CONSUMER PORTFOLIO SERVICES INC
Form 10-K
February 25, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-K**

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

**Commission file number: 001-14116**

**CONSUMER PORTFOLIO SERVICES, INC.**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **California** | **33-0459135** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **3800 Howard Hughes Pkwy, Las Vegas, NV** | **89169** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, no par value | The Nasdaq Stock Market LLC (Global Market) |

**Securities registered pursuant to Section 12(g) of the Act: None**

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

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

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

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

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

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

Large Accelerated Filer o   Accelerated Filer x   Non-Accelerated Filer o   Smaller Reporting Company o

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

The aggregate market value of the 20,319,932 shares of the registrant's common stock held by non-affiliates as of the date of filing of this report, based upon the closing price of the registrant's common stock of $7.62 per share reported by Nasdaq as of June 30, 2014, was approximately $154,837,882. For purposes of this computation, a registrant sponsored pension plan and all directors and executive officers are deemed to be affiliates. Such determination is not an admission that such plan, directors and executive officers are, in fact, affiliates of the registrant. The number of shares of the registrant's Common Stock outstanding on February 19, 2015 was 25,602,440.

**DOCUMENTS INCORPORATED BY REFERENCE**

The proxy statement for registrant's 2015 annual shareholders meeting is incorporated by reference into Part III hereof.

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PART I

Item 1. Business

Overview

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

We were incorporated and began our operations in March 1991. We consist of Consumer Portfolio Services, Inc. and subsidiaries (collectively, “we,” “us,” “CPS” or “the Company”). From inception through December 31, 2014, we have purchased a total of approximately $11.3 billion of automobile contracts from dealers. In addition, we acquired a total of approximately $822.3 million of automobile contracts in mergers and acquisitions in 2002, 2003, 2004 and, most recently in September 2011. The September 2011 acquisition consisted of approximately $217.8 million of automobile contracts that we purchased from Fireside Bank of Pleasanton, California. In 2004 and 2009, we were appointed as a third-party servicer for certain portfolios of automobile contracts originated and owned by non-affiliated entities. From 2008 through 2010, our managed portfolio decreased each year due to our strategy of limiting contract purchases to conserve our liquidity during the financial crisis and resulting recession, as discussed further below. However, since October 2009, we have gradually increased contract purchases, which, in turn, has resulted in increases in our managed portfolio. Contract purchase volumes and managed portfolio levels for the five years ended December 31, 2014 are shown in the table below:

**Contract Purchases and Outstanding Managed Portfolio**

| | *$ in thousands* | |
|---|---|---|
| Year | Contracts Purchased in Period | Managed Portfolio at Period |

| | | End |
|---|---|---|
| 2010 | 113,023 | 756,203 |
| 2011 | 284,236 | 794,649 |
| 2012 | 551,742 | 897,575 |
| 2013 | 764,087 | 1,231,422 |
| 2014 | 944,944 | 1,643,920 |

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

We direct our marketing efforts primarily to dealers, rather than to consumers. We establish relationships with dealers through our employee marketing representatives, who contact prospective dealers to explain our automobile contract purchase programs, and thereafter provide dealer training and support services. Our marketing representatives represent us exclusively. They may be located in our Irvine branch, in our Las Vegas branch, or in the field, in which case they work from their homes and support dealers in their geographic area. Our marketing representatives present dealers with a marketing package, which includes our promotional material containing the terms offered by us for the purchase of automobile contracts, a copy of our standard-form dealer agreement, and required documentation relating to automobile contracts. As of December 31, 2014, we had 130 marketing representatives and in that month we received applications from 8,637 dealers in 48 states. As of December 31, 2014, approximately 68% of our active dealers were franchised new car dealers that sell both new and used vehicles, and the remainder were independent used car dealers. For the year ended December 31, 2014, approximately 84% of the automobile contracts purchased under our programs consisted of financing for used cars and 16% consisted of financing for new cars, as compared to 91% financing for used cars and 9% for new cars in the year ended December 31, 2013.

We purchase automobile contracts with the intention of financing them on a long-term basis through securitizations. Securitizations are transactions in which we sell a specified pool of contracts to a special purpose subsidiary of ours. The subsidiary in turn issues (or contributes to a trust that issues) asset-backed securities, which are purchased by institutional investors. Since 1994, we have completed 65 term securitizations of approximately $9.4 billion in contracts. We depend upon the availability of short-term warehouse credit facilities as interim financing for our contract purchases prior to the time we pool those contracts for a securitization. From February 2011 through the date of this report, we have maintained two $100 million revolving warehouse credit facilities.

