicated in EXHIBIT A hereto, the Borrower is in compliance in all material respects with the covenants contained in the Loan Documents and the representations and warranties in each of the Loan Documents (except those that expressly relate to an earlier date) are true and correct in all material respects on the date hereof. The Borrower's principal place of business is as set forth in subsection 4.3 hereof and, except as disclosed on EXHIBIT C hereto, there are no other locations at which any Collateral is located.

(d) NO APPROVAL. No authorization, consent, approval, license, exemption or filing or registration with, any court or governmental authorize, agency or instrumentality is or will be necessary to the valid execution, delivery or performance by the Borrower of this Forbearance Agreement or any documents executed pursuant hereto.

(e) SECURITY DOCUMENTS. Each Security Document is effective to grant to the Lenders a legal, valid, enforceable and first priority perfected security interest in all right, title and interest of the Borrower in the Collateral described therein; no further action or filing is required in order to perfect the Lenders' security interest.

(f) OTHER DEBT. (i) The Borrower hereby warrants and represents that the outstanding balance of the following debt (including principal, accrued but unpaid interest and any fees) as of the date hereof is as follows:

RISRS	\$20,000,000
PENS	\$20,000,000
Stanwich Subordinated Debt	\$21,500,000
Levine Subordinated Debt plus	
April Levine Subordinated Debt	\$30,000,000
Other Debt	\$ -0-
(other than debt arising in	
the ordinary course of the	
Borrower's business)	
Accrued interest on the above-	
described debt	\$ 427,000

(ii) The Borrower hereby warrants and represents to the Lenders that the Borrower is not in default of any of the debt referred to in paragraph (i) above.

(g) PRELIMINARY STATEMENT. The statements contained in the Preliminary Statement of this Forbearance Agreement are true and correct.

SS.9. COVENANTS. Until such time as the Borrower shall have paid its Obligations to the Lenders in full, the Borrower covenants and agrees with the Lenders that the Borrower shall comply with all of the terms and conditions contained in the Loan Documents, as amended hereby, including but not limited to the following covenants:

(a) RESTRICTED PAYMENTS. The Borrower shall not make any Restricted Payment other than (i) payments of scheduled interest ONLY on the PENS, RISRS, Stanwich Subordinated Debt, Levine Subordinated Debt and the April Levine Subordinated Debt; and (ii) payments with respect to the repurchase or redemption of the RISRS, subject to the limitations set forth in subsection 6.5, as amended hereby, PROVIDED that none of the foregoing payments shall be permitted after the occurrence of a Forbearance Event of Default;

(b) MONTHLY REPORTS. The Borrower shall provide the Agent, within twenty (20) days of each month-end, with (i) unaudited consolidated balance sheets of the Borrower and its Subsidiaries and related unaudited consolidated and consolidating statements of income and surplus and cash flows, (ii) a Compliance Certificate and (iii) an accounts payable report for the Borrower and its Subsidiaries;

(c) WEEKLY REPORTS. The Borrower shall provide the Agent on each Wednesday, with a report of the Borrower's cash disbursements and cash receipts versus projections along with a forecast of the Borrower's next twelve weeks of cash disbursements;

(d) NOTIFICATION OF ACCOUNT DEBTORS. Within twenty (20) days of the date hereof the Borrower shall notify each of its account debtors (other than account debtor in so far as they relate to Excluded Items) to remit all future payment of invoices directly to the Blocked Account;

(e) OTHER LIENS. The Borrower shall not create or suffer to exist any new lien, security interest, or other charge or encumbrance, or any type of preferential arrangement, or grant a negative pledge to any other party, upon or with respect to any of its real or personal property or stock, whether now owned or hereafter acquired, PROVIDED that the Borrower shall be permitted to grant purchase money mortgages, liens and other security interests, including Capital Leases, created in respect of property acquired by the Company after the date hereof or existing in respect of property so acquired prior to the date hereof, PROVIDED that (i) each such lien shall at all times be confined solely to the item of property so acquired, and (ii) the aggregate principal amount of indebtedness secured by all such liens incurred after the date hereof shall at no time exceed \$500,000;



(f) EXAMINATION OF BORROWER'S BOOKS. The Borrower shall permit the Lenders to examine the Borrower's books on demand, at the Lenders' discretion. Any such examination shall be at the Borrower's expense;

