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Proposed Counsel to the Debtor and Debtor-in-Possession

UNITED STATES BANKRUPTCY COURT

FOR THE SOUTHERN DISTRICT OF CALIFORNIA

In re:	Case No. 26-03102-11
CashCall, Inc.,	Chapter 11
Debtor.	**DECLARATION OF J. PAUL REDDAM IN SUPPORT OF DEBTOR'S CHAPTER 11 PETITION AND FIRST DAY PLEADINGS**
	Date: Time: Place: Courtroom Name of Judge: Judge J. Barrett Marum



I, J. Paul Reddam, hereby declare as follows:

1. I am over the age of eighteen and am authorized to submit this Declaration on behalf of the Debtor, CashCall, Inc. (the "**Debtor**"). I make this Declaration in support of the Debtor's Chapter 11 Petition and concurrently-filed First Day Motions. If called upon to testify, I could and would testify competently as to the facts set forth herein.

2. I am the founder, CEO, and President for the Debtor, a California S Corporation. As such, I am knowledgeable and familiar with the Debtor's day-to-day operations, business and financial affairs, books and records, and the circumstances leading to the commencement of this Chapter 11 case. Except as otherwise indicated herein, the facts set forth below are based on my personal knowledge, my review of relevant documents, information provided to me by the Debtor or the Debtor's advisors, or my opinion, which itself would be based on my experience, knowledge, and information concerning the Debtor's operations.

I. THE DEBTOR'S STRUCTURE AND BUSINESS

A. History of the Debtor's Business

3. The Debtor is licensed as a finance lender by the California Department of Financial Protection and Innovation. Its principal business is in providing unsecured loans to borrowers with poor credit histories. The Debtor is a California S Corporation. I am the Debtor's sole shareholder.

4. Soon after its founding in 2003, the Debtor realized there was an unserved market of consumers with poor credit in need of loans. Subprime borrowers only had limited access to alternative loan products, such as payday or auto-title loans, which had high interest rates and other unfavorable terms. The Debtor offered an innovative and flexible loan product to subprime borrowers by allowing them to "rent" cash for as long as they needed through a quick online application process, and pay it back at any time without prepayment penalties.

5. Through the Debtor's loans, thousands of consumers who otherwise had no access to credit were able to obtain the money they needed. For borrowers who repaid their loans, they also were able to repair their credit history and increase their credit score, which allowed them to obtain credit more easily and less expensively in the future.

6. Initially, the Debtor offered $10,000 loans at 24%-39% interest. To limit its risk, the Debtor required borrowers to have a credit score of at least 600, among other things. As a result, however, the Debtor's underwriting requirements rendered many prospective borrowers ineligible for loans. To broaden its market, the Debtor began to offer additional loan products, including $5,000 loans at interest rates of 47%-59%, and starting in late 2004, a loan of $2,600 at a 79% interest rate and maximum term of 42 months. At the time, California law capped interest rates on loans with principal amounts below $2,500, but did not cap rates on loans greater than $2,500. By offering loans of $2,600, the Debtor could provide credit to consumers who needed it, while still retaining the ability to earn profit through interest payments.

7. To maintain profitability on these risky loans (default rates exceeded 45%), the Debtor eventually raised interest rates to 96%. While the Debtor targeted 15%-20% profits on the $2,600, it was only ever able to achieve about 7-8% profit. As explained in more detail below, the Debtor's profitability was negatively impacted by high default rates, high prepayment rates, and high overhead costs.

8. However, as default rates spiked in the wake of the 2008 recession, the Debtor was forced to raise interest rates on its $2,600 loans to up to 135% by July 2009. During this time, the default rate on loans made by the Debtor exceeded 50%. This high default rate, however, was not just a function of the recession. Rather, the risk profile and financial condition of the typical borrower was the biggest cause. Indeed, the typical borrower was unable to obtain credit of any other sort, let alone unsecured credit. In light of the massive default rate, the Debtor could not be profitable lending at lower interest rates.

9. Until 2006, the Debtor's primary market was California. To expand geographically and offer a uniform loan product across different state jurisdictions, the Debtor partnered with a federally insured state-chartered bank in South Dakota under a "Bank Lending Model." Under this model, the Debtor accepted out-of-state loan applications that were sent to the bank, which underwrote and funded the loans and then sold them to Debtor for servicing. The Debtor ceased purchasing loans under the "Bank Lending Model" in November 2008, due to the financial crisis' impact on the ability of banks to engage in lending activity, as well as regulatory scrutiny from some states.

10. In January, on advice from outside counsel, the Debtor shifted to a "Tribal Lending Model." However, due to higher than expected default rates, the Tribal Lending Model proved to be

unprofitable. Ten percent of borrowers never made a payment, and program-wide, the Debtor lost nearly $30 million. Moreover, certain states began to bring enforcement actions based on the Debtor's servicing of loans made under the Tribal Lending Model. The Debtor stopped purchasing loans made to borrowers residing in states bringing enforcement actions starting in 2012, and by September 2013 stopped purchasing any loans issued under the Tribal Lending Model.