## Sub-Prime Auto Finance Industry

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

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

Economic conditions of uncertainty have from time to time negatively affected our industry. Notably, and most recently, throughout 2008 and 2009 there was reduced demand for asset-backed securities secured by consumer finance receivables, including sub-prime automobile receivables. Over roughly that same period, lenders who previously provided short-term warehouse financing for sub-prime automobile finance companies such as ours were reluctant to provide such short-term financing due to the uncertainty regarding the prospects of obtaining long-term financing through the issuance of asset-backed securities. In addition, many capital market participants such as investment banks, financial guaranty providers and institutional investors who previously played a role in the sub-prime auto finance industry withdrew from the industry, or in some cases, ceased to do business. Finally, broad economic weakness and high levels of unemployment during 2008, 2009 and thereafter caused many of the obligors under our receivables to be less willing or able to pay, resulting in higher delinquencies, charge-offs and losses. Each of these factors adversely affected our results of operations in the period 2008 through 2011. Since October 2009, however, improvements in the capital markets have allowed us to obtain new short-term credit facilities, and to regularly access long-term funding.

## Our Operations

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

Originations

When a retail automobile buyer elects to obtain financing from a dealer, the dealer takes a credit application to submit to its financing sources. Typically, a dealer will submit the buyer's application to more than one financing source for review. We believe the dealer’s decision to choose a financing source is based primarily on: (i) the monthly payment made available to the dealer's customer; (ii) the purchase price offered to the dealer for the automobile contract; (iii) the timeliness, consistency and predictability of response; (iv) funding turnaround time; (v) any conditions to purchase; and (vi) the financial stability of the financing source. Dealers can send credit applications to us by entering the necessary data on our website or through one of several third-party application aggregators. For the year ended December 31, 2014, we received approximately 78% of all applications through DealerTrack (the industry leading dealership application aggregator), 4% via our website and 18% via another aggregator. Our automated application decisioning system produced our initial decision within minutes on approximately 99% of those applications.

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Upon receipt of information from a dealer, we immediately order two credit reports to document the buyer's credit history. If, upon review by our proprietary automated decisioning system, or in some cases, one of our credit analysts, we determine that the automobile contract meets our underwriting criteria, or would meet such criteria with modification, we request and review further information from the dealer and, ultimately, decide whether to approve the automobile contract for purchase.

Dealers with which we do business are under no obligation to submit any automobile contracts to us, nor are we obligated to purchase any automobile contracts from them. During the year ended December 31, 2014, no dealer accounted for more than 0.40% of the total number of automobile contracts we purchased. The following table sets forth the geographical sources of the automobile contracts we purchased (based on the addresses of the customers as stated on our records) during the years ended December 31, 2014 and 2013.

| | Contracts Purchased During the Year Ended | | | |
|---|---|---|---|---|
| | December 31, 2014 | | December 31, 2013 | |
| | Number | Percent (1) | Number | Percent (1) |
| Texas | 5,926 | 10.0 % | 4,910 | 10.0 % |
| California | 5,163 | 8.7 % | 5,175 | 10.6 % |
| Ohio | 3,379 | 5.7 % | 2,337 | 4.8 % |
| New Jersey | 2,996 | 5.1 % | 2,479 | 5.1 % |
| Florida | 2,951 | 5.0 % | 2,230 | 4.6 % |
| Pennsylvania | 2,855 | 4.8 % | 2,962 | 6.0 % |
| Other States | 36,006 | 60.7 % | 28,902 | 59.0 % |
| Total | 59,276 | 100.0 % | 48,995 | 100.0 % |

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

The following table sets forth the geographic concentrations of our outstanding managed portfolio as of December 31, 2014 and 2013.

