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Prepared Remarks of CFPB Director Richard Cordray on the CashCall Enforcement Action Press Call

BY [RICHARD CORDRAY](#)

Today the Consumer Financial Protection Bureau is filing its first online lending lawsuit. We believe that CashCall, WS Funding, and Delbert Services, along with J. Paul Reddam, who owns all three businesses, engaged in unfair, deceptive, and abusive practices in services they provided for an online lender. We have determined that they violated federal law by seeking to collect on loans that were completely void or partially nullified because the loans violated either state caps on interest rates or state licensing requirement laws.

Our investigation discovered that, beginning in 2009, CashCall and WS Funding entered into an arrangement with Western Sky Financial, an online lender. Western Sky asserted that state laws did not apply to its business because it was based on an Indian reservation and owned by a member of the Cheyenne River Sioux Tribe. But this relationship with a tribe does not exempt Western Sky from having to comply with state laws when it makes loans over the Internet to consumers in various states. Through this arrangement between CashCall and Western Sky, hundreds of thousands of loans were made in Western Sky's name using money from WS Funding.

The loans ranged from \$850 to \$10,000, and typically had upfront fees, lengthy repayment terms, and annual interest rates ranging from about 90 percent to 343 percent. For example, a consumer borrowing \$2,600 was required to pay a total of about \$13,840 over a four-year repayment period. Or, in another example, a consumer borrowing \$10,000 was required to pay about \$62,450 over a seven-year repayment period – more than six times the amount borrowed.

Many consumers signed loan agreements permitting loan payments to be debited directly from their bank accounts, similar to a payday lender. CashCall could then access the borrower's checking account and take money before the borrower could choose to pay rent or utilities or other expenses.

In September 2013, Western Sky stopped making loans and began to shut down its business after several states began investigations and court actions. But CashCall and its collection agency, Delbert, have continued to take monthly installment payments from consumers' bank accounts or have otherwise sought to collect money from borrowers.

Many states across the country have protections against harmful lending practices. For example, some states cap the amount of interest that a consumer pays. Other states require all small-dollar lenders to be licensed so that state regulators can monitor their business practices and make sure that those running the businesses are ethical and



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following the law. Several states have both interest rate caps and licensing requirements.

Our investigation showed that the loans CashCall was collecting were void, or otherwise nullified in whole or in part, because they violated either licensing requirements or interest-rate caps – or both – in at least the following states: Arizona, Arkansas, Colorado, Indiana, Massachusetts, New Hampshire, New York, and North Carolina. In those states, if a loan exceeds the interest rate cap, or if the lender is not licensed, then the loan is completely void or the borrower has no obligation to repay certain finance charges. This means that consumers were under no legal obligation to pay back money that CashCall took from their bank accounts. When CashCall debited people’s bank accounts or demanded that people pay them back, they often were taking money that the consumers did not owe on loans that did not even legally exist.

All of this conduct violates federal law, specifically the Consumer Financial Protection Act’s prohibition on unfair, deceptive, and abusive acts and practices. It is unfair to collect money that consumers do not owe on loans that do not legally exist. It is deceptive to trick consumers into repaying illegal loans that state law has nullified in part or in whole. And it is abusive to take unreasonable advantage of a lay person’s lack of understanding when it comes to the application of state and tribal laws. So in our lawsuit today, we are seeking monetary relief and civil penalties from CashCall and its affiliates to require them to refund the money they unlawfully took from consumers. We also seek injunctive relief to require the defendants to adhere to all federal consumer financial protection laws that prohibit such unfair, deceptive, and abusive acts and practices.

Today we are making clear that you cannot avoid federal law simply because your activities take place online, where more and more lending is migrating. Pretending that a loan is due and must be repaid and taking funds from a consumer’s bank account, even where the loan is void under state law, is unfair, deceptive, and abusive, and it will not be tolerated by federal regulators.

CashCall has already been a major concern to numerous states. At least 13 states have filed formal actions against the company. More states, including some of those named in our lawsuit, are filing complaints or opening investigations today. In bringing this matter, the Consumer Bureau has worked closely and collaboratively with a number of state attorneys general and banking regulators, including the attorneys general joining me on this call today from Colorado, North Carolina, New Hampshire, and Indiana.

This action against CashCall is a significant step in the Consumer Bureau’s efforts to address regulatory evasion schemes that are increasingly becoming a feature of the online small-dollar and payday lending industries. The bottom line is that the Internet is a convenient and desirable place for many consumers and companies to do business, but we cannot allow it to become the Wild West of unregulated and irresponsible lending. Thank you.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

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