(g) FINANCIAL CRISIS MANAGEMENT. In the event of a Forbearance Event of Default, the Borrower hereby agrees to employ a financial crisis manager chosen by the Borrower, subject to the Lenders' approval, which approval shall not be unreasonably withheld;

(h) FSA AGREEMENT. The Borrower shall notify the Agent in writing immediately upon the occurrence of a default or Insurance Trigger (as defined therein) under the FSA Agreement, as amended;

(i) REPURCHASE OBLIGATIONS. The Borrower shall notify the Agent in writing if it incurs any liquidated repurchase obligations under the GE Sale, Nuvelt Sale, Crescent Sale, Fairlane Sale or Pass Through Sale;

(j) INDEBTEDNESS. The Borrower shall notify the Agent, in writing, of the terms of any new Indebtedness to be incurred by the Borrower five days prior to the Borrower's incurrence of such Indebtedness; and

(k) FORBEARANCE FEE. The Borrower shall pay the Forbearance Fee on the schedule set forth in SS.7.

SS.10. CONDITIONS PRECEDENT. The obligations of the Lenders hereunder are subject to the satisfaction (or written waiver) on or prior to execution hereof by the Lenders, of the following conditions precedent, time being of the essence hereof:

(a) The Borrower shall be in compliance with all the terms, covenants and provisions contained herein, and all representations and warranties contained herein shall be true in all material respects, and the Lenders shall have received a certificate signed by an officer of the Borrower to the foregoing effect;

(b) All corporate and legal proceedings and all instruments in connection herewith and therewith shall be satisfactory in form and substance to the Lenders and their counsel and the Lenders shall have received all information and all documents and certificates (corporate and other) which the Lenders may reasonably have requested in connection herewith, such documents properly certified by proper corporate or governmental authorities;

(c) The Borrower shall deliver to the Agent a duly executed Landlord Waiver relating to its principal place of business in a form acceptable to the Lenders;

(d) The Borrower shall have entered into an amendment with its agreement with Financial Security Assurance ("FSA") (the "FSA AGREEMENT"), satisfactory in form to the Lenders, whereby FSA agrees to cap the amount of cash retained in each of the Spread Accounts at no more than twenty-one percent (21%);

(e) The Borrower shall have executed and delivered to the Lenders Amended Term Notes in the form attached hereto as EXHIBIT B-1;

(f) The Borrower shall have delivered to the Lenders written acknowledgment of the terms of this Forbearance Agreement by the holders of (i) the Stanwich Subordinated Debt and (ii) the Levine Subordinated Debt and the April Subordinated Debt;

(g) The Borrower shall have delivered to the Lenders an executed copy of unanimous written consent of the Borrower's Board of Directors authorizing the Borrower's execution of (A) the Forbearance Agreement, including but not limited to the consent to the appointment of a receiver included in SS.15 hereof and (B) the Amended Term Notes in the aggregate principal amount of \$29,562,500;

(h) The Borrower shall have delivered to the Agent an executed Excess Cash Flow Certificate for the month of October 1999, PROVIDED that for purposes of the Borrower's Excess Cash Flow calculation for the month of October, 1999 the \$1,500,000 of additional Stanwich Subordinated Debt received by the Borrower in October 1999 shall not be included in the Borrower's cash receipts;

(i) No event or circumstance shall have occurred which could have a Material Adverse Effect; and

(j) The Lenders shall have received all such other agreements, information and certificates as the Lenders shall have reasonably requested, including but not limited to, the side letter executed by the Company in favor of the Lenders.

SS.11. CASH COLLATERAL ACCOUNT. In the event the aggregate balance of the Amended Term Loans together with all unpaid interest, fees and unreimbursed expenses owed by the Borrower to the Lenders is less than the balance of funds in the Cash Collateral Account, the Agent is hereby authorized to liquidate the Cash Collateral Account and use the proceeds thereof to repay the Obligations. The foregoing right shall not affect, limit or impair in any manner the other rights and remedies of the Agent or the Lenders set forth in this Forbearance Agreement.