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Amount | Percent (1) | Amount | Percent (1) |
| State based on obligor's residence | ($ in millions) | | | |
| California | $178.8 | 10.9 % | $164.2 | 13.3 % |
| Texas | 166.8 | 10.1 % | 123.3 | 10.0 % |
| Georgia | 83.4 | 5.1 % | 65.8 | 5.3 % |

| | | | | |
|---|---|---|---|---|
| Pennsylvania | 82.5 | 5.0 % | 73.3 | 6.0 % |
| Ohio | 81.8 | 5.0 % | 55.8 | 4.5 % |
| All others | 1,050.6 | 63.9 % | 749.0 | 60.8 % |
| Total | $1,643.9 | 100.0 % | $1,231.4 | 100.0 % |

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

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

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Average net acquisition fee amount | $162 | $418 | $836 | $1,155 | $1,382 |
| Average net acquisition fee as % of amount financed | 1.0 % | 2.7 % | 5.5 % | 7.4 % | 9.2 % |
| Weighted average annual percentage interest rate | 19.6% | 20.1% | 20.3% | 20.1 % | 20.1 % |

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We believe that levels of acquisition fees are determined partially by competition in the marketplace, which has increased over the periods presented, and also by our pricing strategy. Our pricing strategy is driven by our objectives for new contract purchase quantities and yield.

We offer seven different financing programs to our dealership customers, and price each program according to the relative credit risk. Our programs cover a wide band of the credit spectrum and are labeled as follows:

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

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

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

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

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

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

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

Our upper credit tier products, which are our Preferred, Super Alpha, Alpha Plus and Alpha programs, accounted for approximately 74% of our new contract originations in 2014, 74% in 2013 and 72% in 2012, measured by aggregate amount financed.

The following table identifies the credit program, sorted from highest to lowest credit quality, under which we purchased automobile contracts during the years ended December 31, 2014, 2013, and 2012.

| | Contracts Purchased During the Year Ended (1) | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2014 | | December 31, 2013 | | December 31, 2012 | |
| | (dollars in thousands) | | | | | |
| | Amount Financed | Percent (1) | Amount Financed | Percent (1) | Amount Financed | Percent (1) |
| Preferred | $40,534 | 4.3 % | $25,135 | 3.3 % | $19,715 | 3.6 % |
| Super Alpha | 127,994 | 13.5 % | 116,551 | 15.3 % | 95,303 | 17.3 % |
| Alpha Plus | 137,337 | 14.5 % | 101,907 | 13.3 % | 71,172 | 12.9 % |
| Alpha | 395,858 | 41.9 % | 320,558 | 42.0 % | 213,371 | 38.7 % |
| Standard | 90,412 | 9.6 % | 78,320 | 10.3 % | 62,405 | 11.3 % |
| Mercury / Delta | 89,075 | 9.4 % | 66,656 | 8.7 % | 52,077 | 9.4 % |
| First Time Buyer | 63,734 | 6.7 % | 54,960 | 7.2 % | 37,699 | 6.8 % |
| | $944,944 | 100.0 % | $764,087 | 100.0 % | $551,742 | 100.0 % |

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

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

In addition to our purchases of installment contracts from dealers, we purchased from 2006 through 2008 an immaterial number of vehicle purchase money loans, evidenced by promissory notes and security agreements. A non-affiliated lender originated all such loans directly to vehicle purchasers, and sold the loans to us. We began financing vehicle purchases by lending money directly to consumers in January 2008, on terms similar to those that we offered through dealers, though without a down payment requirement and with more restrictive loan-to-value and credit score requirements. In October 2008 we suspended purchases of loans from other lenders and direct lending to consumers. There can be no assurance as to whether or not we will recommence these programs, the extent to which we may make such loans, or as to their future performance. In 2012, we initiated a program to make direct loans secured by automobiles to consumers who own their vehicles. As of December 31, 2014 our managed portfolio includes $2.7 million of such loans.

Underwriting

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

We believe that our underwriting criteria enable us to evaluate effectively the creditworthiness of sub-prime customers and the adequacy of the financed vehicle as security for an automobile contract. The underwriting criteria include standards for price, term, amount of down payment, installment payment and interest rate; mileage, age and type of vehicle; principal amount of the automobile contract in relation to the value of the vehicle; customer income level, employment and residence stability, credit history and debt service ability, as well as other factors. Specifically, our underwriting guidelines generally limit the maximum principal amount of a purchased automobile contract to 115% of wholesale book value in the case of used vehicles or to 115% of the manufacturer's invoice in the case of new vehicles, plus, in each case, sales tax, licensing and, when the customer purchases such additional items, a service contract or a policy to supplement the customer’s casualty policy in the event of a total loss of the related vehicle. We generally do not finance vehicles that are more than 11 model years old or have in excess of 135,000 miles. Under most of our programs, the maximum term of a purchased contract is 72 months; a shorter maximum term may be applicable based on the program and mileage. Automobile contracts with the maximum term of up to 72 months may be purchased if the customer is among the more creditworthy of our obligors and the vehicle generally has less than 50,000 miles. Automobile contract purchase criteria are subject to change from time to time as circumstances may warrant. Prior to purchasing an automobile contract, our underwriters verify the customer's employment, income, residency, insurance coverage, and credit information by contacting various parties noted on the customer's application, credit information bureaus and other sources. In addition, we contact each customer by telephone to confirm that the customer understands and agrees to the terms of the related automobile contract. During this "welcome call," we also ask the customer a series of open ended questions about his application and the contract, which may uncover potential misrepresentations.

