

Cashing In at the Race Track While Facing Charges of “Abusive” Lending Practices

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After dueling through grueling early fractions and holding the lead turning for home, Kentucky Derby winner Nyquist was overpowered in the stretch of the Preakness Stakes Saturday by his rival Exaggerator. Exaggerator would go on to win by four lengths, as Nyquist faded to third. Nyquist was unable to repeat his performance from two weeks ago when he overwhelmed 19 other three-year-olds and cruised to a 1 1/2 length victory, earning the horse’s owner, J. Paul Reddam, a cool \$1.2 million.

Four years ago, Reddam’s horse I’ll Have Another won both the Kentucky Derby and the Preakness Stakes, earning \$2.7 million before retiring due to injury before the Belmont Stakes. Soon after, the horse was sold for [\\$10 million](#) to Big Red Farm in Japan. It was a phenomenal return on investment for Reddam, who purchased the horse a year earlier at auction for \$35,000.

Reddam, a former philosophy professor, is used to big profits. In 1995, he entered a considerably more lucrative industry than academia when he founded the subprime mortgage lending company DiTech. The company was one of the first to take advantage of the internet to offer home-equity loans online of 125% of the home’s value.

The [Los Angeles Times](#) said that Reddam “immediately shook up the Southern California mortgage industry with his scrappy style and aggressive advertising. Though his techniques raised eyebrows, they were often copied by rivals, most notably his use of freeway billboards to advertise the company’s daily mortgage rates.”

In 1999, Reddam capitalized on his company’s success when it was acquired by GMAC Residential Mortgage Corp., a financial arm of General Motors, for what was estimated at \$265 million.

A year later, Reddam stepped down from Ditech.com (the new name of the company) when three high-level managers were indicted for extortion. The men were accused of demanding [kickbacks](#) from a Pittsburgh mortgage servicing company who relied on Ditech.com for 20% of their business. Reddam [resigned](#) on the same day as the charges were made public, though he was never charged.

At this point, Reddam became involved in thoroughbred racing. He told the [LA Times](#): “I sold my company, Ditech Funding, and had some cash. I always loved racing, so I decided to get involved in a bigger way. I bought one horse for \$700,000 at a dispersal sale, Swept Overboard, which won two Grade I’s, including the Met Mile. I later sold him to a Japanese breeder for \$3 million.”

Reddam's next business venture was CashCall, another non-bank private lender. The company offers home, business and personal loans, including loans from \$850 to \$10,000 that carried annual interest rates as high as [343 percent](#).

Like DiTech, CashCall is also known for its aggressive advertising. The late former child actor Gary Coleman, of *Different Strokes* fame, starred in numerous [commercials](#) for CashCall.

For years, various states as well as the federal government have pursued legal action against CashCall. In 2009, CashCall [settled](#) with the state of California for \$1 million for using "loan shark tactics" to pursue debtors. The company was [ordered](#) not to "harrass, oppress, or abuse any person in connection with the collection of a Consumer Loan."

Last year, after a lengthy legal battle with the West Virginia Attorney General, CashCall reached a [\\$13 million settlement](#) for practicing "abusive debt collections."

The company is currently fighting a lawsuit from the [Consumer Financial Protection Bureau](#) (CFPB), who initiated legal action in 2013 claiming that CashCall "engaged in unfair, deceptive, and abusive practices, including illegally debiting consumer checking accounts for loans that were void."

The CFPB complaint specifically names Reddam as having violated provisions of the Consumer Financial Protection Act, as well as either licensing requirements or interest-rate limits in eight different states.

The CFPB explains in its press release announcing the CashCall suit that "(u)nder statutes in at least these eight states, any obligation to pay such loans was rendered void or otherwise nullified in whole or in part by law. Therefore, the defendants are collecting money that consumers do not owe."

While the legal action is still pending, if the accusations are proven in court they would mean that the company was essentially representing that people owed debts which they did not, and taking money which did not rightfully belong to CashCall.

The company tried to have the lawsuit thrown out on jurisdictional grounds, but a judge ruled in December that the CFPB's suit may [proceed](#). For his part, Reddam has defended CashCall's business, telling [Bloomberg](#) that: "There is a tremendous need for people to borrow a few thousand dollars to help them over whatever crisis they are having, and the banks are not serving that need, and they should." Others might say that what the company is doing amounts to usury, preying on the most vulnerable segments of the population, who do not have alternative means of finance.

As Michael Hudson explains in his book [Killing the Host](#), similar practices as the CFPB and state Attorney Generals allege CashCall engaged in were disdained historically by populists who sought a more egalitarian socioeconomic system: "Recognizing how most great fortunes had been built up in predatory ways, through usury, war lending and political insider dealings to grab the Commons and carve out burdensome monopoly privileges led to a popular view of financial magnates, landlords and hereditary ruling elite as parasitic by the 19th century, epitomized by the French anarchist Proudhon's slogan 'Property as theft.'"
" [1]

Predatory lending has historically been understood as detrimental to the economy it preys upon, siphoning off capital created from production and leaving industries, their laborers,

and the larger economy worse off by this “parasitic” relationship between creditor and debtor.

Hudson writes that Church theorists believed bankers should enjoy a standard of living similar to other professions. “This required holding down the price of services they could charge (e.g. by the usury laws enacted by most of the world prior to the 1980s), by regulating prices for their services, and by taxing high incomes and luxuries,” he writes. [2]

Reddam is right that there is indeed a market for small personal loans that banks are not meeting. But what does that say about an economic system that fails to provide people with options other than resorting to “high-cost loans” to meet their basic needs? Why are there not other alternatives – low-cost or free government lending, member-owned credit unions, etc. – widely available to people who have trouble paying bills and providing food for their families in between pay checks?

The formation of the CFPB, a public agency dedicated to protecting consumers, provides a critical counterweight to predatory financial companies. But until financial insecurity is eliminated among the working class, which will never be the case in a neoliberal global capitalist economy, there will always be financial predators lurking with illegal and unfair schemes, and people will inevitably fall victim to them.

Notes:

[1] Hudson, Michael. Killing The Host: How Financial Parasites and Debt Bondage Destroy the Global Economy. CounterPunch Books, 2015. Electronic Edition.

[2] Ibid.

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