SS.12. FURTHER ASSURANCES, ETC. The Borrower agrees to take any action and to execute and deliver any additional documents which the Lenders may reasonably request in order to obtain and enjoy the full rights and benefits granted to the Lenders by the Loan Documents or this Forbearance Agreement.

SS.13. FORBEARANCE EVENTS OF DEFAULT. Each of the following events (each a "FORBEARANCE EVENT OF DEFAULT" and collectively the "FORBEARANCE EVENTS OF DEFAULT") shall constitute an Event of Default under this Agreement and each of the Loan Documents (whether or not such is an event of default therein):

(a) PAYMENT. The Borrower fails to make any payment required to be made to the Lenders or the Agent under this Forbearance Agreement or the Loan Agreement including but not limited to the Cash Flow Payments required by subsection 1.8(b)(ii) of the Loan Agreement; or

(b) REPRESENTATIONS. Any representation or warranty made by, or on behalf of, the Borrower in this Forbearance Agreement or in any certificate or other document delivered in connection herewith shall prove to have been untrue or incorrect in any material respect; or

(c) COVENANTS. The Borrower shall fail to fully perform or comply with any term, covenant or provisions of this Forbearance Agreement (including without limitation those under SS.7 or SS.9 hereof); or

(d) BANKRUPTCY, ETC. The Borrower shall become insolvent or fail to pay its debts as they mature, or the Borrower shall be adjudicated as bankrupt or insolvent, or any case or proceeding shall be commenced by or against the Borrower in bankruptcy or liquidation or for its reorganization or readjustment of the indebtedness of the Borrower under any applicable bankruptcy or insolvency laws, or any receiver, administrator, liquidator or trustee or similar official shall be appointed for the Borrower or any of its property, or the Borrower shall make an assignment for the benefit of creditors, or any similar event shall take place with respect to the Borrower or the Borrower shall sell all or a substantial part of its assets, whether in a single transaction or a series of transactions; or

(e) MATERIAL ADVERSE EFFECT. There shall have occurred any event, circumstance or condition that the Lenders, in their sole discretion, believe could have a Material Adverse Effect; or

(f) DEFAULT UNDER FSA AGREEMENT. There shall have occurred a default or Insurance Agreement Event of Default under the FSA Agreement (as defined therein); or

(g) LOAN DOCUMENTS. There shall have occurred any Event of Default under or as defined in any of the Loan Documents (OTHER THAN the Existing Events of Default in the amounts listed on EXHIBIT A), subject to any notice and cure periods set forth in such Loan Documents; or

(h) SUBORDINATED DEBT. (i) The Borrower shall make any Restricted Payment not expressly authorized in this Forbearance Agreement, including without limitation, any principal payment in respect of Subordinated Debt other than the payments with respect to the repurchase or redemption of the RISRS, subject to the limitations set forth in subsection 6.5, as amended hereby; and (ii) the Borrower shall default under any of the Subordinated Debt; or

(i) EXCESS CASH FLOW CERTIFICATE. The Borrower fails to (A) deliver an executed Excess Cash Flow Certificate on the 15th day of each month or (B) make any required Cash Flow Payment.

SS.14. REMEDIES. Immediately, on and after the occurrence of any Forbearance Event of Default and in each case without any demand, presentment, notice and/or other action of any nature by the Lenders (all of which are hereby expressly waived by the Borrower), (a) all Obligations shall be immediately due and payable and the Lenders shall be immediately and permanently relieved of their forbearance obligations set forth herein; (b) all funds in the Cash Collateral Account shall be applied against the outstanding balance of the Obligations; (c) the Lenders may proceed to enforce their rights under and in respect of this Forbearance Agreement and the Loan Documents including but not limited to the rights set forth in SS.15 hereof; and (d) the Lenders shall be free to avail themselves of all other rights and remedies available under applicable law. The failure of the Lenders to insist upon the strict performance of any term, condition or other provision hereof or to exercise any right or remedy hereunder shall not constitute a waiver by the Lenders of any such term, condition or other provision or Event of Default (including but not limited to the Existing Events of Default) or Forbearance Event of Default in connection therewith; and any waiver of any such term, condition or other provision of any such Event of Default or Forbearance Event of Default shall not affect or alter this Agreement or the other Loan Documents, and each and every term, condition and other provision of this Forbearance Agreement and the other Loan Documents shall, in such event, continue in full force and effect and shall be operative with respect to any other then existing or subsequent Event of Default or Forbearance Event of Default in connection therewith.