*Credit Scoring*. We use proprietary scoring models to assign each automobile contract several "credit scores" at the time the application is received from the dealer and the customer's credit information is retrieved from the credit reporting agencies. These proprietary scores are used to help determine whether or not we want to approve the application and, if so, the program and pricing we will offer to the dealer. The credit scores are based on a variety of parameters including the customer's credit history, employment and residence stability and income. Once a vehicle is selected by the customer and a proposed deal structure is provided to us by the dealer, our scores will then consider the loan-to-value ratio, payment-to-income ratio, down payment amount, the make and mileage of the vehicle. We have developed the credit scores utilizing statistical risk management techniques and historical performance data from our managed portfolio. We believe this improves our allocation of credit evaluation resources, enhances our competitiveness in the marketplace and manages the risk inherent in the sub-prime market.

*Characteristics of Contracts.* All of the automobile contracts we purchase are fully amortizing and provide for level payments over the term of the automobile contract. All automobile contracts may be prepaid at any time without penalty. The average original principal amount financed under the CPS programs in 2014 was $15,941, with an average original term of 63 months and an average down payment amount of 12.4%. Based on information contained in customer applications for this 12-month period, the retail purchase price of the related automobiles averaged $16,171 (which excludes tax, license fees and any additional costs such as a service contract) and the average age of the vehicle at the time the automobile contract was purchased was five years. The average age of our customers is approximately 41, with approximately $55,000 in average annual household income and an average of six years tenure with his or her current employer.

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

Servicing and Collection

We currently service all automobile contracts that we own as well as those automobile contracts that are included in portfolios that we have sold in securitizations or service for third parties. We organize our servicing activities based on the tasks performed by our personnel. Our servicing activities consist of mailing monthly billing statements; collecting, accounting for and posting of all payments received; responding to customer inquiries; taking all necessary action to maintain the security interest granted in the financed vehicle or other collateral; investigating delinquencies; communicating with the customer to obtain timely payments; repossessing and liquidating the collateral when necessary; collecting deficiency balances; and generally monitoring each automobile contract and the related collateral. We are typically entitled to receive a base monthly servicing fee equal to 2.5% per annum computed as a percentage of the declining outstanding principal balance of the non-charged-off automobile contracts in the securitization pools**.** The servicing fee is included in interest income for those securitization transactions that are treated as financings.

*Collection Procedures.* We believe that our ability to monitor performance and collect payments owed from sub-prime customers is primarily a function of our collection approach and support systems. We believe that if payment problems are identified early and our collection staff works closely with customers to address these problems, it is possible to correct many problems before they deteriorate further. To this end, we utilize pro-active collection procedures, which include making early and frequent contact with delinquent customers; educating customers as to the importance of maintaining good credit; and employing a consultative and customer service approach to assist the customer in meeting his or her obligations, which includes attempting to identify the underlying causes of delinquency and cure them whenever possible. In support of our collection activities, we maintain a computerized collection system specifically designed to service automobile contracts with sub-prime customers and similar consumer obligations.

We attempt to make telephonic contact with delinquent customers from one to 15 days after their monthly payment due date, depending on our proprietary behavioral scorecards which assess the customer’s likelihood of payment during early stages of delinquency. Our contact priorities may be based on the customers' physical location, stage of delinquency, size of balance or other parameters. Our collectors inquire of the customer the reason for the delinquency and when we can expect to receive the payment. The collector will attempt to get the customer to make an electronic payment over the phone or a promise for the payment for a time generally not to exceed one week from the date of the call. If the customer makes such a promise, the account is routed to a promise queue and is not contacted until the outcome of the promise is known. If the payment is made by the promise date and the account is no longer delinquent, the account is routed out of the collection system. If the payment is not made, or if the payment is made, but the account remains delinquent, the account is returned to the queue for subsequent contacts.

