

Arkansas AG goes after Western Sky and lending partners

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Following New York's lead, Arkansas Attorney General Dustin McDaniel filed suit this week against payday lending partners Western Sky Financial, CashCall and WS Funding, along with their two owners Martin Webb and J. Paul Reddam.

[Western Sky Financial](#) announced last month that it was suspending its operations in South Dakota as a result of unwarranted overreach by state regulators. A spokesman for Western Sky said the company is fighting the lawsuits but has closed its lending office resulting in the loss of 94 jobs. The firm said state regulators have pressured banks to discontinue debiting customer accounts, which has "choked off its business."

The Arkansas lawsuit filed Tuesday (Oct. 1) in Pulaski Circuit Court claims the lenders conspired to skirt state law by offering online payday loans well above the state's 17% maximum interest rate. The defendant Western Sky identifies itself as a tribal entity protected by tribal sovereign immunity.

McDaniel said Western Sky is not protected by tribal immunity because it is not owned or operated by a tribe. Consumers based in Arkansas, not on tribal lands, use the internet to apply for loans and sign loan documents.

The suit was filed on behalf of consumers who have filed more than 100 complaints with Daniel's office regarding interest rates they have been charged by Western Sky, who within three days sells the loan to California-based W.S. Funding — a wholly owned subsidiary of CashCall the servicing firm that oversees the systematic debiting of consumer bank accounts on each payday.

Reddam and Webb own W.S. Funding and are the individuals named in the complaint.

McDaniel said Arkansas consumers are paying up to 342% interest on installment loans made by Western Sky and sold to its California partners.

"Though we have successfully eliminated storefront payday lending in Arkansas, some online lenders continue to offer the kinds of loans that often push consumers further into debt," McDaniel said. "The defendants claim to be protected by tribal immunity, but we intend to prove they are not and we will ask the court to prevent them from making these harmful loans in our state."

Loans made by Western Sky range from \$850 to \$10,000. A typical loan of \$1,000 incurs a \$500 loan fee with an annual percentage rate of 234% resulting in 24 payments of \$198.19 each. The total finance charge for \$1,000 is \$3,893, according to payment schedules filed as exhibits in McDaniel's complaint.



In the complaint McDaniel asked the court to prohibit the defendants from offering loans in Arkansas and order restitution to those who have been impacted from the illegal rate charges.

New York Attorney General Eric Schneiderman filed suit against the same online payday lenders in August asking for discontinuation of any pending loans being charged above the 16% cap rate, restitution for those who have overpaid in addition to court costs.

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“The companies, located in South Dakota and California, targeted vulnerable New York consumers through television and internet advertising that promised ‘fast cash’ to consumers in urgent need of money. The companies took advantage of these consumers by charging extremely high rates of interest that were above state usury caps,” Schneiderman said.

His office recently settled with five instate payday lenders filing similar claims.

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