SS.15. CONSENT TO APPOINTMENT OF RECEIVER. WITHOUT DEROGATING FROM ANY RIGHT, REMEDY OR OTHER PROVISION CONTAINED IN THE LOAN AGREEMENT, THE FORBEARANCE AGREEMENT OR ANY OTHER SECURITY DOCUMENT, UPON TEN DAYS' NOTICE AFTER THE OCCURRENCE OF A FORBEARANCE EVENT OF DEFAULT, THE LENDERS SHALL HAVE THE RIGHT TO APPLY FOR AND HAVE A RECEIVER APPOINTED BY A COURT OF COMPETENT JURISDICTION IN ANY ACTION TAKEN BY THE LENDERS TO ENFORCE THEIR RIGHTS AND REMEDIES HEREUNDER IN ORDER TO MANAGE, PROTECT AND PRESERVE THE COLLATERAL AND CONTINUE THE OPERATION OF THE BUSINESSES OF THE BORROWER, OR TO SELL OR DISPOSE OF THE COLLATERAL, AND TO COLLECT ALL REVENUES AND PROFITS THEREOF AND APPLY THE SAME TO THE PAYMENT OF ALL EXPENSES AND OTHER CHARGES OF SUCH RECEIVERSHIP, INCLUDING THE COMPENSATION OF THE RECEIVER, SAID EXPENSES TO CONSTITUTE PART OF THE SECURED OBLIGATIONS, AND TO THE PAYMENT OF THE SECURED OBLIGATIONS AS AFORESAID. TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, THE BORROWER HEREBY IRREVOCABLY CONSENTS TO AND WAIVES ANY RIGHT TO OBJECT TO OR OTHERWISE CONTEST THE APPOINTMENT OF RECEIVER AS PROVIDED ABOVE. THE BORROWER (I) GRANTS SUCH WAIVER AND CONSENT KNOWINGLY AFTER HAVING DISCUSSED THE IMPLICATIONS THEREOF WITH COUNSEL, (II) ACKNOWLEDGES THAT (A) THE UNCONTESTED RIGHT TO HAVE A RECEIVER APPOINTED FOR THE FOREGOING PURPOSES IS CONSIDERED ESSENTIAL BY THE LENDERS IN CONNECTION WITH THE ENFORCEMENT OF THEIR RIGHTS AND REMEDIES HEREUNDER AND UNDER THE LOAN DOCUMENTS, AND (B) THE AVAILABILITY OF SUCH APPOINTMENT AS A REMEDY UNDER THE FOREGOING CIRCUMSTANCES WAS A MATERIAL FACTOR IN INDUCING THE LENDERS TO FORBEAR HEREUNDER; AND (III) TO THE EXTENT NOT PROHIBITED BY APPLICABLE LAW, AGREES TO ENTER INTO ANY AND ALL STIPULATIONS IN ANY LEGAL ACTIONS, OR AGREEMENTS OR OTHER INSTRUMENTS IN CONNECTION WITH THE FOREGOING AND TO COOPERATE FULLY WITH THE LENDERS IN CONNECTION WITH THE ASSUMPTION AND EXERCISE OF CONTROL BY THE RECEIVER OVER ALL OR ANY PORTION OF THE COLLATERAL.

SS.16. WAIVERS BY BORROWER; BANKRUPTCY MATTERS.

(a) WAIVER OF JURY TRIAL, ETC. THE BORROWER HEREBY WAIVES ANY RIGHTS THAT IT MAY HAVE TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIMS ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. Except as prohibited by law which cannot be waived, the Borrower hereby waives any right that it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages.