If a customer fails to make or keep promises for payments, or if the customer is uncooperative or attempts to evade contact or hide the vehicle, a supervisor will review the collection activity relating to the account to determine if repossession of the vehicle is warranted. Generally, such a decision will occur between the 60th and 90th day past the customer's payment due date, but could occur sooner or later, depending on the specific circumstances. At the time the vehicle is repossessed we will stop accruing interest on this automobile contract, and reclassify the remaining automobile contract balance to other assets. In addition we will apply a specific reserve to this automobile contract so that the net balance represents the estimated fair value less costs to sell.

If we elect to repossess the vehicle, we assign the task to an independent local repossession service. Such services are licensed and/or bonded as required by law. When the vehicle is recovered, the repossession service delivers it to a wholesale automobile auction, where it is kept until sold. Financed vehicles that have been repossessed are generally resold through unaffiliated automobile auctions, which are attended principally by car dealers. Net liquidation proceeds are applied to the customer's outstanding obligation under the automobile contract. Such proceeds usually are insufficient to pay the customer's obligation in full, resulting in a deficiency. In most cases we will continue to contact our customers to recover all or a portion of this deficiency for up to several years after charge-off. From time to time, we sell certain charged off accounts to unaffiliated purchasers who specialize in collecting such accounts.

Once an automobile contract becomes greater than 90 days delinquent, we do not recognize additional interest income until the borrower makes sufficient payments to be less than 90 days delinquent. Any payments received by a borrower that are greater than 90 days delinquent are first applied to accrued interest and then to principal reduction.

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

Credit Experience

Our financial results are dependent on the performance of the automobile contracts in which we retain an ownership interest. Broad economic factors such as recession and significant changes in unemployment levels influence the credit performance of our portfolio, as does the weighted average age of the receivables at any given time. Our internal credit performance data consistently show that new receivables have lower levels of delinquency and losses early in their lives, with delinquencies increasing throughout their lives and losses gradually increasing to a peak between 36 and 42 months, after which they gradually decrease. The weighted average seasoning of our total owned portfolio excluding contracts acquired from Fireside Bank (“Fireside Portfolio”), represented in the tables below, was 14 months, 14 months and 18 months as of December 31, 2014, December 31, 2013, and December 31, 2012, respectively. Our primary method of monitoring ongoing credit quality of our portfolio is to closely review monthly delinquency, default and net charge off activity and the related trends. The tables below document the delinquency, repossession and net credit loss experience of all such automobile contracts that we were servicing as of the respective dates shown. The tables do not include the experience of third party servicing portfolios.

**Delinquency, Repossession and Extension Experience**

**Delinquency and Extension Experience (1)**

Total Owned Portfolio Excluding Fireside Portfolio

| | **December 31, 2014** | | **December 31, 2013** | | **December 31, 2012** | |
|---|---|---|---|---|---|---|
| | **Number of Contracts** | **Amount** | **Number of Contracts** | **Amount** | **Number of Contracts** | **Amount** |
| ***Delinquency Experience*** | **(Dollars in thousands)** | | | | | |
| Gross servicing portfolio (1) | 123,033 | $1,641,807 | 94,206 | $1,213,793 | 74,124 | $825,186 |
| Period of delinquency (2) | | | | | | |
| 31-60 days | 3,571 | 42,823 | 2,652 | 21,887 | 2,545 | 18,034 |
| 61-90 days | 1,813 | 23,334 | 2,024 | 24,914 | 1,179 | 9,360 |
| 91+ days | 1,890 | 23,239 | 1,162 | 11,060 | 773 | 5,297 |
| Total delinquencies (2) | 7,274 | 89,396 | 5,838 | 57,861 | 4,497 | 32,691 |
| Amount in repossession (3) | 2,664 | 28,249 | 2,961 | 25,010 | 1,932 | 12,506 |
| Total delinquencies and amount in repossession (2) | 9,938 | $117,645 | 8,799 | $82,871 | 6,429 | $45,197 |
| Delinquencies as a percentage of gross servicing portfolio | 5.9 % | 5.4 % | 6.2 % | 4.8 % | 6.1 % | 4.0 % |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | 8.1 % | 7.2 % | 9.3 % | 6.8 % | 8.7 % | 5.5 % |
| | | | | | | |
| Extension Experience | | | | | | |
| Contracts with one extension, accruing (4) | 18,165 | $238,267 | 13,754 | $176,236 | 9,094 | $73,632 |
| Contracts with two or more extensions, accruing (4) | 7,537 | 93,220 | 5,449 | 43,869 | 7,795 | 37,761 |
| | 25,702 | 331,487 | 19,203 | 220,105 | 16,889 | 111,393 |
| | | | | | | |
| Contracts with one extension, non-accrual (4) | 1,268 | 14,701 | 1,030 | 9,348 | 632 | 4,401 |
| Contracts with two or more extensions, non-accrual (4) | 594 | 6,468 | 622 | 3,267 | 1,044 | 4,344 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 1,862 | 21,169 | 1,652 | 12,615 | 1,676 | 8,745 |
| Total accounts with extensions | 27,564 | $352,656 | 20,855 | $232,720 | 18,565 | $120,138 |