11. Starting in 2008, the Debtor also began to offer mortgages. By 2010, mortgages represented the majority of the Debtor's business. Challenges to the Bank Lending and Tribal Lending programs (discussed below) impaired the Debtor's ability to continue offering mortgages, and it subsequently sold off its mortgage business.

B. <u>The Debtor's Current Operations</u>

12. Due to economic conditions and litigation developments described further below, the Debtor's lending models are no longer viable. By 2021, the Debtor stopped making any kind of loans. The Debtor resumed originating a small number of loans in California starting in March 2024. However, California law now imposes an interest rate cap of 36% on loans with amounts between $2,500 and $10,000. In March 2026, the Debtor originated 21 loans worth $94,619. Now, the Debtor is no longer making loans.

13. Although the Debtor had as many as 1,129 employees in February 2007, the Debtor currently has no employees, having terminated its remaining employees on June 30, 2026.

C. <u>Capital Structure</u>

1. *Secured Debt*

14. The Debtor has no secured debt or public debt.

2. *Unsecured Debt*

15. The Debtor owes approximately $5 million in trade debt and professional fees.

3. *Litigation Claims*

16. The largest dollar amount of claims arise from two judgments against the Debtor. As discussed in more detail below, these amount to approximately $245 million and $157 million. Additional claims are asserted in pending litigation in the approximate amount of $45 million.

II. THE EVENTS LEADING TO THE CHAPTER 11 FILING

A. Difficult Economic and Business Conditions

17. Certain factors inherent in the subprime lending industry have impacted the Debtor's profitability. Because most of the Debtor's prospective borrowers did not meet its underwriting criteria, the Debtor had to turn down approximately 70% of the loan applications it received. This, in turn, required the Debtor to increase its advertising costs, so that it could reach more eligible potential borrowers.

18. The Debtor calculated its expenses relative to the amount of the loans. Advertising costs represented about 25% of the loan amounts. Servicing costs, including the costs of processing loan applications, customer welcome calls, customer service, and collections, were another 8%-9%.

19. Further, a very large percentage of the loans the Debtor made resulted in defaults. In many defaults, the borrower made no payments toward the loan principal, and a large number of borrowers made no payments at all. In particular, defaults spiked during the 2008 recession, which required the Debtor to raise interest rates to stay afloat.

20. Most of the lenders the Debtor borrowed money from to make loans also collapsed at the beginning of the recession. The ones that survived all but eliminated the Debtor's ability to borrow. Not only did this severely restrict the Debtor's liquidity and ability to lend, but it also significantly increased the Debtor's financing costs. By this time, the Debtor's financing costs rose to about 30% of the amount that it loaned.

21. On the other hand, many of the borrowers that did not default prepaid their loans long before maturity. Because of the high interest rates, the Debtor encouraged its borrowers to pay off their loans as soon as possible, and did not charge any prepayment penalty. While prepayments were certainly preferred to defaults (because it would at least allow the Debtor to avoid a loss of the loan principal), the Debtor's profitability depended on borrowers making interest payments, not just repaying principal.

22. The Debtor made numerous attempts over the years to meet these challenges. For example, the Debtor raised interest rates to account for default rates, prepayments, and overhead costs. The Debtor also attempted to expand nationally through its Bank Lending and Tribal Lending programs, and began to offer mortgages. However, even with these changes, the Debtor struggled to maintain profitability.

B. Class Action and Regulatory Litigation

23. Several litigations put additional stress on the Debtor. Although the Debtor may have been able to continue operationally despite its various challenges, two cases in particular made this chapter 11 filing necessary: *De la Torre et al. v. CashCall, Inc.*, Case No. 19-CIV-01235 (California Superior Court – County of San Mateo) (the "**San Mateo Case**") and *Consumer Financial Protection Bureau v. CashCall, Inc. et al.*, Case No. 2:15-cv-07522-JFW (RAOx) (C.D. Cal.) (the "**CFPB Case**"). These two long-running cases involved novel and complex issues of state and federal law, and were litigated up to the California and United States supreme courts. Unfortunately, however, each ultimately resulted in a large judgment against the Debtor.

24. The San Mateo Case was initially filed as a putative class action in July 2008 in the United States District Court for the Central District of California, alleging that the interest rates on the Debtor's $2,600 loans were unconscionable, as well as raising other claims under California and federal law. United States Magistrate Judge Maria-Elena James certified classes on one of the asserted federal claims and on the state law unconscionability claim. In 2014, Judge James granted summary judgment in favor of the Debtor on the unconscionability claim. On appeal, the Ninth Circuit certified a question to the California Supreme Court regarding whether interest rates on loans of $2,500 or more could be unconscionable under section 22302 of the California Financial Code. The California Supreme Court held that such interest rates could be unconscionable, but stressed that "courts must proceed with caution" in making such a finding, and recognized that "[u]nsecured loans made to high-risk borrowers often justify high rates."

25. In light of the California Supreme Court's answer to the certified question, the Ninth Circuit vacated the district court judgment and remanded for further proceedings. On remand, the district court dismissed the San Mateo Case for lack of subject matter jurisdiction in February 2019.