(b) BANKRUPTCY MATTERS; HEARING. IN THE CASE OF ANY FORBEARANCE EVENT OF DEFAULT ARISING BY VIRTUE OF ANY BANKRUPTCY PROCEEDING INVOLVING THE BORROWER, THE BORROWER COVENANTS AND AGREES THAT, UPON THE OCCURRENCE OF SUCH FORBEARANCE EVENT OF DEFAULT, ANY OBLIGATION OF THE LENDERS TO CONTINUE TO FORBEAR SHALL TERMINATE AS PROVIDED HEREIN, AND THE LENDERS SHALL BE ENTITLED TO AN EMERGENCY HEARING (ON TWO (2) BUSINESS DAYS' NOTICE) ON ANY MOTION WHICH THEY MAY FILE SEEKING A GENERAL LIFTING OF THE STAY TO ENFORCE THEIR RIGHTS AND TO FORECLOSE ON ALL OF THEIR SECURITY INTERESTS. NOTHING HEREIN SHALL CONSTITUTE A WAIVER BY THE BORROWER OF ANY DEFENSE TO THAT MOTION WHICH IT IS ENTITLED TO ASSERT IN ANY BANKRUPTCY PROCEEDING.

(c) ACKNOWLEDGMENTS. The Borrower hereby (i) certifies that no representative, agent or attorney of the Lenders has represented, expressly or otherwise, that the Lenders would not, in the event of litigation, seek to enforce the foregoing waivers (or any other waivers or other provisions contained in this Agreement or in any of the Loan Documents) and (ii) acknowledges that the Lenders have been induced to enter into this Forbearance Agreement by, among other things, the waivers, agreements and certifications set forth herein.

SS.17. FEES, ETC. The Borrower agrees to pay all reasonable expenses, fees and disbursements of counsel for the Lenders which the Lenders have incurred or may hereafter incur in connection with the Borrower's defaults under the Loan Agreement, the preparation of this Agreement, the Loan Documents and all other documents related hereto and thereto (including any amendment, consent or waiver hereunder or thereunder) and the transactions contemplated hereby or thereby or the enforcement of the rights of the Lenders hereunder or under the Loan Documents in the event of a default hereunder or thereunder or any "workout" of their obligations to the Lenders. All such expenses, fees and disbursements shall constitute "Obligations" and shall be secured by the Collateral. The Borrower shall pay all then current expenses, fees and disbursements of the Lender's counsel upon the execution of this Forbearance Agreement.

SS.18. SETOFFS, ETC. Without limiting, affecting or impairing in any manner the Lenders' and the Agent's rights and remedies set forth herein in any way, if any Forbearance Event of Default occurs, any Indebtedness from the Lenders' to the Borrower, including but not limited to amounts on deposit in the Cash Collateral Account, may, without regard to the value or adequacy of the Collateral, be offset and applied toward the payment of any Indebtedness from the Borrower to the Lenders, whether or not such Indebtedness, or any part thereof, shall then be due.

SS.19. NOTICES. All notices, consents, requests, approvals, instructions and other communications provided for herein and/or the Loan Documents shall be in writing and validly given or made when delivered personally, or mailed by registered or certified mail, or sent by overnight courier, or by facsimile transmission (when confirmation of receipt thereof is received) to the party entitled or required to receive the same at the addresses set forth in the Loan Agreement (PROVIDED THAT any notice to the Agent shall be delivered to the attention of John Vaughn AND William R. Dewey, IV at the address for the Agent set forth on the signature page), or at such other address as any party hereto may subsequently furnish in writing to the other party.

SS.20. NO WAIVERS, ETC. Except to the extent the Lenders have agreed to forbear pursuant to this Forbearance Agreement, the Lenders may enforce their rights to the fullest extent permitted under this Agreement, the other Loan Documents and/or applicable law. Neither this Forbearance Agreement nor the compliance of the Lenders herewith shall be deemed or construed to be a waiver of any right or remedy to which the Lenders may now or hereafter be entitled against the Borrower, except to the extent herein otherwise explicitly provided. Except to the extent herein otherwise explicitly provided, the provisions of the Loan Documents and all related agreements shall continue in full force and effect. The failure of the Lenders to insist upon the strict performance of any term, condition or other provision hereof or to exercise any right or remedy hereunder shall not constitute a waiver by the Lenders of any such term, condition or other provision or Event of Default (including but not limited to the Existing Events of Default) or Forbearance Event of Default in connection therewith; and any waiver of any such term, condition or other provision of any such Event of Default or Forbearance Event of Default shall not affect or alter this Agreement or the other Loan Documents, and each and every term, condition and other provision of this Agreement and the other Loan Documents shall, in such event, continue in full force and effect and shall be operative with respect to any other then existing or subsequent Event of Default or Forbearance Event of Default in connection therewith.