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Delinquency and Extension Experience (1)

Fireside Portfolio

| | December 31, 2014 | | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|
| | **Number of Contracts** | **Amount** | **Number of Contracts** | **Amount** | **Number of Contracts** | **Amount** |
| ***Delinquency Experience*** | | | **(Dollars in thousands)** | | | |
| Gross servicing portfolio (1) | 911 | $1,664 | 4,893 | $14,786 | 15,039 | $60,804 |
| Period of delinquency (2) | | | | | | |
| 31-60 days | 113 | 262 | 366 | 878 | 621 | 2,206 |
| 61-90 days | 53 | 74 | 125 | 253 | 204 | 710 |
| 91+ days | 45 | 62 | 108 | 234 | 114 | 332 |
| Total delinquencies (2) | 211 | 398 | 599 | 1,365 | 939 | 3,248 |
| Amount in repossession (3) | 1 | 1 | 30 | 120 | 175 | 703 |
| Total delinquencies and amount in repossession (2) | 212 | $399 | 629 | $1,485 | 1,114 | $3,951 |
| Delinquencies as a percentage of gross servicing portfolio | 23.2 % | 23.9 % | 12.2 % | 9.2 % | 6.2 % | 5.3 |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | 23.3 % | 24.0 % | 12.9 % | 10.0 % | 7.4 % | 6.5 |
| | | | | | | |
| Extension Experience | | | | | | |
| Contracts with one extension, accruing (4) | 212 | $376 | 1,203 | $3,945 | 3,117 | $15,262 |
| Contracts with two or more extensions, accruing (4) | 303 | 815 | 685 | 2,924 | 134 | 717 |
| | 515 | 1,191 | 1,888 | 6,869 | 3,251 | 15,979 |
| | | | | | | |
| Contracts with one extension, non-accrual (4) | 17 | 22 | 60 | 155 | 160 | 726 |
| Contracts with two or more extensions, non-accrual (4) | 18 | 30 | 35 | 118 | 6 | 20 |
| | 35 | 52 | 95 | 273 | 166 | 746 |
| | | | | | | |
| Total accounts with extensions | 550 | $1,243 | 1,983 | $7,142 | 3,417 | $16,725 |

9

Delinquency and Extension Experience (1)

Total Owned Portfolio

| | December 31, 2014 | | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Amount | Number of Contracts | Amount | Number of Contracts | Amount |
| ***Delinquency Experience*** | **(Dollars in thousands)** | | | | | |
| Gross servicing portfolio (1) | 123,944 | $1,643,471 | 99,099 | $1,228,579 | 89,163 | $885,990 |
| Period of delinquency (2) | | | | | | |
| 31-60 days | 3,684 | 43,085 | 3,018 | 22,765 | 3,166 | 20,240 |
| 61-90 days | 1,866 | 23,407 | 2,149 | 25,167 | 1,383 | 10,070 |
| 91+ days | 1,935 | 23,301 | 1,270 | 11,294 | 887 | 5,628 |
| Total delinquencies (2) | 7,485 | 89,793 | 6,437 | 59,226 | 5,436 | 35,938 |
| Amount in repossession (3) | 2,665 | 28,250 | 2,991 | 25,130 | 2,107 | 13,209 |
| Total delinquencies and amount in repossession (2) | 10,150 | $118,043 | 9,428 | $84,356 | 7,543 | $49,147 |
| Delinquencies as a percentage of gross servicing portfolio | 6.0 % | 5.5 % | 6.5 % | 4.8 % | 6.1 % | 4.1 % |
| Total delinquencies and amount in repossession as a percentage of gross servicing portfolio | 8.2 % | 7.2 % | 9.5 % | 6.9 % | 8.5 % | 5.5 % |
| | | | | | | |
| Extension Experience | | | | | | |
| Contracts with one extension, accruing (4) | 18,377 | $238,643 | 14,957 | $180,181 | 12,211 | $88,894 |
| Contracts with two or more extensions, accruing (4) | 7,840 | 94,035 | 6,134 | 46,793 | 7,929 | 38,478 |
| | 26,217 | 332,678 | 21,091 | 226,974 | 20,140 | 127,372 |
| | | | | | | |
| Contracts with one extension, non-accrual (4) | 1,285 | 14,723 | 1,090 | 9,503 | 792 | 5,127 |
| Contracts with two or more extensions, non-accrual (4) | 612 | 6,499 | 657 | 3,385 | 1,050 | 4,364 |
| | 1,897 | 21,222 | 1,747 | 12,888 | 1,842 | 9,491 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total accounts with extensions | 28,114 | $353,900 | 22,838 | $239,862 | 21,982 | $136,863 |