26. The case was re-filed in San Mateo County Superior Court. The superior court then certified a class of "[a]ll individuals who, while residing in California, borrowed from $2,500 to $2,600 from CashCall, Inc., for personal, family or household use at any time from August 1, 2005 to July 10, 2011." The class encompassed 133,848 loans made to 119,844 class members, some of whom were repeat borrowers. Following years of litigation, including an interlocutory appeal and a 14-day bench trial, the

court issued a Statement of Decision ordering the Debtor to pay $245,515,389 in restitution, and entered judgment on August 31, 2023. Several post-trial motions and an appeal followed. The San Mateo Case judgment was affirmed by the California Court of Appeal, with the presiding judge in dissent, on February 27, 2026.

27. The CFPB Case concerned the Debtor's Tribal Lending Model. Although the Debtor obtained opinion letters from counsel validating its use of the Tribal Lending Model, the CFPB alleged that loans violated the Consumer Financial Protection Act and brought an enforcement action against me, the Debtor, and a subsidiary of the Debtor in the United States District Court for the Central District of California on December 16, 2013. The district court granted summary judgment as to liability in favor of the CFPB. After a bench trial on remedies, the district court found that the Debtor's violations were neither knowing nor reckless, and thus imposed a Tier One civil penalty of $10,283,886, rather than the Tier Two penalty of over $50 million and restitution award of over $230 million sought by the CFPB. The Debtor paid this civil penalty on March 23, 2018.

28. On appeal, the Ninth Circuit affirmed-in-part, vacated-in-part, and remanded for the district court to reassess remedies. On remand, the district court imposed a $33 million civil penalty and $134 million in legal restitution. To offset the payment of the initial $10 million dollar civil penalty, judgment was entered in the amount of $157,050,978. The Debtor appealed the $134 million legal restitution award, arguing that it was imposed in violation of its 7th Amendment right to a jury trial. The Ninth Circuit affirmed on April 24, 2025. The United States Supreme Court denied the Debtor's petition for a writ of certiorari on March 2, 2026. The Debtor's appeals are now exhausted, though post-judgment motions remain pending before the district court.

29. It is important to note that the Debtor did not just dive headlong into its various lending models without concern for regulatory and legal requirements. To the contrary, experienced outside counsel with appropriate expertise was always consulted. For example, prior to commencing the Tribal Lending Model, the Debtor obtained detailed and specific advice from outside counsel, assuring the Debtor that the Tribal Lending Model was appropriate and lawful. Despite such advice, as described above, the Tribal Lending Model was the subject of a substantial judgment against the Debtor.

30. In 2017, the Debtor and I filed a legal malpractice case against the Debtor's former outside counsel relating to advice given in connection with the Tribal Lending Model. In 2021, me, the Debtor, and the Debtor's former outside counsel agreed to settle the malpractice action. Based on advice from outside tax advisors, the Debtor and I decided to have all sums from the settlement (less attorneys' fees) paid to the Debtor. As a California S Corporation, the Debtor does not pay federal or state income taxes, other than a 3.5% California state income tax on financial institutions. Rather, I, as the Debtor's sole shareholder, am responsible for paying taxes on taxable income earned by the Debtor. Therefore, a distribution from the Debtor to myself was made in October 2021 to account for tax obligations arising from the malpractice settlement, among other things.

31. The distribution was made prior to the conclusion of trial in the San Mateo Case, months before the San Mateo court issued its tentative ruling, and two years before the San Mateo court entered final judgment. And notably, the San Mateo Case had already been dismissed by a federal district court, before being refiled in state court. Nonetheless, on August 21, 2024, a class representative in the San Mateo Case initiated another litigation against me and the Debtor in Orange County Superior Court, alleging that distribution of settlement proceeds to me was somehow intended to hinder the San Mateo Case judgment (the "**Fraudulent Transfer Case**").

32. The Debtor and I filed a motion for summary judgment in the Fraudulent Transfer Case on April 20, 2026. The Court heard oral argument on May 11, 2026. My and the Debtor's motion for summary judgment was denied on July 14, 2026.

33. In the second quarter of 2026, the Debtor recognized that it could no longer continue in its present form and sought assistance from outside advisors. In recognition of its dire financial condition, the Debtor engaged restructuring professionals from Manatt, Phelps & Phillips, LLP as counsel and Dundon Advisers, LLC as financial advisors. In light of the developments described above, the Debtor and its advisors have determined that it has no alternative but to commence this chapter 11 case, and that these proceedings are the best option to provide benefit to the Debtor's creditors. The Debtor then appointed two highly experienced professionals, Leslie Gladstone and Craig Jalbert, as Chief Restructuring Officer and Independent Director, respectively, to support the Debtor through these

proceedings. Further details regarding the Debtor's chapter 11 strategy and additional support for the Debtor's First Day Motions are set forth in the Declaration of Ms. Gladstone.

I declare under penalty of perjury that the foregoing is true and correct. Executed on this 16th day of July, 2026 in San Diego, California.

/s/ J. Paul Reddam
J. Paul Reddam