SS.21. MISCELLANEOUS. (a) COUNTERPARTS, SUCCESSORS, GOVERNING LAW, ETC. This Forbearance Agreement may be executed in multiple counterparts, each of which shall be considered an original but all of which shall constitute one and the same agreement. One or more counterparts may be delivered via telecopier; any such telecopied counterpart shall have the same force and effect as an original counterpart hereof. The Forbearance Agreement shall be binding and inure to the benefit of each of the parties hereto, and their respective successors, heirs, legal representatives and assigns, PROVIDED THAT the Borrower may not assign its rights and obligations without the Lenders' prior written consent. This Forbearance Agreement is solely for the purpose, and shall have the sole effect, of defining the relative rights and obligations of the parties hereto and may not be relied upon or enforced by any person not a party hereto; no Person shall have third-party beneficiary rights hereunder.

This Forbearance Agreement shall be construed in accordance with and governed by the internal laws of Massachusetts (without giving effect to conflicts of laws principles) and is being executed as a sealed instrument under Massachusetts law. In addition to the extent that it may lawfully do so, the Borrower hereby consents to service of process, and to be sued, in Massachusetts and consents to the jurisdiction of the courts of Massachusetts and the U.S. District Court for the District of Massachusetts, as well as to the jurisdiction of all courts to which an appeal may be taken from such courts, for the purpose of any suit, action or other proceeding arising out of any of its obligations

hereunder or under the Loan Documents or with respect to the transactions contemplated hereby or thereby, and expressly waives any and all objections it may have as to venue in any such courts. The Borrower further agrees that a summons and complaint commencing an action or proceeding in any of such courts shall be properly served and shall confer personal jurisdiction if served personally or by certified mail to it at its address provided on the signature page or as otherwise provided under the laws of Massachusetts or the jurisdiction in which suit is brought.

(b) AMENDMENTS AND WAIVERS. Any term of this Forbearance Agreement or of the Loan Documents may be amended and the observance of any term of this Forbearance Agreement may be waived only with the written consent of each party hereto.

(c) CONSTRUCTION. The parties acknowledge and agree that this Forbearance Agreement shall not be construed in favor of one party more than the other(s) based upon which party drafted (or caused to be drafted) the same. Headings contained herein are included for convenience of reference only and shall not constitute a part or to affect the meaning or interpretation of this Forbearance Agreement. This Forbearance Agreement sets forth the entire understanding of the parties with respect to its subject matter and supersedes all other negotiations, understandings and representations made by and among such parties. No course of dealing, course of performance, trade usage or parole evidence of any nature shall be used to supplement or modify any terms of this Forbearance Agreement.

(d) SURVIVAL OF REPRESENTATIONS. All representations and warranties made herein and/or in certificates delivered pursuant hereto by the Borrower shall survive the execution and delivery hereof, and shall continue in full force and effect with respect to the date as of which made so long as any Obligation is outstanding.

(e) STATUTE OF LIMITATIONS; TIME OF ESSENCE. Any statute of limitations applicable to any remedy of the Lenders under the Loan Documents or any applicable law shall be suspended and tolled until such time as the Lenders' forbearance obligation terminates. Time shall be of the essence with respect to each and every undertaking and obligation of the Borrower set forth herein.

(f) SPECIFIC PERFORMANCE, ETC. The Borrower stipulates that the Lenders' remedies at law, in the event of any default or threatened default by the Borrower in the performance of or compliance with any of the terms and provisions of this Forbearance Agreement on its part to be observed or performed, are not and will not be adequate, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or therein or by an injunction against a violation of any of the terms or provisions hereof, thereof or otherwise.

(g) SEVERABILITY. The unenforceability of any provision of this Forbearance Agreement shall not affect the validity, binding effect and enforceability of any other provision or provisions of this Forbearance Agreement; PROVIDED, HOWEVER, that if any provision of this Forbearance Agreement is declared unenforceable against the Borrower for any reason by any court or governmental body having jurisdiction, all agreements, consents and waivers of the Lenders set forth herein shall, at the option of the Lenders, be deemed null and void AB INITIO, and the Lenders shall, at their election, be restored to the position they would have occupied, with all rights available to them as though such agreements, consents and waivers had never been made.