(1) *All amounts and percentages are based on the amount remaining to be repaid on each automobile contract, including, for pre-computed automobile contracts, any unearned interest. The information in the table represents the gross principal amount of all automobile contracts we purchased, including automobile contracts we subsequently sold in securitization transactions that we continue to service. The table does not include certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk.*

(2) *We consider an automobile contract delinquent when an obligor fails to make at least 90% of a contractually due payment by the following due date, which date may have been extended within limits specified in the servicing agreements. The period of delinquency is based on the number of days payments are contractually past due. Automobile contracts less than 31 days delinquent are not included. The delinquency aging categories shown in the tables reflect the effect of extensions.*

(3) *Amount in repossession represents the contract balance on financed vehicles that have been repossessed but not yet liquidated.*

(4) *Accounts past due more than 90 days are on non-accrual.*

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Net Credit Loss Experience **(1)**

Total Owned Portfolio Excluding Fireside

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | **(Dollars in thousands)** | | |
| Average servicing portfolio outstanding | $1,415,667 | $1,044,686 | $699,030 |
| Net charge-offs as a percentage of average servicing portfolio (2) | 5.9 % | 4.7 % | 3.5 % |

Net Credit Loss Experience **(1)**

Fireside Portfolio (3)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | (Dollars in thousands) | | |
| Average servicing portfolio outstanding | $5,919 | $31,293 | $103,548 |
| Net charge-offs as a percentage of average servicing portfolio (2) | 0.6 % | 5.5 % | 4.5 % |

Net Credit Loss Experience **(1)**

Total Owned Portfolio (3)

| | **Year Ended December 31,** | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | **(Dollars in thousands)** | | |
| Average servicing portfolio outstanding | $1,421,587 | $1,075,979 | $802,579 |
| Net charge-offs as a percentage of average servicing portfolio (2) | 5.8 % | 4.7 % | 3.6 % |

*(1) All amounts and percentages are based on the principal amount scheduled to be paid on each automobile contract, net of unearned income on pre-computed automobile contracts. The information in the table represents all automobile contracts we service, excluding certain contracts we have serviced for third-parties on which we earn servicing fees only, and have no credit risk.*

*(2)*

*Net charge-offs include the remaining principal balance, after the application of the net proceeds from the liquidation of the vehicle (excluding accrued and unpaid interest) and amounts collected subsequent to the date of charge-off, including some recoveries which have been classified as other income in the accompanying financial statements.*

*(3) Amounts and percentages associated with the Fireside Portfolio reflect only the period after the acquisition of the portfolio in September 2011.*

*Extensions*

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

The basic question in deciding to grant an extension is whether or not we will (a) be delaying an inevitable repossession and liquidation or (b) risk losing the vehicle as a result of not being able to locate the obligor and vehicle. In both of those situations, the loss would likely be higher than if the vehicle had been repossessed without the extension. The benefits of granting an extension include minimizing current losses and delinquencies, minimizing lifetime losses, getting the obligor's account current (or close to it) and building goodwill with the obligor so that he might prioritize us over other creditors on future payments. Our servicing staff are trained to identify when a past due obligor is facing a temporary problem that may be resolved with an extension. In most cases, the extension will be granted in conjunction with our receiving a past due payment (and where allowed by law, a nominal fee) from the obligor, thereby indicating an additional monetary and psychological commitment to the contract on the obligor's part. Fees collected in conjunction with an extension are credited to obligors' outstanding accrued interest.