(h) INDEMNIFICATION. In addition to any indemnification obligations contained in any of the Loan Documents, the Borrower agrees to indemnify the Lenders and hold the Lenders and each of the Released Parties harmless from and against any and all claims, damages, losses, liabilities, judgments and expenses (including without limitation all reasonable counsel fees and expenses and litigation expenses) which the Lenders may incur or which may be asserted against it in connection with or arising out of any investigation, litigation or proceeding which arises out of the transactions contemplated hereby or by the Loan Documents (or any action or inaction by the Lenders hereunder or thereunder) or which otherwise involves the Borrower or any shareholder or any affiliate of the Borrower, whether or not the Lenders are party thereto, other than claims, damages, losses, liabilities or judgments with respect to any matter as to which the Lenders shall have been finally adjudicated (a) not to have acted in good faith or (b) to have acted in a grossly negligent manner. The

provisions of this paragraph shall survive payment of all Obligations to the Lenders. Promptly upon receipt by any party hereunder of notice of the commencement against such party of any action, such indemnified party shall, if a claim in respect thereof is to be made against the Borrower hereunder, notify the Borrower in writing of the commencement thereof, PROVIDED THAT the failure to provide such notice shall not limit any party's right to indemnification unless and to the extent such failure shall have adversely affected the Borrower.

(i) ARMS'-LENGTH TRANSACTION. The Borrower recognizes, stipulates and agrees that Lenders' actions and relationships with the parties hereto including, but not limited to, those relationships created or referenced by or in this Forbearance Agreement, have been and constitute arms-length commercial transactions, that such actions and relationships shall at all times in the future continue to constitute arms'-length commercial transactions and that the Lenders shall not at any time act, be obligated to act, or otherwise be construed or interpreted as acting as or being the agent, employee or fiduciary of the Borrower.

(j) NEGOTIATIONS/COUNSEL. The Borrower stipulates and agrees that this Forbearance Agreement is the product of and results from lengthy arms-length negotiations among the parties and that neither the Lenders nor any other party have exerted or attempted to exert improper or unlawful pressure or has in any way attempted to induce, through threats or otherwise, the execution or delivery of this Forbearance Agreement. Without in any way limiting the foregoing, each of the parties hereto stipulates and agrees that at all times during the course of the negotiations surrounding the execution and delivery of this Forbearance Agreement, they have, to the extent deemed necessary or advisable in their sole discretion, been advised and assisted by competent counsel of their own choosing, that such counsel has been present and participated in the negotiations surrounding this Agreement and that they have been fully advised by such counsel of the effect of each term, condition, provision and stipulation contained herein.

(k) PARTIAL INVALIDITY. The invalidity or unenforceability of any one or more phrases, clauses or sections of this Forbearance Agreement shall not affect the validity or enforceability of the remaining portions of it.

(l) ENTIRE AGREEMENT. This Forbearance Agreement, the Amended Term Notes, the other Loan Documents, the other Security Documents and the other documents and agreements executed in connection herewith constitute the final agreement of the parties hereto and supersede any prior agreement or understanding, written or oral, with respect to the matters contained herein and therein.

This Forbearance Agreement is a "LOAN DOCUMENT" as such term is defined in the Loan Agreement.

EXECUTED as a sealed instrument as of the date first above written.

CONSUMER PORTFOLIO SERVICES, INC.

By: \_\_\_\_\_  
(Title)

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

STATE STREET BANK AND TRUST COMPANY, INDIVIDUALLY AND AS AGENT

By: \_\_\_\_\_  
(Title)

Address: 225 Franklin Street  
Boston, MA 02110-2804

THE STRUCTURED FINANCE HIGH YIELD FUND, LLC

By: \_\_\_\_\_  
(Title)

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: \_\_\_\_\_  
(Title)

ACKNOWLEDGED  
- - - - -

STANWICH FINANCIAL SERVICES CORP.

By: \_\_\_\_\_  
(Title)

LEVINE LEICHTMAN CAPITAL PARTNERS  
II, L.P.

By: \_\_\_\_\_  
(Title)



6-MOS

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