The credit assessment for granting an extension is initially made by our collector, who bases the recommendation on the collector's discussions with the obligor. In such assessments the collector will consider, among other things, the following factors: (1) the reason the obligor has fallen behind in payments; (2) whether or not the reason for the delinquency is temporary, and if it is, have conditions changed such that the obligor can begin making regular monthly payments again after the extension; (3) the obligor's past payment history, including past extensions if applicable; and (4) the obligor's willingness to communicate and cooperate on resolving the delinquency. If the collector believes the obligor is a good candidate for an extension, he must obtain approval from his supervisor, who will review the same factors stated above prior to offering the extension to the obligor. After receiving an extension, an account remains subject to our normal policies and procedures for interest accrual, reporting delinquency and recognizing charge-offs.

We believe that a prudent extension program is an integral component to mitigating losses in our portfolio of sub-prime automobile receivables. The table below summarizes the status, as of December 31, 2014, for accounts that received extensions from 2008 through 2013:

| Period of Extension | # Extensions Granted | Active or Paid Off at December 31, 2014 | % Active or Paid Off at December 31, 2014 | | Charged Off > 6 Months After Extension | % Charged Off > 6 Months After Extension | | Charged Off ≤ 6 Months After Extension | % Charged Off ≤ 6 Months After Extension | | Avg Months to Charge Off Post Extension |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2008 | 35,588 | 10,871 | 30.5 | % | 19,898 | 55.9 | % | 4,819 | 13.5 | % | 19 |
| 2009 | 32,004 | 10,271 | 32.1 | % | 15,950 | 49.8 | % | 5,783 | 18.1 | % | 16 |
| 2010 | 26,167 | 12,489 | 47.7 | % | 11,679 | 44.6 | % | 1,999 | 7.6 | % | 18 |
| 2011 | 18,786 | 11,382 | 60.6 | % | 6,472 | 34.5 | % | 932 | 5.0 | % | 17 |
| 2012 | 18,783 | 12,439 | 66.2 | % | 5,548 | 29.5 | % | 796 | 4.2 | % | 14 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | 23,398 | 17,759 | 75.9 | % | 4,663 | 19.9 | % | 976 | 4.2 | % | 11 |

*Table excludes extensions on portfolios serviced for third parties*

We view these results as a confirmation of the effectiveness of our extension program. For the accounts receiving extensions in 2008, 2009, 2010, 2011, 2012 and 2013, 30.5%, 32.1%, 47.7%, 60.6%, 66.2% and 75.9%, respectively, were either paid in full or are active and performing at December 31, 2014. With each of these successful extensions we received continued payments of interest and principal (including payment in full in many cases). Without the extension, however, we would have likely incurred a substantial loss and no additional interest revenue.

For extension accounts that ultimately charged off, we consider accounts that charged off more than six months after the extension to be at least partially successful. For the 2008, 2009, 2010, 2011, 2012 and 2013 extensions that charged off, the charge off was incurred, on average, 19, 16, 18, 17, 14 and 11 months, respectively, after the extension, This indicates that even in the cases of an ultimate loss, we received additional payments of principal and interest that otherwise we would not have received.

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

| | Year Ended December 31, 2014 | Year Ended December 31, 2013 | Year Ended December 31, 2012 |
|---|---|---|---|
| Average number of extensions granted per month | 2,148 | 1,950 | 1,565 |
| Average number of outstanding accounts | 110,356 | 93,247 | 93,022 |
| Average monthly extensions as % of average outstandings | 1.9 % | 2.1 % | 1.7 % |

*Table excludes extensions on portfolios serviced for third parties*

| | December 31, 2014 | | December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Amount | Number of Contracts | Amount | Number of Contracts | Amount |
| | | | (Dollars in thousands) | | | |
| Contracts with one extension | 19,662 | $253,366 | 16,047 | $189,684 | 13,003 | $94,021 |
| Contracts with two extensions | 6,378 | 79,774 | 4,397 | 38,499 | 4,801 | 23,214 |
| Contracts with three extensions | 1,603 | 17,452 | 1,486 | 7,790 | 2,822 | 13,096 |
| Contracts with four extensions | 365 | 2,710 | 634 | 2,519 | 1,134 | 5,371 |
| Contracts with five extensions | 74 | 442 | 224 | 1,059 | | |